

Environmental and Social Review Summary (ESRS) **Lottus: Expanding Affordable Education in Mexico - MEXICO**

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1. General Information of the Project and Overview of Scope of IDB Invest’s Environmental and Social Review

This transaction involves a capital investment in Lottus Education, S.A.P.I. de C.V. (“Lottus” or the “Company”), a leading higher-education consolidation platform in Mexico, to finance: (i) capital expenditure for the existing campuses; (ii) the acquisition of new campuses; and (iii) improvements to its IT platform (the “Project”).

The environmental and social due diligence (“ESDD”) involved: i) reviewing the technical documentation provided by the Company; ii) holding virtual meetings with representatives from the Company, including members of the senior management, the Human Resources Manager and employees; and iii) visiting eight of Lottus’ campuses located in Mexico City.

To ensure the Project's commitment to respecting and protecting human rights, its zero tolerance for reprisals, and its dedication to providing and guaranteeing a safe environment for stakeholders to express their concerns without fear of retaliation, the ESDD process also included a review of the Company's Code of Ethics.

2. Environmental and Social Classification and Rationale

In accordance with IDB Invest's Environmental and Social Sustainability Policy, the Project has been classified as Category B, as it may generate, among others, the following impacts and risks: (i) risks associated with working conditions, occupational health and safety (“OHS”) of workers; (ii) waste generation; (iii) risks related to fire safety and other emergency situations; and (iv) potential impacts on communities due to increased vehicular traffic to the facilities. These impacts and risks are of medium to low intensity and can be managed through available and feasible measures within the scope of the proposed transaction.

The Performance Standards (“PS”) triggered by the Project are: (i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; (ii) PS2: Labor and Working Conditions; (iii) PS 3: Resource Efficiency and Pollution Prevention; and (iv) PS 4: Community Health, Safety and Security.

3. Environmental and Social Context

3.1 General characteristics of the Project's site

Founded in 2015, Lottus is a leading consolidation platform for higher education in Mexico. Through its business brands¹, it offers educational programs for high school, undergraduate and post-graduate levels, both on-campus and online. It currently serves over 100,000 students in 45 campuses and learning centers distributed in 10 states in Mexico.

3.2 Contextual risks

The Project is run across several states in Mexico that present a high risk in terms of security and retaliation acts, which could impact on both the operations and the integrity of workers, students and Lottus's assets.

Nationwide the security risks derive from its high levels of violent criminal acts and the challenges to safeguard the fundamental rights (freedom of the press, and human and environmental rights). According to the 2023 National Victimization and Perception on Public Security Survey², in 2022, 27.4 % of the households in Mexico reported that at least one of their members had suffered some form of criminal act, with 22,587 victims per 100,000 inhabitants. The most common crimes are fraud, robbery or theft in public areas, and extortion, which highlights how vulnerable the Project's physical facilities, and in-person activities can be. Additionally, the increase in cybercrimes, like fraud, identity theft and malware, imposes a challenge on the digital operations of the education platform.

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

4.1 Assessment and management of environmental and social risks and impacts

4.1.a Environmental and social management system

Even though Lottus has developed some policies and procedures to manage human resources matters, it still has not implemented a comprehensive environmental and social management system ("ESMS") that includes the necessary elements to plan, execute, verify and act efficiently in terms of environmental and social ("E&S") performance.

4.1.b Policy

Lottus' sustainable development policy sets forth the E&S objectives and principles guiding the Company and its subsidiaries to reach outstanding E&S performance. This policy is communicated internally and externally.

¹ Business brands: Universidad Tecnológica de Guadalajara (UTEG), Universidad Autónoma del Noreste (UANE), Instituto Normal del Estado de México (INDO), Universidad Tres Culturas (UTC), Universidad Latinoamericana (ULA).

² https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/ENVIPE/ENVIPE_23.pdf

4.1.c Identification of risks and impacts

Lottus has a static E&S risk and impact matrix at the corporate level but does not yet have a structured process that includes clear methodologies or a dynamic mechanism for periodically reviewing and updating risks.

4.1.c.i Gender risks

Lottus' activities do not present significant gender risks, as no differentiated impacts between men and women have been identified regarding access to education, employment, or resources within its facilities. The educational offerings and associated opportunities are equitably available to both genders, with no evidence of discriminatory practices or barriers that create inequality.

4.1.c.ii Gender programs

Lottus does not have a specific policy on gender-based violence, although it has procedures in place to manage cases of harassment. However, it does not maintain a record or statistical monitoring of cases, which prevents an assessment of the incidence and effectiveness of its measures. The company has also not formalized specific gender-related programs in the workplace, although it has implemented actions to improve the quality of life of its female employees. These include safe and adequate sanitary facilities, childcare services, lactation rooms in offices and educational centers, as well as gender-segregated showers and locker rooms, in compliance with health and safety regulations.

