

Environmental and Social Review Summary (ESRS) Project Elementia

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1. Overview of the Operation

Elementia S.A.B. de C.V. ("Elementia" or "the Company") has requested IDB Invest's financial assistance to set up an uncommitted revolving credit facility (the "Facility") to finance its suppliers through the acquisition of collection rights (the "Project" or the "Operation"). The Operation includes accounts receivable whose payment will be deferred due to the exceptional measures taken by the Company to mitigate the impact of COVID-19 on its input suppliers.

2. Scope of the IDB Invest Environmental and Social Review

The environmental and social review of the proposed operation consisted of a documentary analysis of the Company's environmental and social performance over time, with 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

This is a Category C operation under the IDB Invest Environmental and Social Sustainability Policy, given that it will generate little to no adverse environmental or social risks or impacts and, when it does, they will be very limited in scope and intensity.

4. Environmental and Social Risks and Impacts

4.1 Assessment and Management of Environmental and Social Risks and Impacts

The Company manufactures and markets cement, building materials, copper, and aluminum products, and has 5,900 collaborators, 5,000 distributors, and customers in 8 countries. This has made it the leading producer of fiber cement in Latin America and the second largest in the United States, and one of the five largest producers of copper and alloy products worldwide. In addition to Mexico, Elementia operates in Colombia, Ecuador, Bolivia, Costa Rica, Honduras, Peru, and the United States, with 3 lines of business: i) cement, manufacturing and selling bagged and bulk gray cement; ii) building materials, manufacturing and distributing fiber cement products (roof tiles, roofs, pipes) and plastic products (septic tanks, cisterns, sheets), with 3,000 distributors and 27 plants in the United States, Mexico, El Salvador, Costa Rica, Colombia, Ecuador, Bolivia, and Peru, and a production capacity of 1.7 million tons; and (iii) metals, manufacturing and selling copper products and alloys (sheets, tubes, bars, wire) for DIY construction, for which it has 3 plants in Mexico and a production capacity of 70 thousand tons.

Elementia has managed to establish an overarching sustainability strategy for all three lines of business that is consistent with the Sustainable Development Goals (SDGs).¹ As a result, the Company has developed a solid Environmental, Social and Governance management system implemented according to an Integrated Management System Policy, under the leadership of a Sustainability Management and Committee. This has allowed it to: i) identify and implement environmental mitigation actions monitored by means of 11 key indicators summarized in an operational control panel; ii) ensure regulatory compliance in the countries where it operates; iii) offer its employees employment conditions so that, in addition to compliance with labor laws and regulations, it can develop and retain the best talent in a diverse and inclusive manner with a focus on preventing occupational safety risks and promoting occupational health; iv) have a Code of Ethics and a Policy for Integrity² that defines different channels and the responsibilities for receiving, handling, and responding to grievances and claims, whether direct or anonymous; and v) implement a Code of Ethics for Suppliers, a mechanism that includes the quality standards required of suppliers and the methodology for evaluating them.

As part of its environmental and social commitments, in Mexico, Costa Rica, and Ecuador, Elementia provides local environmental control agencies with regular reports on its compliance with applicable environmental regulations, in relation to its operations in each country. In this regard, the Company has substantially and continuously complied with the compliance reports on the terms and conditions of its Environmental Impact Declaration ("EID") and Environmental Impact Studies ("EIS") required by the local environmental authorities and has regularly obtained the Environmental Operating Certificates ("EOC") or Environmental Impact Permits ("EIP") for its facilities (as applicable).

As for external communication with stakeholders, the Company has several digital communication instruments³ that serve as information and accountability tools, such as Annual Sustainability Reports, communications and newsletters, and the use of social media by each of the business units.⁴

4.2 Labor and Working Conditions

Overall labor aspects and conditions are very well regulated in Mexican, Costa Rican, and Ecuadorian labor and occupational health and safety (OHS) legislation⁵ in terms of working hours, wages, vacations, workers' compensation, work systems, safe working conditions, among other aspects. To this end, Elementia has a Code of Ethics and a Health and Safety Policy, instruments that are intended to guide the behavior of all members of the Company, as well as those of independent contractors or consultants who provide services, so that they act according to the highest standards of personal and professional integrity in all aspects of their activities. The Code sets out and ensures compliance with local laws and international conventions and treaties on labor and human rights signed by the countries where it operates, a dignified treatment, a healthy working environment, a good quality of life in the company and optimal working conditions for its employees, including key issues such as (i) the prohibition of child labor; (ii) the prohibition of forced labor; (iii) the right to free association; (iv) non-harassment and non-discrimination; and (v) health and safety.

¹ The sustainability strategy is based on 10 principles described in the Sustainability Reports, which have been published consecutively since 2013 in accordance with GRI standards. These reports can be found on the following website: <https://www.elementia.com/responsabilidad-social>.

