

Environmental and Social Review Summary (ESRS) Elcatex Group/San Juan Textiles II – HONDURAS

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1 General Information of the Project and Scope of Environmental and Social Review

The Project consists of financing working capital and capital investments for Elcatex, S. de R.L. (“ELCATEX”) and San Juan Textiles, S. de R.L. de C.V. (the “Company” or “SJT”, both part of the Elcatex Group) through the acquisition of textile machinery and sewing equipment, ancillary works, and the refurbishment of two new sewing plants intended to increase SJT’s production from 1.2 million pounds to 1.8 million pounds of fabric per week (approximately 644,000 pounds of additional fabric per week).

This is the second transaction with ELCATEX. The first transaction, approved in April 2020, supported economic growth and export diversification through the construction and fitting out of the San Juan Textiles plant, located at the San Juan Innovation Park Export Processing Zone (EPZ) in the Choloma Municipality, Cortés Department, Honduras.

Due to COVID-19¹ restrictions, the environmental and social due diligence (ESDD) process for this second transaction was carried out primarily remotely, and included the review of the following information, among other items: (i) environmental and social management policies, plans, manuals, and procedures; (ii) human resources policies and working conditions; (iii) occupational health and safety (OHS) programs; (iv) procedures for monitoring and evaluating environmental conditions (e.g., air emissions, solid waste, noise and effluents); (v) emergency response plans; and (vi) the assessment of SJT’s supplier management programs and their compliance with basic environmental, social, and OHS requirements, as required by Honduran regulations.

This process was complemented by interviews and several message exchanges with personnel from the Company’s sustainability, procurement, human resources, and operations areas associated with the Project.

2 Environmental and Social Categorization and Rationale

The Project has been classified as a Category C operation in accordance with IDB Invest’s Environmental and Social Sustainability Policy since it generates very limited or no adverse environmental or social risks. This transaction will trigger the following International Finance Corporation (IFC) 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.

¹ COVID-19 is an infectious disease caused by the coronavirus discovered in Wuhan, China, in December 2019 (<https://www.who.int/emergencies/diseases/novel-coronavirus-2019>).

3 Environmental and Social Context

SJT is an industrial development operated by ELCATEX (the “Developer”), which consists of a textile and sewing plant that will be integrated vertically. This plant has a total surface area of 84,765.50 m² and a built industrial facility with a surface area of 75,329.95 m² located at Facility No. 3 of the “San Juan Innovation Park” EPZ, in the Choloma Municipality, Cortés Department, Honduras. The plant’s cutting department started operations in May 2021, and all weaving, greige fabric, dyeing, and finishing operations were already established. The plant currently produces 1.2 million pounds of fabric per week, with a demand that exceeds its production capacity. SJT has six sewing plants that produce millions of pieces of clothing per year (sweaters, polo shirts, basic t-shirts, and male underwear). The new investment, which aims to increase fabric production, will focus on the existing industrial facility, and will consist of: (i) the acquisition of textile machinery; (ii) the expansion of ancillary works associated with electric, pneumatic, and fire prevention systems, among others; and (iii) the refurbishment of two sewing plants.

In June 2020, the Ministry of Natural Resources and the Environment (MIAMBIENTE) issued an operating permit² that requires the Company to submit an annual progress report on its environmental control measures to both MIAMBIENTE and Choloma’s Municipal Environmental Unit (MEU), as part of its Environmental Measures Compliance Report (ECR).

4 Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

SJT is governed by ELCATEX’s Environmental and Social Management System (ESMS), which serves as a model for the Company’s environmental and social management, and aims to ensure compliance with the environmental, social, and OHS requirements established by the Honduran General Environment Law.³ As part of its ESMS, SJT has implemented an environmental policy applicable to all of its employees, through which it aims to promote innovation; progressively reduce the undesired environmental impacts of its activities, facilities, products, and services; and make efforts to incorporate sustainability considerations in its activities.

Additionally, SJT has adopted ELCATEX’s Occupational Health and Safety Management System, which includes an Industrial Hygiene and Safety Policy, in line with the Honduran Labor Code.⁴

Environmental and social issues are managed by ELCATEX’s Corporate Environmental Division, which is responsible for continuously and systematically identifying, assessing, and managing the risks and impacts related to the Company’s activities. This division is supported by the Plant Manager and SJT’s production divisions, in coordination with SJT’s Environmental Compliance Office, to ensure proper implementation of environmental and social risk prevention and mitigation measures. Similarly, the Corporate Environmental Division works closely with SJT’s Industrial Safety and Occupational Hygiene Division which,

² Operating Permit No. SLAS-0000083-2020.

