1. Overview and Perspectives on the Scope of the IDB Invest Environmental and Social Review

Based on the information provided by Inmobiliaria Hondureña del Valle S.A. de C.V. (hereinafter "INHDELVA" or "the Borrower"), the Project entails the installation of 18,000 photovoltaic panels on the rooftops of the INHDELVA industrial park ("ZIP INHDELVA") for its own self-supply, with the aim of generating 6.48 MWp (8,374 MWh/year) and 5.0 MWn of renewable energy to compete by offering its current and potential clients clean energy at a more competitive price. This will decrease the energy demand by an average of 44% and contribute to a reduction in greenhouse gas (GHG) emissions by up to 5,192 Ton CO2/year. INHDELVA shall first implement the required self-supply base capacity of approximately 3.5 MWp. Following the Advisory Services' recommendations, it shall subsequently analyze whether to increase the scale of the project to the peak time demand of 6.48MWp, as well as validating whether energy storage elements (batteries) should be included for a better energy use and stored energy distribution.

ZIP INHDELVA is a duty-free zone in Choloma, Cortés Department, strategically located between San Pedro Sula –the second most developed city in Honduras– and Puerto Cortés, Honduras' main port on the Caribbean Sea (only 30 km away). This industrial park has a constructed area of 146,300 m2, where there are around 30 different types of industrial companies (55% are light manufacturing companies, 13% are yarn companies and the rest are made up of construction, logistics, packing, chemical and other companies), generating approximately 4,000 jobs. INHDELVA, in addition to leasing out industrial warehouses and building solutions as per the needs of its clients, also offers customs, banking, perimeter and shared space security, recruitment, childcare and (primary and secondary) medical and dental care services within the industrial park.

The scope of the IDB Invest's environmental and social review during the evaluation of INHDELVA included the analysis of Environmental Measures Compliance Reports (EMCR), and meetings and conference calls with INHDELVA representatives. In addition, IDB Invest's environmental and social specialists conducted an environmental and social due diligence (ESDD) visit on November 5 and 6, 2018 in Choloma, Honduras, which included the following activities: (i) a meeting with INHDELVA personnel; (ii) a meeting with the environmental consultant and the law firm contracted by INHDELVA for environmental affairs; and (iii) a site inspection of the Project site and its surrounding areas, located on La Jutosa Highway, Choloma, Cortés. At the end of this ESDD visit, documents associated with licenses, manuals, procedures, lab test results (mainly the water quality of the water supply wells), among others, were reviewed.

2. Environmental and Social Classification, and its Fundamentals

This is a **Category B** Project, in accordance with IDB Invest's Environmental and Social Sustainability Policy, since overall its environmental and social risks are expected to be reversible and capable of being mitigated through currently available technologies. For the installation of the solar panels and auxiliary support infrastructure of the photovoltaic park, the possible environmental and social impacts include: i) the production of non-hazardous waste; (ii) polluting atmospheric emissions (mainly combustion gases from machinery and equipment); (iii) noise pollution; and (iv) occupational health and safety risks for workers. During the operation and maintenance ("O&M") of the photovoltaic park, the environmental impacts and risks are mainly related to: (i) worker health and safety (mainly the risk of electrical discharges); (ii) the generation of solid waste (hazardous and non-hazardous) due to the replacement of panels and/or damaged electrical equipment that has come to the end of its service life; and (iii) the use of resources, such as water sources (over ground or underground) mainly. Finally, due to the location of the Project, natural disasters such as earthquakes, fires, floods and hurricanes, do not pose any significant risks, neither for potential damages to physical infrastructure nor for any possible loss of business.

Based on the ESDD visit and the information provided by INHDELVA, the execution of this Project is expected to impact the following IFC 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
- PS-4. Community Health, Safety and Security.

The application of PS-5, Land Acquisition and Involuntary Resettlement, is not envisaged, since the Project will be developed on owned land. The application of PS-6, Conservation of Biodiversity and Sustainable Management of Living Natural Resources, is not envisaged, because the project will be carried out on the rooftops of the existing industrial warehouses. PS-7, Indigenous Peoples, does not apply either, since no such groups live in the project's area of development. Finally, PS-8, Cultural Heritage, does also not apply since, as mentioned above, the project will be carried out on the rooftops of the existing industrial warehouses.

3. Environmental and Social Context

The Project entails the installation of 18,000 photovoltaic panels on the rooftops of the INHDELVA industrial park ("ZIP INHDELVA") for its own self-supply, with the aim of generating 6.48 MWp (8,374 MWh/year) and 5.0 MWn of renewable energy to compete by offering its current and potential clients clean energy at a more competitive price. This will decrease the energy demand by an average of 44% and contribute to a reduction in greenhouse gas (GHG) emission by up to 5,192 Ton CO2/year.