4.1.c.iii Exposure to climate change

The Project will be developed in multiple locations across different states in Mexico. The average annual temperature is projected to increase by 0.82°C for the period 2020–2039 and by 1.63°C for the period 2040–2059. By mid-century, Mexico is likely to experience higher minimum and maximum temperatures, accompanied by a perceived increase in heat due to higher atmospheric humidity. Regarding precipitation patterns, Mexico is expected to face more frequent extreme precipitation events. Regions such as the Central Plateau, the Northern Plateau, and parts of the Gulf Coast are estimated to have nearly double or more than double the probability of experiencing extreme precipitation events with historical 100-year return periods by mid-century. At the same time, drought incidents could intensify and become more frequent, particularly in the Northern Plateau, significantly influenced by the El Niño–Southern Oscillation (“ENSO”) phenomenon.

These climate changes pose significant risks to the Company. Extreme heat events could lead to increased energy consumption in educational facilities and server centers supporting digital services. Meanwhile, extreme precipitation could affect both physical infrastructure and maintenance activities on campuses. The emergency plans of the different campuses include measures to address flooding and other natural events linked to climate change.

The Transaction is considered aligned with the Paris Agreement based on the analysis conducted in accordance with the IDB Group’s Paris Alignment Implementation Approach.

4.1.d Management programs

Lottus has documented procedures to manage its human resources, but it still has no OHS or environmental management programs.

4.1.e Organizational capacity and competency

The Human Resources Department is run by a corporate manager, supported by staff assigned at each Lottus subsidiary. Environmental matters are managed by the Strategy Division. Nevertheless, it still has not appointed staff to manage the OHS risks. Moreover, in compliance with the local legislation³, the Company and its subsidiaries have not organized the Health and Safety Commission.

4.1.f Emergency readiness and response

Lottus has a robust approach to emergency preparedness and response, complying with national regulations established by the National Executive and Mexico's Civil Protection authorities regarding fire safety and emergency preparedness. The Company has developed Emergency Preparedness and Response Plans ("EPRP") for each campus and associated facility, based on a detailed risk analysis. These plans include emergency scenarios such as earthquakes, evacuations, spills, terrorism, civil disturbances, accidents, floods, and natural events, utilizing a color-coding system to facilitate identification by staff, emergency brigades, and employees.

Additionally, the EPRPs clearly define the roles and responsibilities of security personnel during emergencies and include protocols for assessing emergencies, classifying students, and executing basic evacuation procedures. Lottus also implements an annual training program and conducts drills at least twice a year on each campus. Furthermore, the EPRPs are updated whenever modifications or additions are made to the facilities.

4.1.g Monitoring and review

Lottus will develop a corporate procedure (to be implemented by each subsidiary) to monitor and track its E&S performance in the campuses, which will also include key performance indicators and internal audit protocols to assess the implementation of the ESMS, identify opportunities for improvement and define which information will be reported periodically to the top management.

4.1.h Stakeholder engagement

Lottus' interaction with social stakeholders is primarily focused on its suppliers and students, given its role as an educational institution. Information on E&S performance is limited but adequate, considering the nature of the business and the absence of significant impacts on communities.

³NOM-019-STPS-2011

4.1.i External communication and grievance mechanism

Lottus' Safe Line, accessible via email and an online form at each subsidiary, is the mechanism through which students can anonymously submit complaints, including those related to acts of sexual violence. This mechanism will be adapted to allow other social stakeholders, such as neighbors, to communicate and submit questions, complaints, claims, and suggestions related to the Company's E&S performance.

4.2 Labor and working conditions

4.2.a Working conditions and management of worker relationships

Lottus' workforce consists of about 5,100 workers, 51% of whom are women.

4.2.a.i Human resources policies and procedures

In compliance with the local legislation, Lottus has documented procedures to manage the workers' matters. However, it will prepare a human resources policy with workforce management guidelines that are in line with the international best practices.

4.2.a.ii Working conditions and terms of employment

The Company's workweek consists of 48 hours, distributed from Monday to Saturday. All employees have a written contract and are informed of their rights through the Internal Work Regulations, in accordance with national labor and employment legislation.

4.2.a.iii Workers' organizations

Lottus respects the employees' right of association and has signed collective agreements with four labor unions.⁴

4.2.a.iv Non-discrimination and equal opportunity

According to its Code of Ethics, Lottus is an equal opportunity employer that does not discriminate for any reason. However, its new human resources policy will further strengthen Lottus' commitment to providing equal opportunities for all employees, without discrimination based on nationality, ethnic origin, race, color, sex, age, marital status, social class, creed, political affiliation, disability, or sexual orientation.

4.2.a.v Retrenchment

Lottus does not anticipate any retrenchment in the future.

⁴ Grupo Sindical J.R.M.M - INDO; 4th section F.T.D.F.C.T.M - CETC & UTC; Asociación de Trabajadores de Empresas y Comercios de Actividades Diversas del Estado de Morelos - ULA; and Sindicato de los Trabajadores de la Enseñanza en Colegios Particulares, Academias y Similares en el Estado de Jalisco - UTEG.

