

## PUBLIC DISCLOSURE TEMPLATE

Original language of the document: Spanish  
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### A. Investment Summary tab

<b>Disclosed Date:</b>	August 20, 2020
<b>Project Name:</b>	KUO Group – Value Chain Financing
<b>Project Number:</b>	13209-01
<b>Investment Type:</b>	Supply Chain Financing
<b>E&amp;S Category:</b>	C
<b>Projected Board Approval Date:</b>	September 21, 2020
<b>Company Name:</b>	Grupo KUO, S.A.B. de C.V. (“KUO Group”)
<b>Sector:</b>	Agribusiness
<b>Financing Requested:</b>	Up to MX\$1,100 million
<b>Financing Currency:</b>	USD or Mexican Pesos (MX\$)
<b>Project Country:</b>	Mexico
<b>Team Leader:</b>	Carlos Narváez

### B. Environmental and Social Review Summary

#### 1. General information of the Operation

Grupo KUO, S.A.B. de C.V. and its eligible subsidiaries (the "KUO Group" or "the Company") has requested financial assistance from IDB Invest to set up an uncommitted reverse factoring revolving credit facility (the "Facility") to finance the Company's suppliers in Mexico 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 suppliers.

#### 2. Scope of the IDB Invest's Environmental and Social Review

KUO Group is a Mexican industrial conglomerate operating in more than 70 countries, with 28 production plants in five countries (Mexico, the United States, Belgium, China, and Spain), and businesses concentrated in three sectors: (i) Consumer goods, in the pork market with the Kekén and Kinitón brands (exporter to Japan, South Korea, the United States, and China, primarily) and the branded food market with Herdez del Fuerte,<sup>1</sup> as well as a joint venture with Hormel Foods called Megamex Foods; (ii) Chemicals, in the synthetic rubber market with the Dynasol<sup>2</sup> brand and the polymers market with Resirene; and (iii) Automotive, in the transmission market with Tremec and the spare parts market with

<sup>1</sup> Strategic partnership with Grupo Herdez.

<sup>2</sup> Strategic partnership with Repsol.

the Fritec, TF Victor and Moresa brands, all marketed and distributed through Dacomsa (together referred to as "Strategic Business Units" or "SBUs"). It has more than 24,000 employees (34% women and 66% men), distributed in the consumer goods sector (75%), automotive sector (17%), chemicals sector (6%), and corporate (2%).

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 a focus on compliance with the following 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; and PS 4: 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 or, when it does, these will be very limited and of very low intensity.

### **4. Environmental and Social Risks and Impacts**

#### **4.1 Assessment and Management of Environmental and Social Risks and Impacts**

KUO Group has implemented an Environmental Policy that sets out the guidelines to comply with environmental obligations and responsibilities that each SBU's business activities and operations are subject to under current environmental regulations. This policy requires KUO Group's SBUs to identify, evaluate, manage, execute and improve their environmental impact by establishing clear and measurable goals concerning the generation of greenhouse gas ("GHG") emissions; water consumption, reuse, and discharge; waste generation; and energy consumption, as stipulated in the applicable environmental regulations and KUO Group's environmental indicators. These environmental indicators are used to monitor the sustainability performance and practices of each plant, following the guidelines for reporting these indicators.

On a corporate level, KUO Group has a Sustainability and Social Responsibility Department that reports to the General Manager's Office (also in charge of the Legal Affairs Department), and is responsible for overseeing compliance with obligations and responsibilities in the areas of industrial safety, and environmental and social performance. In addition, each KUO Group SBU site has a specific organizational structure in charge of environmental, social, and OHS issues, supported by the Operations and Human Capital departments, and medical personnel (where applicable).

In order to fully comply with environmental regulations and achieve improved performance, all KUO Group SBU sites must, as far as possible, obtain or maintain an environmental certification such as the Clean Industry Certificate granted by PROFEPA or ISO 14000. In addition, as part of their environmental and social commitments, each SBU must provide the Ministry of Environment and Natural Resources ("SEMARNAT"), the Federal Attorney for Environmental Protection ("PROFEPA") and the National Water Commission ("CONAGUA") with regular reports on their compliance with applicable environmental regulations in relation to their operations in Mexico. As such, the Company has substantially and continuously complied with the terms and conditions of the Environmental Impact Statements ("EIS"), the Single Environmental Licenses and the permits granted to the businesses by Mexico's three government levels (federal, state, and municipal), obtaining the Annual Operating Certificates ("AOC") and verification

of greenhouse gases and compounds for its facilities (as applicable) in a timely and proper manner. Additionally, KUO Group's Kekén SBU has an Environmental Protection Regulation that its contractors must comply with during the implementation of each project for the SBU, in order to extend compliance with current legislation, environmental resolutions, and the Company's commitments to its contractors.

For external communication with stakeholders, the Company has several digital communication channels that serve to provide information and ensure accountability, such as: editorial media and the company's internal and external platforms; face-to-face events and programs; board and committee sessions; and evaluation instruments such as surveys. Furthermore, the Company has an External Communication Policy stipulating that any institutional communication must be discussed in advance with the General Manager's Office, which is responsible for legal affairs.

