

PUBLIC DISCLOSURE

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A. Investment Summary

Disclosed Date:	April 28, 2020
Project Name:	Movistar Perú Financing for Handsets and Digital Services
Project Number:	13022-02
Investment Type:	Facility for purchase of accounts receivable
E&S Category:	C
Projected Board Approval Date:	May 29, 2020
Company:	Telefónica del Perú S.A.A (“Telefónica del Perú”)
Sector:	Science and Technology
Financing requested:	Up to US\$50,000,000
Financing Currency:	U.S. dollars (US\$)
Project Country:	Peru
Team Leader:	Edgar L. Cabanas
For inquiries about the Project, contact:	
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Project Scope and Objective:

The proposed transaction is a facility for the purchase of accounts receivable for up to US\$50 million (“Discount Facility” or “the Project”) that will be used to discount invoices from Telefónica del Perú S.A.A.’s (“Telefónica del Perú” or “the Company”) program to provide individual and corporate clients with financing for the purchase of handsets, communications equipment, and digital telecommunications services. The Discount Facility will be available for up to 48 months, plus 24 months for the collection of accounts receivables purchased by IDB Invest.

B. Environmental and Social Review Summary

1. Scope of Environmental and Social Review

Movistar, Telefónica’s commercial brand, is one of the biggest drivers of Peru’s digital economy. Its business activities are focused on telephony, mobile connectivity, broadband service, home fiber optic

connections, satellite television, land lines, and providing digital solutions for small, medium-sized, and large enterprises and corporations. Telefónica del Perú is the market leader, with a market share of 44% and a client base of 17.5 million customers as of the end of 2019.

Since last year, IDB Invest has been implementing financing programs for the telephony and digital services of six Grupo Telefónica subsidiaries. The financing for Telefónica del Perú is part of this strategic initiative.

IDB Invest's environmental and social review included a reevaluation¹ of the public information sent by Telefónica del Perú or found on its website; an evaluation of the composition of its senior management and the team in charge of environmental and social issues for the Company, as well as its environmental and social management system (ESMS) in all its business segments and subsidiaries; and analysis of the following documents: 2018 Comprehensive Report, Responsible Business Policy, Telefónica Global Environmental Policy, Supply Chain and Customer Service Procedures Responsibility Policy, and others.

2. Environmental and Social Categorization and Rationale

This project has been classified in Category C in accordance with IDB Invest's Environmental and Social Sustainability Policy, as it is likely to produce no or very limited adverse environmental or social risks or impacts. In view of this, the evaluation will focus on compliance with the following Performance Standards ("PS"): (i) PS1: Assessment and management of environmental and social risks and impacts; (ii) PS2: Labor and working conditions; and (iii) PS3: Resource efficiency and pollution prevention, with special emphasis on the circular economy (the lifecycle of mobile devices).

3. Environmental and Social Context

In the context of sustainability, Telefónica's policy is to contribute to the global objectives of the Paris Climate Agreement and the 2030 Agenda of the United Nations.

Telefónica del Perú has been ISO 14001 certified since 2006 and was the first telecommunications Company in Peru to secure this certification.

Telefónica del Perú has more than 5,660 associates, of which 36% are women, with 27% of them holding leadership and management positions.

In 2018, Peru's Environment Ministry awarded the Company the "Antonio Brack Egg" National Environmental Prize in the eco-innovation category for its Smart Energy initiative that offered a solution for reducing energy consumption and minimizing environmental impacts. Also, in 2018, it won first place in the Labor Ministry's Labor Good Practices Competition.

Additionally, through its Green TIC and Environment strategy, Telefónica del Perú addresses environmental challenges and climate change using an ecoefficiency and circular economy model that contributes to closing the circles of product lifecycles through recycling and reuse in order to make its operations environmentally sustainable.

¹ In 2018, IDB Invest did similar transactions with Telefónica in the following countries: Costa Rica, Panama, Guatemala, Ecuador, and Chile.

