

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, and design criteria. The main project-related environmental and labor issues involve environmental and social risk and impact assessment and management, efficient resource use and pollution prevention, labor practices and working conditions, and community health and safety.

The project review process included visits to the two GCP plants in Tepetlaoxtoc, Texcoco and Toluca, both in the State of Mexico. The Toluca plant is located in an industrial park (Toluca 2000). The Tepetlaoxtoc plant is located in the town of Tepetlaoxtoc and is the site of the proposed project for the installation and commissioning of a paper manufacturing machine.

GCP is in the process of implementing an integrated management system for its activities dealing with quality, environmental, and occupational health and safety issues based on international standards ISO 9001:2008, ISO 14001:2004, ISO 14004:2004, and OHSAS 18001:2007, to which end it retained the services of a specialized consulting firm early this year. In addition, the IIC will require GCP to draw up an Environmental and Social Action Plan (ESAP) to be implemented as part of the IIC-funded project. The ESAP will include the measures outlined in this summary which, once finalized and fleshed out, will ensure ongoing compliance with Mexican regulations and international good practices as established in IFC environmental, health, and safety guidelines and performance standards on environmental and social sustainability.

Environmental and Social Risk and Impact Assessment and Management: It is GCP policy to comply with federal, state, and local environmental and occupational health and safety legislation and regulations. Both GCP plants have an occupational health and safety officer responsible for handling any such issues arising in connection with the Group's manufacturing operations. The Tepetlaoxtoc plant uses recycled paper and cellulose fiber as feedstock for the manufacturing of paper, which is converted mainly into bathroom tissue and napkins. This plant was purchased by GCP in 2009. Since that time, the company has been upgrading its operations to ensure compliance with Mexican environmental regulations and international good practices. For example, the Tepetlaoxtoc manufacturing facility was issued an environmental permit (referred to as a Consolidated Environmental Permit or "LAU") in June 2012.

The Toluca plant was commissioned in 2003. It has an operating permit from the municipality. The company is in the process of renewing the permit and expects to be granted a renewal in the next few months. The Toluca plant does not manufacture paper. It purchases paper as feedstock for conversion mainly into bathroom tissue and napkins through a less complex process involving operations such as cutting, embossing, and packaging.

Efficient Resource Use and Pollution Prevention: The feedstock used by GCP in its manufacturing processes consists mainly of paper and cellulose fiber (from recycled paper or virgin wood fiber). The paper and virgin fiber are purchased from foreign suppliers certified by independent international organizations like the Forest Stewardship Council (FSC) serving markets such as the United States. FSC supplier certification ensures GCP that the products it purchases come from forest resources managed in an environmentally appropriate, socially equitable, and economically viable manner. The recycled paper is produced using materials such as newspapers and magazines purchased from licensed recycling companies. The industrial park in which the Toluca plant is located supplies the plant with water and electricity. The Tepetlaoxtoc plant has a permit from the National Water Board (CONAGUA) to draw water from a well located within the facility and was issued a drilling permit for a new well. The plant operates on natural gas and

electricity.

The main source of air emissions is a natural gas boiler at the Tepetlaoxtoc plant. These emissions are regularly monitored and the results are reported to the environmental protection agency on a form referred to as a Cédula de Operación Anual (an annual air emissions inventory report). According to monitoring data as of the end of 2012, air emissions from the boiler are in keeping with maximum allowable levels as established in Mexican standard NOM-085-SEMARNAT-2011. The Toluca plant has no air emissions from combustion processes and produces no industrial liquid effluents. Any liquid effluents from the Toluca plant consist solely of wastewater from the use of employee lavatories and other sanitary facilities or from food preparation in the plant cafeteria. The wastewater is discharged into the sewer system at the industrial park for treatment at the municipal sewage treatment plant.