#### **4.2 Labor and Working Conditions**

Overall working conditions are very well regulated in Mexican<sup>3</sup> labor and occupational health and safety ("OHS") legislation in terms of working hours, wages, vacations, workers' compensation, labor regimes, working conditions, and social security, among other aspects. In that regard, the Company has implemented a Corporate Code of Conduct ("the Code") and Internal Working Guidelines for each SBU, which are intended to guide the behavior of all those who are part of KUO Group's<sup>4</sup> community, as well as contractors and their staff, external consultants, contract employees, temporary staff, interns, and other suppliers to ensure that they act in accordance with the most stringent standards of personal and professional integrity in all aspects of their activities. The Company also has a Social Responsibility Policy that establishes and ensures compliance with local laws and international agreements and treaties on labor and human rights signed in each country where it operates, dignified treatment, a healthy working environment, and optimal working conditions for its employees, including key issues such as: (i) equal opportunity; (ii) freedom of association; (iii) rejection of child labor; (iv) quality of life at work; (v) health, safety, and hygiene; (vi) the environment; (vii) respect for human rights and the Global Compact; (viii) the fight against corruption; and (ix) innovation.

KUO Group has an Occupational Health and Safety Policy that sets out the guidelines and behaviors to be followed in order to protect its employees' physical integrity, prevent injuries and damage to their health, and avoid affecting process safety through the implementation and execution of the Occupational Health and Safety ("OHS") System Guidelines, which identify hazards, evaluate risks, and establish measures for prevention, correction, control and/or transfer. To complement this policy and to meet the health needs arising from the COVID-19 pandemic, the Company has developed specific guides and guidelines, such as: (i) the COVID-19 Workplace Action Guide, in compliance with the requirements of the Mexican Ministry of Labor and Social Welfare ("STPS") and the Mexican Ministry of Health ("SSA"); (ii) the COVID-19 Return to Work Checklist, in compliance with the requirements of the Mexican Social Security Institute ("IMSS"); and (iii) an Agreement establishing the Technical Guidelines for Health and Safety in the Workplace, together with the IMSS, the STPS and the Federal Commission for the Protection against Health Risks ("COFEPRIS").

Furthermore, the Company has implemented Internal Civil Protection Programs ("ICPP") in each of its production and service facilities, based on the regulations established by the Ministry of Labor and Social

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<sup>3</sup> 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).

<sup>4</sup> Shareholders and partners, their human capital, customers and suppliers, the community, governments and trade unions in each country where they operate.

Welfare ("STPS"), and in compliance with federal and local civil protection legislation.<sup>5</sup> Each ICPP sets out preventive mitigation and assistance measures in an establishment, aimed at safeguarding the physical integrity of employees, visitors, suppliers, and persons or customers within such establishments.

With regard to suppliers, the Code establishes business practices for a healthy relationship, aiming to ensure that the work philosophy is consistent with the Company's ethical principles, maintaining within its supplier portfolio those which have a solid reputation for equity and integrity. The suppliers, after undergoing an impartial selection process based on quality, competence, profitability, industrial safety, and service criteria, certify their compliance with the Code through a letter of agreement. The Company also has a Purchasing Policy and corporate procedures of central negotiation for strategic sourcing and bidding that define the general rules for the awarding of goods and services required by the SBUs under strict fiscal, competition, professionalism, and quality standards.

However, to ensure strict compliance with the provisions of PS 2, the Company will update the general guidelines for supplier selection in its Purchasing Policy to incorporate the need for each supplier, whether as part of the letter of agreement to the Code or any other applicable document, to ratify compliance with: (i) current labor and OHS laws, especially the prohibition of child labor and forced labor, non-discrimination, gender equality, and ensuring safe working conditions, and (ii) applicable environmental legislation, in order to minimize environmental impacts by controlling air emissions, adequate management and treatment of liquid and solid waste, and the rational use of natural resources in their processes. In addition, the supplier management carried out by the Company's purchasing staff, which includes an annual evaluation system for recurring suppliers to measure their performance in terms of quality, cost, and delivery times, will include a review of compliance with applicable environmental, labor, and OHS legislation in force.

With regard to grievances or complaints, the Company has provided its staff, suppliers, and other third-party stakeholders with a confidential, safe, and respectful feedback mechanism, whereby they can personally or anonymously report any unusual activity or violation of the guidelines in its Code of Conduct or applicable regulations without fear of retaliation. All grievances received through its communication channels, whether by telephone, email, or its website, are addressed and investigated by KUO Group's Internal Audit Office, which reports to and follows up with the Audit Committee, in turn supported by KUO Group's management. The person who filed the grievance or complaint is informed of any corrective actions resulting from the investigations (when applicable), which are implemented by the corresponding department under the supervision of the Audit Committee.