ZIP INHDELVA is the first industrial duty-free zone of the Katta Group, founded in 1989 during the manufacturing boom in Honduras. It was created out of the need to offer development solutions to national and international investors. Nowadays, it has become one of the main manufacturing, processing and distribution hubs in Honduras.

The ZIP INHDELVA project comprises of three (3) industrial warehouse modules named INHDELVA North, INHDELVA South, INHDELVA East; where there are 23 industrial warehouses built offering duty-free services in a land area of ± 49.17 Ha. The operation of the industrial park is to provide the following services to its lessees:

A. Direct services:

1. 24-hour perimeter security.
2. Common solid waste disposal from the temporary units to the municipal landfill.
3. Permanent maintenance of green areas.
4. Maintenance of the park's air conditioning units.
5. Customs control administration.
6. Drinking water from wells.

B. Indirect services:

7. Sewage disposal to the municipal manifold at Choloma.
8. ENEE network electricity.
9. Telephone and communication lines.

ZIP INHDELVA is in possession of Environmental Audit Certificate No. 093-2004, issued by the Ministry of Natural Resources and the Environment[1] ("SERNA" or "MiAmbiente"), which authorizes continued operations. Nevertheless, the environmental permit underlying the

Environmental Control Measures of ZIP INHDELVA was granted through SERNA Resolution No. 2922-2011. It is also in possession of an operation permit issued by the Secretary General of the Ministry of Industry and Trade.

Finally, in compliance with the environmental legislation of Honduras, each year INHDELVA presents its Environmental Measures Compliance Report ("EMCR") to SERNA and MiAmbiente.

4. Environmental Risks and Impacts, and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

a. Environmental and Social Management System

In order to achieve compliance with PS-1, INHDELVA will develop and implement a project specific Environmental and Social Management System ("ESMS"), including: (i) policies (see Section 4.1.b); (ii) procedures to identify, evaluate and manage potential environmental, social, occupational health and safety (OHS), and labor risks and impacts associated with each Project activity, as well as for contractors and subcontractors; (iii) internal procedures for compliance with the environmental and social management plan (ESMP); (iv) organizational capacity and competence, with definition of roles and assignment of responsibilities for the implementation of the SMS; (v) protocols for emergency preparedness and response (see Section 4.1.f ; (vi) methods or plans for the participation of key stakeholders (see Section 4.1.h); (vii) external communication and grievance mechanism (see Section 4.1.i) ; (ix) protocols for the dissemination of information to communities, decision-making and training; (x) protocols for the evaluation and continuous improvement of the SMS; and (xi) periodic audits and inspections with respect to applicable environmental, social and OHS requirements under The General Environmental Law [2] and Labor Code of Honduras [3] (Action 1.1 the ESAP)

b. Policies

INHDELVA has a Health and Safety Policy within its Workplace Health and Safety Program, in compliance with the provisions of subtitle V regarding worker protection during the execution of work and other provisions contained in the Labor Code of the Republic of Honduras3, which are aligned with the OHS requirements of PS-1.

However, as part of PS-1 compliance, INHDELVA will define its Environmental and Social Policy, indicating: (i) who, within the organization, will guarantee compliance with the policy and be responsible for its execution; as well as how the policy will be communicated to all levels of the organization; and (ii) create a mechanism to measure ongoing improvement during implementation (Action 1.2 of the ESAP).

c. Identification of Risks and Impacts

Any new work or activity, especially the implementation of a photovoltaic solar Project, in addition to verifying compliance with environmental impact regulations, shall identify and assess environmental and social risks and impacts.

Based on the foregoing, in compliance with General Environmental Law of Honduras and its Regulations [4] , INHDELVA will update its Environmental Permit No. 093-2204, via the request for the extension or modification of the works or activities being carried out (in this case industrial park activities) to the National Environmental Impact Assessment System ("SINEIA"), classifying this Project as Category 2, as established in the Environmental Classification Chart [5] , with all the

requirements provided for therein. Likewise, INHDELVA must also submit SINEIA's decision regarding the respective Environmental Permit (when processed), concluding the extension and modification process (Action 1.3 of the ESAP).

Regardless of the environmental legislation compliance mechanism, within the identification and assessment process of the environmental and social impacts and risks associated to the construction phase of the Project, INHDELVA shall assess the following possible environmental and social impacts and risks, including: i) the production of non-hazardous waste; (ii) polluting atmospheric emissions, mainly combustion gases from construction machinery and equipment; (iii) noise pollution; and (iv) occupational health and safety risks for workers. The environmental and social risks and impacts associated to the operation and maintenance ("O&M") of the Project also need to be analyzed, which include: (i) worker health and safety during maintenance and cleaning work (mainly the risk of electrical discharges, falls, etc.); (ii) the use of water resources, essential for the cleaning of panels; and (iii) the creation and management of solid and liquid waste, hazardous (special) and non-hazardous, due to the replacement of faulty and/or damaged panels, and the management and disposal of the transformers' dielectric oil changes, as well as other hazardous waste such as paint and/or grease used during O&M.