³ Legislative Decree No. 104-93 – General Environment Law; Gazette 27,083 of June 30, 1993.

⁴ Legislative Decree No. 189, Labor Code; Gazettes 16,827 to 16,834, of July 15-23, 1959.

in turn, is supported by the plant's industrial safety supervisors and assistants to establish and promote safe and healthy working conditions, and employee health.

As part of its efforts to continuously improve its ESMS, in 2021, SJT prepared an analysis of environmental issues and assessed environmental, social, and OHS risks and impacts through an Environmental Impacts Assessment Matrix. This enabled the Company to obtain a comprehensive overview of areas for improvement and projects to implement. As a result of this exercise, the following ESMS plans and procedures were generated: (i) SJT's environmental management plan; (ii) environmental impacts identification and assessment procedure; (iii) license and permit renewal procedure; (iv) environmental legislation identification procedure; (v) comprehensive solid waste management procedure; (vi) environmental training plan; (vii) environmental emergency plan; and (viii) environmental audit program to final disposal of solid waste supplier.

SJT has implemented an emergency response plan (ERP) that complies with local regulations⁵ and contains emergency preparedness and response procedures, including: (i) specific emergency response procedures; (ii) the duties of trained emergency control groups; (iii) description of first response teams; (iv) emergency notification and warning procedures; (v) emergency contacts, communication systems, and protocols; (vi) media and community relations procedures; (vii) details and location of emergency teams and facilities; and (viii) drill procedures. However, due to the increase in production capacity at the existing industrial facility, the Company will include the following updates in its ERP: (i) the creation of emergency response teams; (ii) the incorporation of permanent emergency response facilities and equipment (for example, first aid stations, fire hoses, fire extinguishers, sprinkler systems) in the newly refurbished areas; (iii) the establishment of new evacuation routes and meeting points; (iv) operating protocols for fire trucks, ambulances, and other emergency services and vehicles, based on the new evacuation routes and meeting points; (v) the incorporation of new SJT personnel and other stakeholders in training exercises.

The updated ERP must be implemented together with an annual training program aimed at strengthening emergency response capabilities and will include courses for first responders on: (i) first aid (basic life support, hemorrhages, shock, injuries and burns, fractures, moving injured people, etc.); (ii) fire extinction and prevention (firefighter safety, fire hose storage, use of fire extinguishers, etc.); and (iii) search and rescue, among others.

Through ELCATEX's communication strategy, SJT aims to disseminate relevant information on the Project to its various stakeholders (employees, Company contractors, and members of communities located within the Project's area of influence). This strategy includes communicating how the grievance mechanism works and how mitigation measures will be implemented. Consultation processes with key stakeholders in the Project's area of influence will also be carried out to exchange opinions and information and establish a constructive long-term relationship.

SJT will use ELCATEX's external grievance mechanism, which establishes guidelines and procedures to register, analyze, investigate, and resolve grievances, complaints, and queries related to the Company's activities. This mechanism provides stakeholders (communities, associations, and NGOs, among others) a communication channel to strengthen community relations, generate a positive social change, and ensure

⁵ Executive Agreement No. STSS-053-04 of the Ministry of Labor and Social Security, which regulates the prevention of work accidents, and the Fire Service Law (Decree No. 294-93).

good environmental and social performance. Since it started operations in 2021, SJT has received no grievances or complaints from external stakeholders.

4.2 Labor and Working Conditions

General working and OHS conditions are very well regulated in Honduran legislation. In that regard, as part of the Elcatex Group, SJT adheres to the Company's Code of Ethics in its relations with shareholders, customers, suppliers, authorities, civil society organizations, communities, and all other stakeholders who interact with the Group. This code complies with Honduran labor laws⁶ and includes standards and provisions that prohibit forced labor, child labor, discrimination, and harassment or abuse. It also establishes remuneration and service provision conditions, working hours, freedom of association, health and safety standards, independent oversight, environmental commitments, and compliance with relevant legal provisions.