### **4.3 Resource Efficiency and Pollution Prevention**

Through innovation, each KUO Group SBU implements environmental best practices, such as minimizing emissions, using clean energy, energy saving systems, and preserving natural resources, which enable them to reduce their environmental impact and extend this practice throughout their value chain. Furthermore, the Company has developed a circular economy model in which, by recycling polystyrene, it contributes to the reduction of plastic waste and better use of resources.

Specifically, the Company presents the results of its objectives and programs that are focused on: (i) the production of clean energy (10% more than in 2018), achieving 60% from renewable sources by 2019; (ii)

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<sup>5</sup> General Law on Civil Protection and its Regulations; and Mexico City Law on Comprehensive Risk Management and Civil Protection and its Regulations.

water efficiency, reusing 34% of total consumption (2% more than in 2018); (iii) use of biodigesters (40 in total) in the pork business, achieving a 10% increase in the generation of renewable energy and the reuse of 3.2 million m<sup>3</sup> of water for irrigation; (iv) efficient fuel consumption, reducing the use of natural gas by 13%; (v) responsible waste management, taking advantage of and reducing waste to 1.5 tons in accordance with its production intensity indicator and 5% in hazardous waste; and (vi) fighting climate change, reducing CO<sub>2</sub>e emissions to approximately 298,000 tons (GHG emissions, 11% less than in 2018).

Additionally, as the Operation is a commercial transaction for financing suppliers, it will not generate additional pollution nor require the use of additional natural resources.

#### **4.4 Community Health, Safety and Security**

KUO Group and its SBUs promote the sustainable development of communities in the areas where they operate, based on prevention and adequate contingency management in accordance with a Crisis Management System. In that sense, the Company has a Crisis Management Policy and Manuals which set out the implementation and operational guidelines to: (i) prevent crisis situations that put the operations and/or reputation of KUO Group and its businesses at risk; (ii) achieve comprehensive and effective management in a crisis; and (iii) establish systems to recover and return to normal in the shortest possible time and in compliance with the legal framework. Aside from the policy and manuals, the Company conducts: (i) training on the system for members of the Local Crisis Management Committee ("LCMC") in its facilities; (ii) training for critical positions, such as spokespersons, those responsible for attending to those affected, and first contacts; and (iii) crisis simulation workshops, depending on the relevant risks in each SBU site, resulting in an evaluation report on the performance of the LCMC.

The Company has also demonstrated its commitment to creating sustainable value with the Socially Responsible Company ("SRC") distinction awarded by the Centro Mexicano para la Filantropía, A.C. ("CEMEFI") as part of its program for corporations.

#### **5. Local Access of Project Documentation**

Additional sustainability information from KUO Group can be accessed at the following link: <https://www.kuo.com.mx/sustentabilidad.php> and <https://kuo.xdesign.com.mx/informe-anual/2019>.

#### **6. Environmental and Social Action Plan**

The Project's Environmental and Social Action Plan (ESAP) can be found in [Annex 1](#).

### **C. Additional Information**

For inquiries about the Project please contact Grupo KUO

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For questions and comments to IDB Invest please contact:

Name: IDB Invest Communication Group  
Email: [requestinformation@idbinvest.org](mailto:requestinformation@idbinvest.org)

Additionally, affected communities can access the IIC's Independent Consultation and Investigation Mechanism (ICIM) as follows:

Phone number: +1 (202) 623-3952  
Fax number: +1 (202) 312-4057  
Address: 1350 New York Ave. NW Washington, DC. USA. 20577  
Email: [mecanismo@iadb.org](mailto:mecanismo@iadb.org) or mailto: [MICI@iadb.org](mailto:MICI@iadb.org)

**Annex 1: Environmental and Social Action Plan (ESAP)**

No.	Reference	Measure	Final Product/Deliverable	Expected Completion Date
<b>PS 1: Assessment and Management of Environmental and Social Risks and Impacts</b>				
1.1	Project Compliance with applicable regulations	1. Prepare through an internal audit or, if applicable, an independent external environmental and social expert (external audit), a consolidated annual report on the environmental and social performance of its activities and the compliance status of 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.	1. Environmental and social compliance report.	1. Annually over the life of the loan.
<b>PS 2: Labor and Working Conditions</b>				
2.1	Supply Chain	1. Update the Supplier Selection Procedure of the Purchasing Policy to incorporate a binding instrument in which each supplier ratifies its compliance with (i) current labor and OHS laws, especially the prohibition of child labor and forced labor, non-discrimination, gender equality, and ensuring safe working conditions, and (ii) the applicable environmental legislation, in order to minimize environmental impacts by controlling its air emissions, the adequate management and treatment of liquid and solid waste, and the rational consumption of natural resources in its processes.	1. Copy of the Purchasing Policy including the updated Supplier Selection Procedure.	1. 90 days after the first disbursement.
		2. Update the supplier management process as appropriate to each specific purchasing area, including a compliance review of the applicable environmental, labor, and OHS legislation in force.	2. Copy of the updated supplier management process.	2. 90 days after the first disbursement.