

Environmental Classification and Issues:

Environmental Classification: 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 environmental and labor considerations related to the project are permitting, liquid effluent treatment, solid waste management, air emissions and workplace ambient air quality, occupational safety and health, third-party certification, and labor practices.

Environmental and Labor Issues:

Obtaining Permits: Erco's plant is located in an industrial facilities in the northeastern part of the Cuenca metropolitan area. Cuenca zoning regulations permit industrial parks in this area. Erco's manufacturing facility has current operating and health permits granted by the pertinent municipal authorities of Cuenca.

As a preliminary step towards obtaining an environmental license, Erco completed a voluntary environmental audit or VEA in mid-2005. The resulting final report was approved by the environmental authorities; this is one of the requisites for granting an environmental license. The environmental license is being processed; Erco expects to receive it soon and will take any corrective measures that the license might require. The VEA sets environmental standards for production operations at the industrial plant and identifies the principal environmental performance improvements that the company must make. These improvements are discussed herein.

Liquid Effluent Treatment: Industrial effluents are discharged into the public sewer system, which is managed by the public utility company Empresa Pública Municipal de Telecomunicaciones, Agua Potable, Alcantarillado y Saneamiento de Cuenca (ETAPA) and piped to a municipal treatment plant operated by ETAPA. Erco will take corrective actions to bring its industrial effluent and stormwater management up to ETAPA standards. Such action will include building a system for pretreating liquid effluents prior to discharge in the public sewer system. The IIC will verify that the company builds the liquid effluent treatment system and completes the necessary corrective actions, which will be included in an Environmental Management Plan to be prepared by Erco to the satisfaction of the IIC.

Solid Waste Management: Most of the solid waste produced by Erco consists of scrap rubber and tire rejects. Waste paper, cardboard, plastic, and metal are sold to third parties for reuse. Other solid waste is collected by the public sanitation company Empresa Municipal de Aseo de Cuenca (EMAC). Over the past few years, Erco has carried out a recycling program that has resulted in savings for the company and a significant decrease in the volume of waste collected by EMAC.

Air Emissions and Workplace Ambient Air Quality: In the engine house there is a boiler that runs on bunker fuel. According to monitoring data, its air emissions are not significant. Nevertheless, air quality inside the plant has been monitored. The forklifts operated inside the plant are the main source of high concentrations of combustion gases and air particulates. Erco is implementing the recommendations made by a technical advisor from Continental in Germany, which include improving how the forklifts are operated or even replacing them. The IIC will ensure that the company takes the pertinent corrective actions, which will be included in the Environmental Management Plan to be developed and drafted by Erco to the satisfaction of the IIC.

Workplace Safety and Health: Erco has professional staff members in charge of occupational safety, health, and hygiene. There is a medical department in charge of employee health and of

providing care in the event of accidents or emergencies. To this end, medical personnel are always available to cover emergencies during working hours. There is also a physician who makes house calls to employees who are out sick. The workers are provided with personal protection gear for their tasks.

Erco has safety and industrial hygiene rules that cover the safe operation of machinery and tools, handling loads, maintenance activities, and workplace order and cleanliness. These rules are registered with the labor authority Dirección General del Trabajo. There is also an industrial safety and hygiene committee that organizes and trains fire and first aid response brigades. The industrial facility has fire prevention and firefighting equipment, such as a water supply, a system of hydrants and hoses, firewalls, automatic detection systems, and alarms.

Third-party Certification: Erco has a reliable level of industrial safety for preventing and fighting fires, which undergoes regular reviews by an insurance company that provides Erco with several types of coverage and has acknowledged Erco's AAA rating. Recently, in May 2007, Erco completed an ISO 14001 diagnostic audit to verify compliance with certain requisites prior to initiating the process for ISO 14001 environmental management certification.

Labor Practices. The company adheres to core labor standards for workers' rights, the prohibition of forced labor, and a child labor code that protects children and sets a minimum working age. There is a collective employment contract in place that was agreed with Erco's workers committee.

Monitoring and Annual Reporting

The IIC will require that Erco develop an Environmental Management Plan including the corrective measures identified during the voluntary environmental audit of its facilities. These measures include (1) description of the planned environmental and occupational health improvements, including, mainly, monitoring and controlling liquid effluents and combustion gases from the forklifts; (2) a schedule for implementing all of the environmental and safety measures mentioned herein; and (3) the components that are subject to yearly oversight. Throughout the project, the IIC will ensure compliance with its own environmental and labor review guidelines, review the monitoring reports that the company submits regularly, and make field visits as part of the project supervision process. The IIC will verify that the company develops an Environmental Management Plan that is in line with the IIC's environmental, safety, and labor standards cited herein. The sponsors will submit an annual report summarizing tracking data related to obtaining the environmental license, as well as on liquid effluent treatment, solid waste management, air emissions and workplace ambient air quality, occupational safety and hygiene, third-party certification, and labor practices.