As part of its efforts to foster the circular economy in waste management through reuse and recycling, Telefónica established in its Supply Chain Sustainability Policy that all suppliers must commit to complying with minimum responsible business criteria, which include environmental criteria. It sets forth the following principles, applicable to this transaction: (i) Lifecycle and preventative action, requiring suppliers to “take preventative measures to minimize the environmental impact of its activities and ensure, to the degree possible, that Telefónica can minimize its environmental impact by offering energy-efficient products and services, enabling reuse or the use of less polluting materials;” and (ii) Waste, establishing that the suppliers must “provide systematic processes for managing waste, especially waste produced through its activities with Telefónica, prioritizing reuse and recycling where possible.”

In compliance with Supreme Decree 001-2012-MINAM on National Regulations for Managing and Handling Waste from Electrical and Electronic Equipment (“WEEE”), and as part of its environmental responsibility and to foster the circular economy, Telefónica del Perú has developed two main initiatives: (i) “Ecorating,” which provides a system to encourage responsible consumption of mobile devices using a logo that gives consumers information on the sustainability of the different models, thereby enabling them to choose a device that is more sustainable or respectful of the environment; and (ii) “Reclíclame” (recycle me), an initiative launched in 2007 through which the Company promotes proper disposal of WEEE through campaigns to recycle it in receptacles or containers located in service centers throughout the country and at partner companies.

As a result of these circular economy initiatives, as of 2018, approximately 247.60 tons of WEEE had been recovered.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

As part of the Telefónica group, Telefónica del Perú has a corporate risk management model that is based on the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission. This corporate risk model recognizes risk management in four categories: (i) business; (ii) operational; (iii) financial, and (iv) global. The category of global risks includes the crosscutting risks to Grupo Telefónica, including issues of sustainability and compliance, including regulatory compliance.

The Company bases its analysis and resolution of adverse impacts—including from suppliers and subcontractors—on its Supply Chain Sustainability Policy, pursuant to which suppliers must comply with the following environmental criteria: (i) compliance with the law, especially regarding waste, emissions, noise, resource consumption, or hazardous materials; (ii) lifecycle and preventative action, requiring the supplier to apply preventative measures to minimize the environmental impact of its activities; (iii) environmental policy, involving protection of the environment, compliance with corresponding laws, and ongoing improvement; (iv) environmental management, which basically requires a documented environmental management system that guarantees effective planning, action, and control over the most important environmental aspects; (v) climate change, which emphasizes the need to minimize greenhouse gas emissions; (vi) waste, which requires systematic waste management processes; (vii) hazardous materials and chemical products, which requires respecting and complying with laws, regulations, and requirements that ban or restrict specific substances, especially substances included on

the REACH regulation's Substances of Very High Concern list;² and (viii) materials and resource consumption and air emissions.

Telefónica has an established environmental strategy that focuses on ecoefficiency and the circular economy, smart services and products, and environmental responsibility that includes: (i) a renewable energy plan; (ii) an energy efficiency program; (iii) ISO 14001 certification, (iv) a digitization process and (v) a waste management program. The strategy is implemented by its Environment and Sustainability Area.

The Company has an Incident and Emergency Management Protocol, which, in addition to establishing the continuity plans necessary to ensure it is able to continue providing services to its clients, sets forth specific actions to be taken in the event of an emergency. It also has a reporting channel (internal, available to employees) and a Responsible Business Principles Channel (external, available to the general public) for submitting complaints or questions on matters related to its activities. All reports and complaints received are processed by the Internal Audit Office and the Responsible Business Office.

4.2 Labor and Working Conditions

Through its policies (also applicable to outsourced staff), Telefónica del Perú makes its commitment to diversity and inclusion explicit; establishes guidelines for processes and decisions to guarantee equal opportunities, gender equity, and nondiscrimination; sets forth specific measures to prevent, address, and punish any type of harassment; upholds the freedom of workers to organize a union without fear of retaliation; promotes workplace health and safety agreement; and establishes internal benefit equality policies (stipends, weekly time off, workday, sick days, subsidies, profit-sharing, etc.).