² https://www.elementia.com/es_ES/transparencia

³ https://www.elementia.com/es_ES/nuestra-empresa

⁴ <https://www.cementosfortaleza.com/>; <https://www.mexalit.com/>; and <http://www.nacobre.com.mx/>

⁵ Federal Labor Code and its amendments (last amendment published in the Official Gazette of the Federation -DOF- on November 30, 2012), and Federal Regulations on Occupational Health and Safety (DOF of November 13, 2014).

Regarding supplier care, the Supplier Code of Ethics sets forth business practices for a healthy relationship, seeking to ensure that the work philosophy is consistent with the Company's ethical principles. Thus, in 2019, Elementia sustained business relationships with more than 3,000 suppliers in different countries, which have been selected and evaluated using four criteria with their corresponding key performance indicators: i) value creation; ii) level of services; iii) quality; and iv) sustainability.

For strict compliance with the provisions of PS-2, the Company will implement a procedure to verify compliance with quality standards and environmental and social (E&S) and Occupational Health and Safety (OHS) criteria assessments; as well as adherence to the Code of Ethics for Elementia Suppliers.

With regard to grievances or claims, the Company has provided its personnel, its suppliers, and third-party stakeholders with a confidential and direct channel, whereby they can personally or anonymously report any irregular act or violation of the guidelines in its Code of Ethics or applicable regulations, without fear of retaliation. All grievances that enter through its communication channels⁶ are attended to and investigated by the Steering Committee's Internal Audit Contact Center, which, after the respective analysis and processing, reports to the Compliance Committee for the corresponding investigations. Corrective actions resulting from investigations are communicated to the complainant (when applicable) and implemented by the corresponding area, under the supervision of the Compliance Committee.

4.3 Resource Efficiency and Pollution Prevention

The Company has pollution prevention and reduction strategies that are implemented through: i) monitoring energy consumption and performance based on a baseline established in 2019 by each of the business units; ii) monthly monitoring of greenhouse gas (GHG) emissions in order to identify opportunities for implementing emission reduction projects; iii) water management by quantifying the resource used in each of the business units and treating all wastewater from the processes in its plants; and iv) the implementation of circular economy practices through the reuse of solid waste, which has allowed almost 35% of hazardous waste to be used in energy recovery processes and more than 75% of non-hazardous waste to be recycled.

The Company has an Environmental Management System (EMS) certified under ISO 14001:2015 for all plants in the Metals division in Central America and Ecuador.

This operation is a commercial transaction to finance the Company's suppliers through the acquisition of collection rights, so it will not generate pollution or demand the use of additional natural resources.

4.4 Community Health, Safety and Security

The Company has a strong sense of support, empathy, and solidarity with its communities through its Corporate Social Responsibility ("CSR") and Sustainability practices. In 2019, Elementia's Cement Division developed a Community Involvement Plan ("CIP") for the period 2020–2025 that is based on four pillars: i) Infrastructure Construction; ii) Environmental Care and Preservation; iii) Strengthening of Local Economic Development and iv) Promotion of Culture and Sports. The CIP envisages the implementation of a Community Participation and Involvement Plan.

⁶ Reporting channel available on Elementia's website <https://www.elementia.com>; or e-mail to Elementia's Compliance Committee: "comite.cumplimiento@elementia.com"; or mail to Compliance Committee, addressed to Elementia, S.A.B. de C.V., Atte.: Elementia Compliance Committee, Poniente 134 Número 719, Colonia Industrial Vallejo, C. P. 02300, Delegación Azcapotzalco, Mexico City, Mexico.

5. Local Access of Project Documentation

Additional Elementia sustainability information can be accessed at the following link:
<https://www.elementia.com/responsabilidad-social>

6. Environmental and Social Action Plan

The Environmental and Social Action Plan (ESAP) can be found in the following [Annex 1](#).

Annex 1: Environmental and Social Action Plan (ESAP)

No.	Reference	Measure	Final product /Deliverable	Expected Completion Date
PS 1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	Project's Regulatory Compliance	1. Prepare a consolidated annual report on the environmental and social performance of its activities and the compliance status with all national environmental and social, labor, and occupational health and safety ("OHS") regulations applicable to the Project, including the IDB Invest Environmental and Social Sustainability Policy.	Environmental and social compliance report.	Annually over the life of the loan.
1.2	Grievance Mechanism	1. Include the reporting and grievance mechanisms of the Code of Ethics as part of the Community Involvement Plan (CIP).	Copy of the updated CIP.	Prior to First Disbursement.
PS 2: Labor and Working Conditions				
2.1	Supply Chain	1. Implement a procedure to verify compliance with quality standards and environmental and social (E&S) and Occupational Health and Safety (OHS) criteria assessments; as well as adherence to the Code of Ethics for Elementia Suppliers.	Copy of the Supplier's Code of Ethics Procedure.	Prior to First Disbursement.