The liquid effluents generated by the Tepetlaoxtoc plant consist mainly of industrial wastewater from its processing facilities. The environmental upgrades introduced by GCP in the operations of this plant include a physical-chemical industrial wastewater treatment system which allows for the recycling of most of the treated water for use in the manufacturing process. This has enabled GCP to cut its consumption of well water by approximately 40 percent since 2009. A negligible amount of treated industrial wastewater is discharged into an open drainage ditch adjacent to the plant. The facility has a liquid effluent monitoring program whose findings are regularly reported to the appropriate environmental protection agency. According to monitoring data for December 2012 compiled by duly accredited firms, treated wastewater effluents are in keeping with maximum allowable levels as established in Mexican standard NOM-001-SEMARNAT-1996, except for the BOD (biochemical oxygen demand) load factor. Though any such effluents are both minimal and sporadic, GCP will upgrade its industrial wastewater treatment plant to ensure that BOD loads also meet the aforesaid Mexican standard.

The wastewater generated by employee lavatories and sanitary facilities at the Tepetlaoxtoc plant is not currently treated prior to being discharged into the drainage ditch. GCP will also need to treat the wastewater produced by its Tepetlaoxtoc plant prior to discharge in order to comply with applicable Mexican regulations. In addition, GCP will need to update its wastewater discharge log filed with CONAGUA. The IIC will require GCP to establish a timetable for the completion of these corrective measures as part of the ESAP to be implemented by the company as part of the IIC-funded project.

Both plants have “hazmat” registration with the Ministry of Environment and Natural Resources (SEMARNAT) for the management and final disposal of hazardous waste products (spent oil and oil-impregnated materials, stale glue, etc.). Waste management is handled by companies licensed by the SEMARNAT. Waste products such as paper, cardboard, plastic, organic wastes, etc. classified as materials requiring special handling by Mexican regulations are turned over to licensed contractors for recycling or final disposal in the municipal sanitary landfill.

Labor Practices and Working Conditions: All GCP employees receive legally-mandated benefits under Mexican labor legislation, along with other fringe benefits granted under a collective bargaining agreement. Workplace accidents are regularly reported to the Mexican Social Security Administration (IMSS). The Borrower’s labor practices are in keeping with basic ILO (International Labor Organization) principles such as freedom of association and the right to engage in collective bargaining. Most GCP workers belong to a union. All union workers are members of the Confederación de Trabajadores y Campesinos (CTC) [the Confederation of Workers and Peasant Farmers]. Company policy includes a code of ethics and there is an official employee grievance procedure.

The project site (the Tepetlaoxtoc plant) currently has a total of 173 employees, including 34 women. Approximately 75 percent of the plant's workforce (129 workers) belongs to the union. GCP estimates that the project would create somewhere around 40 new jobs at its Tepetlaoxtoc plant. The Toluca plant currently employs 200 workers, including 62 women (31 percent of the workforce). The plant has an in-house cafeteria service operated by an independent contractor providing low-cost meals for company employees compared with prices at outside eateries.

GCP furnishes its workers with personal protection equipment (goggles, work uniforms, protective footwear, support belts, masks, hearing protection equipment, etc.) and monitors its use, which is mandatory. It also has an industrial health and safety training program in place, which provides induction training for new hires as well as contractors. The Toluca plant has an in-house health clinic, while the Tepetlaoxtoc plant uses the services of an outside clinic. In addition, all workers and their families have health insurance coverage through the IMSS (the Social Security Administration).

Community Health and Safety: GCP's manufacturing facilities are equipped with safety signage, evacuation routes, smoke detectors, alarms, fire extinguishers, a fire protection system using fire hydrants, and a civil defense program. Drills are conducted on a regular basis. The company has done a good job in its social communication activities in conjunction with the municipal government to inform local communities in the vicinity of its Tepetlaoxtoc plant of the various environmental upgrades it has made at that plant. It has also worked with the municipality on a number of public works projects for the town of Tepetlaoxtoc. At the request of the IIC, GCP will establish a formal grievance mechanism to ensure that its relations with surrounding communities in the vicinity of its Tepetlaoxtoc plant and other stakeholders meet IFC Performance Standard 1.

Monitoring and Compliance: As part of the IIC-funded project, GCP will implement the preventive, control, and mitigation measures included in the ESAP to be crafted in conjunction with the IIC for the issues addressed in this summary to ensure compliance with IIC environmental requirements and international good practices as established in IFC environmental, health, and safety guidelines. GCP will present the IIC with annual monitoring reports on its implementation of the ESAP. The IIC will evaluate the yearly status reports submitted by the company and make regular visits to the GCP facilities as part of the project supervision process.