All its workers (5,660 of which—36%—are women) receive the same benefits in accordance with Peruvian labor law and the Company's policy, including: (i) family stipends; (ii) mandatory weekly time off; (iii) sick days; (iv) paid vacation; (v) subsidies; (vi) special bonuses; (vii) profit-sharing; (viii) bonus; (ix) pro-rated bonus; (x) holidays off; and (xi) the right to paternity and maternity leave.

Pursuant to Peru's labor laws, the Company prohibits discrimination (workplace and occupational); encourages professional adaptation and employment of persons with disabilities; promotes diversity; and prohibits child labor, forced labor, and unremunerated work.

4.3 Resource Efficiency and Pollution Prevention

Telefónica del Perú has an Energy Management Policy that serves as a framework for setting objectives and taking actions aimed at efficiently managing energy and reducing greenhouse gas emissions. In this framework, it has developed energy efficiency projects, including: (i) "Free Cooling," which involved the replacement of air-conditioners with an air injection system that takes advantage of the outside temperature and uses less electricity (approximately 80 to 90% less than air conditioning equipment); and (ii) reducing and virtualizing the equipment and technical rooms by providing a single on/off and maintenance point for the machines, along with the use of hybrid renewable systems that use solar panels, batteries, and low-power generators.

² The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) is a European Union regulation dating from December 18, 2006.

The Company manages the waste it produces pursuant to international best practices and keeps a detailed record of all waste (paper and cardboard, cables, piping and metals, batteries and fluorescents, oils, and refrigerant gases) and its final disposal.

In partnership with the *Asociación para la Niñez y su Ambiente* (“ANIA”) and *Carbono Cero* (“CCERO”), Telefónica del Perú launched an initiative enabling its clients to make financial donations to offset the emissions they generate with the annual electricity consumption of their cellular phones. These donations are invested by the Company in national environmental education projects and in carbon credits in Madre de Dios.

4.4 Community Health, Safety and Security

The project will not have any impact on the health and safety of the communities located near its facilities.

4.5 Land Acquisition and Involuntary Resettlement

This financing transaction does not involve any development of new projects or require the concession or acquisition of lands; therefore, it presents no risk of involuntary physical or economic displacement of a population.

4.6 Biodiversity Conservation and Sustainable Management of Natural Resources

The transaction will not impact biodiversity or the management of living natural resources.

4.7 Indigenous Peoples

This financing transaction does not involve any development of new projects, and therefore, it is not expected to impact the lands or resources of indigenous peoples.

4.8 Cultural Heritage

This financing transaction does not involve any development of new projects, and therefore, does not involve any type of construction, excavation, or earthmoving. It is thus not expected to have any impact on cultural heritage.

5. Local Access to Project Documentation

Additional information on sustainability and Telefónica del Perú can be found through the following links: <https://www.movistar.com.pe/medio-ambiente> and <https://negocioresponsable.telefonica.com.pe/>.

6. Contact Information

For questions about projects, including environmental and social issues associated with an IDB Invest transaction, please contact the client (see **Investment Summary**) or IDB Invest through e-mail requestinformation@idbinvest.org. As a last resort, affected communities have access to IDB Invest’s Independent Consultation and Investigation Mechanism through mecanismo@iadb.org or MICI@iadb.org, or by calling +1(202) 623-3952.

7. Environmental and Social Action Plan

The Environmental and Social Action Plan (“ESAP”) is summarized in the following Annex 1.

Annex 1. Environmental and Social Action Plan (ESAP)

No.	Reference	Measure	End product/deliverable	Expected date of completion
PS 1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	Project compliance with applicable regulations	1. Prepare, through an internal audit or an outside independent E&S expert approved by the National Environmental Authority (external audit) a consolidated annual report on the status of compliance with all the national regulations and environmental, social, and workplace health and safety policies and regulations applicable to the operation of the Project, including: (i) progress of the actions of the Environmental and Social Management System (ESMS) regarding the key performance indicators (KPIs) established; and (ii) the status of compliance with the IDB Invest's Environmental and Social Sustainability Policy.	1. Environmental and social compliance report	1. Annually for the life of the financing facility or the period established in the agreement.