Additionally, SJT's working conditions are based on ELCATEX's Personnel Management and Selection System, which contains: (i) an internal promotion policy; (ii) an employee recruitment, selection, and hiring procedure; (iii) a child labor prevention policy; (iv) a workplace harassment and abuse prevention policy; (v) a non-discrimination policy; (vi) an occupational safety policy; and (vii) a freedom of association and collective bargaining policy; among others.

SJT has implemented an Internal Labor Regulation (ILR) that is compatible with both the Labor Code and its regulations, as well as with the Honduran Social Security Law and its general regulations. This ILR sets out employment procedures and conditions for recruitment and dismissal, in accordance with the International Labour Organization (ILO) guidelines.

SJT's internal grievance mechanism is based on ELCATEX's Code of Ethics, which sets out the communication mechanism for resolving grievances, claims, complaints, or suggestions from any employee or worker engaged by third parties. The most-used mechanism to receive employee grievances has been the suggestion boxes in the cutting and weaving area. This tool is reviewed and moderated by the Human Resources Department, which enters the information in the established format, identifies the area or areas involved, categorizes the requirement to facilitate the monitoring process (physical working conditions, tools, transport, cafeteria, leadership, development, first aid clinic, etc.), and formulates possible solutions in a timely manner in line with the Company's standards and labor legislation. The Employee Relations Coordinator is responsible for supervising this process.

With regard to OHS, in addition to adhering to ELCATEX's Safety Management and Control System (SMCS) and its Industrial Hygiene and Safety Policy, SJT has implemented a Manual on the Industrial Hygiene and Safety Program for Textile Operations (production of thread and fabric), in which it outlines the procedure for granting high-risk work permits based on the activities to be carried out and the working conditions. It has also implemented a personal protective equipment (PPE) and emergency equipment checklist, as well as a series of procedures in the area of industrial hygiene and safety management, in line with the risk analysis of its operations and occupational and environmental accidents. Additionally, SJT has adopted a Comprehensive Industrial Safety and Occupational Health Training Program, and a procedure to keep the prevention and safety folder up to date.

⁶ Decree No. 189 of 1959, Labor Code; Decree No. 140 of May 19, 1959, Social Security Law and its reforms.

As regards its supply chain, ELCATEX's Code of Ethics states that suppliers must share the Company's ethics and values, fully comply with laws, rules, and regulations, and maintain a safe working environment. Nevertheless, SJT will develop a Supplier and Contractor Selection Procedure which will include an assessment of their compliance with labor, OHS, and social and environmental responsibility standards, as well as ELCATEX's ethical principles. The procedure will also include a contractual amendment or written statement in which each supplier and contractor must verify its compliance with: (i) labor and OHS legislation in force, in particular the prohibition of child labor and forced labor, non-discrimination, gender equality, and guaranteeing safe working conditions; and (ii) applicable environmental legislation, in order to minimize environmental impacts through air pollution control, adequate liquid and solid waste management and treatment, and reasonable use of natural resources in its processes. Additionally, the Company will conduct an annual audit of strategic suppliers and contractors to guarantee continuous improvement in their commitment to sustainable management.

4.3 Resource Efficiency and Pollution Prevention

As part of the Elcatex Group, SJT benefits from ELCATEX's innovation and sustainable development, as the Company is a regional pioneer in biomass energy generation and water recycling initiatives, which have reduced water consumption per pound of fabric by almost 80% and chemical product use by 50%.

SJT prepares a Greenhouse Gas (GHG) Report⁷ in which it provides an inventory of both its direct emissions through fuel combustion (scope 1) and indirect emissions through electricity consumption (scope 2). In 2021⁸, SJT reported estimated total emissions of 7,860 tCO₂eq/year through its operations, with 63% corresponding to scope 1 emissions and the remaining 37% to scope 2 emissions.

SJT's energy consumption in 2021 was 523.8 MWh. This energy was provided by *Corporación de Energía Renovable*, S.A. de C.V., which produces it from the combustion of biomass fuel.

With regard to water consumption, SJT has one well which is linked to ELCATEX's SCADA ("*Supervisory Control and Data Acquisition*") system, which monitors water and electricity consumption in real time. To verify the physico-chemical and bacteriological quality of the water that is used at the plant, SJT has contracted the services of a certified laboratory.

