

Environmental and Labor Issues:

This is a category III project according to the IIC's environmental and labor review procedure because it could produce certain effects that may be avoided or mitigated by following generally recognized performance standards, guidelines, or design criteria. The main environmental issues associated with the project are: environmental management, occupational safety and health, and quality control systems; prevention and control of pollution and damage to natural habitats; labor practices; and social issues.

Arendal's operations include the design, acquisition, and construction of civil engineering works and industrial plants, projects involving pipelines and storage tanks, and heavy construction works. During the project's environmental and labor review, visits were made to the civil engineering project that Arendal is building in Tapachula, Chiapas and the Arendal campsite where the company is working on a number of construction and engineering projects for crude oil pipes and storage tanks in the PEMEX facilities at the Dos Bocas Maritime Terminal in Tabasco, Mexico. The engineers in charge were interviewed, along with the personnel they supervise, which include occupational safety and health and quality control experts. Arendal's work on the two projects is overseen by the client to ensure compliance with national and international standards. The practices observed during the field visit with respect to the management of environmental, labor, and social issues comply with national regulations and are consistent with the recommended good practices for management of these issues in the construction sector.

Environmental management, occupational safety and health, and quality control systems: Arendal has a Comprehensive Management System (CMS) for managing environmental, occupational safety and health, and quality control issues, which is certified under the following international standards: ISO 14001, OHSAS 18001, and ISO 9001. The Management Systems Main Office is located in the corporate offices in Monterrey, Nuevo León. Management has experienced, qualified personnel on board to analyze the risks associated with Arendal's operations and address any environmental, occupational safety and health, and quality issues, constantly integrating best environmental, labor, and social practices. The Management Systems Administrator, named by the Chief Executive Officer (CEO), is responsible for coordinating the implementation, maintenance, and upgrading of the CMS. The CMS manual is reviewed every three months by the CEO to verify that the system is fulfilling its established purpose and compliant with the standards under which it is certified. The Administrator receives support from the safety and environment officer assigned to each of the projects to handle occupational safety and health, environment, and project quality issues in the field.

The safety and environment officer at each project site is responsible for ensuring compliance with CMS measures and any additional occupational health and safety requirements that each client establishes for a particular project. The CMS includes emergency response procedures for any situation arising from project activities or natural phenomena. Before implementing its projects, the company performs an evaluation, applying its procedures to identify the potential risks to which its workers could be exposed, with a view to controlling or mitigating them to prevent workplace accidents. For example, before starting construction on heavy structures, Arendal makes sure that the quality and safety of machinery and equipment used, as well as the operator's skills, are certified by a certification company accredited by the Mexican Accreditation Entity (EMA). Furthermore, projects in the PEMEX facilities must strictly comply with all the occupational safety and health and environmental protection measures established for crude oil storage and distribution plants, complying with the national and international standards applicable to the fossil fuel sector. All tanks, pipelines, and pipes undergo hydrostatic and other hermeticity testing to verify that they are working properly and compliant with the necessary safety measures before they are put into

operation. Arendal has certificates from the American Society of Mechanical Engineers to work on pressurized receptacles.

During the hiring process or to enter a worksite, subcontractors and visitors are given the necessary training in occupational safety and health through mandatory induction talks. Arendal provides its workers with the necessary personal protective equipment (PPE) (for example, hard hat, goggles, gloves, boots, and work clothes; safety harness; and lifeline for protection in work on tall structures) and ensures that the equipment is in good condition and used properly. The Borrower will continue overseeing occupational safety and health at project sites to ensure that its direct employees and subcontractors always use PPE.

Prevention and control of pollution and damage to natural habitats: In the pre-project implementation phase, Arendal performs an evaluation following the procedures outlined in its CMS to identify potential environmental and social risks and impacts. The company's legal department, in coordination with the safety and environment officer, identifies each project's requirements to ensure compliance with current national, state, and local environmental and occupational safety and health standards. The company prepares an environmental management plan for each project, which includes the activities to be carried out to ensure compliance with applicable national regulations and international best practice in the sector.

In general, depending on the project, management plan activities focus on implementing measures to prevent, control, and mitigate environmental pollution and social impacts related to air emissions, solid and hazardous waste management, effluent treatment and discharge, flora and fauna protection, soil conservation and reforestation, mitigation of impacts at campsites during the project construction phase, environmental education and training, and cultural heritage and archaeological protection, among other issues. In the event of noncompliance, corrective action is taken. Moreover, inspections and internal audits of all Arendal projects are periodically conducted. In projects implemented by Arendal, the client is normally responsible for preparing and submitting the environmental impact statement (EIS) for approval by the Secretariat of Environment and Natural Resources (SEMARNAT), although there may be projects in which Arendal is responsible for preparing the EIS. In any case, Arendal must comply with the environmental impact mitigation measures indicated in the resolution issued by SEMARNAT or any relevant authority.

Labor Practices and Social Issues: Arendal's labor practices comply with Mexico's labor law and the basic labor principles of the International Labour Organization on workers' rights. Workers receive the legally mandated benefits stipulated in national labor law. Arendal ensures that its personnel and the subcontractors working on its projects are of legal age for employment and duly registered with the Mexican Social Security Institute. The company has personnel recruitment, selection, and hiring procedures and a core staff made up of trained professionals with ample administrative, operational, and project management experience. When projects involve more complex tasks requiring the use of additional experts or services in specific technical areas, the company retains the services of experts in these areas. As part of its CMS, the company has also created a database of reliable providers who are registered with the EMA. Arendal gives preference to hiring construction workers (masons and skilled labor such as carpenters, solderers, etc.) from the town in which the project is being built. Workers are retained through collective contracts for a particular project, and construction workers are members of the unions of the Confederation of Mexican Workers.

Workers at the project campsites have access to clean drinking water, portable toilets, and first aid services. Project sites that are far from urban areas require transportation for construction workers to and from the site. When adequate public transportation is lacking, Arendal provides transportation for its workers.

Monitoring and Reporting: Arendal will continue to implement the procedures of its certified CMS under the ISO 14001, OHSAS 18001, and ISO 9001 standards. It will also prepare an Environmental and Social Action Plan (ESAP) for every project financed by the IIC. The ESAP will primarily include: a) the environmental and occupational safety and health measures that will be implemented, and once completed, will guarantee compliance with IIC environmental requirements, national regulations, and the international best practice established in the International Finance Corporation's Environmental, Health, and Safety Guidelines and Performance Standards on Environmental and Social Sustainability, b) an implementation schedule, and c) a form for periodic reporting to the IIC on implementation of the project's ESAP.