4.2.a.vi Grievance mechanism

Those working for Lottus and its subsidiaries can submit anonymous reports, grievances and comments through the Company's reporting channel. The Company has documented a specific process for managing violations to the Code of Ethics and cases of workplace harassment but still has not developed processes for other types of grievances. Likewise, it does not keep record of all the grievances received or follow up on the corresponding corrective actions, or even check they are implemented, when applicable.

4.2.b Protecting the workforce

Lottus does not support, promote or tolerate child labor nor does it accept forced or compulsory labor. The minimum age to work for the Company is 18 years old.

4.2.c Occupational health and safety

Accidents during higher education work may occur in several places (classrooms, laboratories, administrative offices and maintenance areas). Common injuries include slips, trips, falls, muscle strains and exposure to hazardous materials. Even though Lottus promotes health and safety for its workers, it has not prepared yet any procedures to investigate occupational accidents, identify root causes and correct the conditions to prevent future accidents.

4.2.d Provisions for people with disabilities

Whereas Lottus has no record of discriminating against people with disabilities, it does not employ anyone with disabilities either.

4.2.e Workers engaged by third parties

Lottus' contractors and suppliers follow a general rulebook that covers compliance with the labor legislation and measures to protect the workers' safety. Nevertheless, the Company still has no procedure in place to investigate any type of accident suffered by contractors in the vicinity, or a detailed log of the lost time incidents ("LTI"s) involving its contractors.

4.2.f Supply chain

The risk of child labor or forced labor in Lottus' supply chain is not relevant, as its main suppliers offer education, administrative and infrastructure services.

4.3 Resource efficiency and pollution prevention

4.3.a Resource efficiency

Aware of the importance of resource efficiency, Lottus has implemented activities focused on reducing power and water consumption. They include awareness campaigns in the classrooms

encouraging to turn off the lights and the faucets, and report leaks, as well as the replacement of halogen bulbs with LED⁵ and conventional mixed light lamps with power-saving ones.

4.3.a.i Greenhouse gases

Lottus' activities do not lead to generating greenhouse gases.

4.3.a.ii Water consumption

Lottus' facilities consume about 1.5 million m³ of water per year. This is mainly supplied by the municipal companies and supported with water tankers (in two campuses).

4.3.b Pollution prevention

4.3.b.i Waste

At Lottus properties, various types of waste are generated, including municipal solid waste (paper, cardboard, plastic, and aluminum), organic waste, and hazardous waste (chemical solvents, expired reagents, contaminated glass, and biological material) from laboratories.

The wastewater generated on campus includes sanitary wastewater, infectious waste from dental clinics, and kitchen wastewater. Domestic wastewater is discharged into the municipal sewer system in compliance with local regulations. Kitchens are equipped with grease traps, and collected oils and fats are handed over to authorized government contractors for final disposal. Dental clinics have vacuum systems with trap tanks to collect wastewater from sinks, which are cleaned periodically and managed through certified contractors.

While Lottus is aware of the importance of reducing waste generation, it has not yet established a comprehensive management procedure or implemented programs to reduce its generation and encourage its recycling.

4.3.b.ii Hazardous materials management

Lottus' campuses, which use hazardous materials, like cleaning products, chemicals and reagents in the labs, have in place programs for suitable management. These programs include mechanisms to access safety information about incompatibilities and releases in case of emergency, as well as to manage those materials as per its classification and corresponding safety sheets. Moreover, the civil protection plans include specific measures for incidents involving cleaning materials, and the labs have emergency eye wash faucets as part of the basic safety equipment.

⁵ Light Emitting Diode

4.4 Community health and safety

4.4.a Community health and safety

Lottus' campuses have a basic fire safety infrastructure (seismic alarms connected with the national system and portable extinguishers). However, most do not have fire hose systems.

The construction projects are managed internally by Lottus through a work manager and supervised by certified companies with wide experience in Mexico. The design of the new campuses considers key aspects like location, road access and public transport, energy efficiency (for instance, natural ventilation and minimal use of air conditioning systems), materials, resources and indoor environmental quality. Also, the exits (main corridors, doors, stairs) have been designed to accommodate the evacuation of the place's full occupancy capacity.

Lottus' facilities complete Protección Civil's assessment and have the corresponding fire permits issued by the fire brigade, but not all buildings are completely accessible, because some lack elevators or ramps for people with disabilities.

4.4.b Security Personnel

Lottus subcontracts security services from a company that is properly certified and qualified by the corresponding authority, and the guards are not armed.

4.5 Land acquisition and involuntary resettlement

The transaction will cause no physical or economic involuntary displacement of people.

4.6 Biodiversity conservation and sustainable management of living natural resources

The transaction will not affect the biodiversity.

4.7 Indigenous peoples

The Transaction will not affect any indigenous peoples.

4.8 Cultural heritage

The Transaction will not affect any cultural heritage.

5. Local Access of Project Documentation

The documentation related to the Project is available at: <https://www.lottus.com/>