SJT also adheres to ELCATEX's Water Savings Policy and Water Efficiency and Savings Program, and has adopted strategic actions to ensure efficient water consumption, including: (i) visual aids to make personnel aware of the need to conserve and save water; (ii) leak detection and repair; (iii) efficient cleaning practices; and (iv) plans for reusing water generated by air conditioning condensers and rainwater, among others.

Together with other Elcatex Group companies, SJT's wastewater is directed to the Textile Industry Wastewater Treatment Plant,⁹ which is operated by *Ingeniería y Operación de Plantas de Tratamiento*, S.A. (INOPTSA). There, effluents receive secondary biological treatment and tertiary ozonation treatment, until they comply with the National Technical Standard for Wastewater.¹⁰

⁷ This report was submitted for verification by the National Cleaner Production Center of Honduras ("CNP+LH").

⁸ From May to December 2021 only.

⁹ The plant is located in the ELCATEX Industrial Park, Choloma, and has an extended aeration activated sludge process with a capacity of 12,000 cubic meters/day.

¹⁰ Agreement No. 58 of 1996.

SJT's solid waste is separated into hazardous and non-hazardous waste. Non-hazardous waste is managed through the garbage collection service provided by the San Juan Innovation Park, and hazardous waste (such as infectious biological waste from the first aid clinic) is delivered to an authorized waste management service provider (which has the respective MIAMBIENTE authorization) for final disposal.

4.4 Community Health, Safety and Security

The retrofitting of SJT's facilities will be designed and built by competent contractors of renowned experience in the construction and operation of this type of works, as well as in the use of industry-recommended international best practices; and with a proven record of compliance with applicable national and international construction and safety guidelines, standards, and codes.

Nevertheless, given that the increase in textile production capacity will generate a rise in the transportation of materials, merchandise, and personnel to and from SJT, the Company will develop a specific Road Safety Management Plan for SJT's operations, which will include measures to mitigate possible impacts on the affected communities.

The life safety and fire protection (LSFP) systems for SJT's buildings and facilities, certified in August 2021 by an authorized company,¹¹ comply with the Fire Department Law¹² and its regulations¹³ and with the General Regulations for the Prevention of Occupational Accidents and Diseases,¹⁴ as well as the National Fire Protection Association's (NFPA) international standards, the Honduran Equity and Integral Development of Persons with Disabilities Law,¹⁵ and the 2010 ADA (Americans with Disabilities Act) Standards for Accessible Design.

4.5 Land Acquisition and Involuntary Resettlement

This transaction does not involve the concession or acquisition of new land. Therefore, it does not involve any kind of involuntary physical or economic displacement of people.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The Project will be developed on the Company's own premises within the existing industrial facility. As such, no material impact is expected on biodiversity or any other natural resources.

However, as part of the Elcatex Group, during 2021 SJT formed part of the Honduran government's Olive Ridley Turtle Release initiative, which promotes activities to protect the ecosystem, contributing to the Sustainable Development Goals (SDGs) through joint actions carried out with central and local government authorities to safeguard marine life.

¹¹ *Ingenieros Consultores y Constructores Electromecánicos ("I.C.C.E.")*, registered with the College of Mechanical Engineers, Electricians, and Chemists of Honduras ("CMIECH"): 325-12-N-CT/CS, and IQNet Certificate No. CO-SC 7058-1.

¹² Decree No. 294-93 of December 1993.

¹³ Agreement No. 012-98 of January 1998.

¹⁴ Executive Agreement No. STSS-053-04 of October 2004.

¹⁵ This act contains provisions to guarantee the rights and principle of accessibility and equalization of opportunities for persons with disabilities.

4.7 Indigenous Peoples

This transaction does not involve any development outside of the “San Juan Innovation Park” EPZ, so no impacts to Indigenous peoples' lands or resources are foreseen.

4.8 Cultural Heritage

This financing transaction does not involve any type of excavation or removal of earth outside of the lots that have already been developed by the Project, so there are no foreseeable impacts to cultural heritage.

5 Local Access of Project Documentation

The sustainability documentation relating to ELCATEX can be accessed at the following link:
<https://www.elcatex.com/es/sustentabilidad/ambiente/>