Finally, given that the execution and operation of the Project is dynamic, INHDELVA, in compliance with PS-1, will perform a continuous update of the environmental, social, OHS risks matrix for each phase of the Project (Design, Construction, O&M and/or Closure/Shutdown), in order to obtain, monitor and control the operating/performance permits or licenses (see Section 4.1.g).

d. Management Program

According to the information provided, Decision No. 2922-2011 by SERNA and MiAmbiente, establishes the environmental control/mitigation measures for ZIP INHDELVA and, under the environmental legislation of Honduras [6] , can be interpreted as its Environmental and Social Management Plan (ESMP). This Decision already features specific programs, which may be implemented during the construction of the Project for: (i) the management, treatment and/or disposal of special, hazardous or non-hazardous (common) solid or liquid waste; and (ii) the control of machinery and construction equipment emissions; (iii) the reduction of noise. Likewise, for any of the Project's construction activities, INHDELVA has an Occupational Risk Prevention Management Plan (see Section 4.2.c) where measures to reduce workers' occupational health and safety risks are established.

On the other hand, INHDELVA will develop an environmental management good practice program focused on water resources, implemented at a later stage during the O&M of the Project, for the cleaning of panels/modules when there is little rainfall (dry season), or whenever required (see Section 4.3.a), as well as an Occupational Risk Prevention Management Plan (see Section 4.2.c), where measures to reduce workers' occupational health and safety risks during maintenance and cleaning work (mainly the risk of electrical discharges, falls, etc.) are established.

e. Organizational Capability and Competence

According to the information provided in the 2017 EMCR, ZIP INHDELVA has appointed its Head of Operations and Property Management (P&M) as implementation and compliance coordinator of the environmental control measures established by SERNA, who shall report to the CEO of the Real Estate Department of the Kattan Group. Environmental surveillance is also provided by an External Environmental Consultant, registered with SERNA, to help with keeping records, reports, statements and receipts updated in compliance with the environmental control measures as required by SERNA Decision No. 2 2922-2011. In addition, in compliance with the labor and social security

legislation, INHDELVA also has an organized and legalized Mixed Occupational Hygiene and Safety Committee, in compliance with the implementation of the General Regulations of Workplace Accident and Occupational Illness Prevention [7] .

Nevertheless, to comply with PS-1, INHDELVA must appoint an Environmental and Social Unit within its organizational structure, responsible for planning, implementing and monitoring all required environmental, social and OHS actions, as well as defining the role, responsibilities and capacities of said Environmental and Social Unit for the implementation of the SMS. In addition, an introductory and refresher level training program will be required at least once a year for all environment, health and safety and OHS personnel (Action 1.4 of the ESAP).

INHDELVA will therefore guarantee adequate human and financial resources within the SMS for the Environmental and Social Unit, and appoint and maintain a qualified Environmental Manager (or similar position) or adjust the responsibilities of another existing employee for the Project, who, together with the Mixed Occupational Hygiene and Safety Committee Manager and/or the Emergency Response Committee will directly and independently inform the corresponding Project Manager/Director about the environmental, social and OHS compliance and/or performance of ZIP INHDELVA's operation. (Action 1.4 of the ESAP).

f. Emergency Preparedness and Responde

ZIP INHDELVA has a Contingency Plan that outlines the strategies and activities to carry out immediately in light of an incident or any other contingency, natural discovery or Act of God that may compromise the safety of employees or the integrity of assets and structure of each building, in coordination with the leasing companies in the industrial park: This plan includes: (i) specific emergency response procedures; (ii) trained emergency response teams; (iii) emergency contacts and communication systems/protocols; (iv) procedures for interaction with local and regional emergency and health authorities; (v) permanent emergency equipment and facilities (e.g. first aid stations, extinguishers/hoses, sprinkler systems); (vi) protocols for firefighters, ambulances and other emergency vehicle services; (vii) evacuation routes and meeting points for the whole industrial park and every one of its installations/buildings; (viii) training exercises such as annual drills, or more frequently, if necessary.

However, INHDELVA must present this Contingency Plan approved by the Fire Department of Choloma, as established in SERNA Resolution No. 2922-2011 (Action 1.5 of the ESAP).

g. Monitoring Evaluation

INHDELVA is responsible for ensuring the implementation of the follow-up, monitoring and control plans described in the Project's SERNA Resolution No. 2922-2011 (see section 4.1.d). In this regard, INHDELVA will develop a compliance matrix with its set of key performance indicators to measure the ESMP's effectiveness and compliance with all the legal and contractual obligations of the Project, during the construction and O&M phases (Action 1.6 of the ESAP).

Likewise, as part of the fulfillment of all legal obligations and regulatory requirements of Honduras, through the implementation of this compliance matrix the status/validity of all Permits and/or Licenses necessary for the execution of the Project will be periodically reviewed/updated (at least yearly), key examples include:

- Environmental License or Permit (or similar), issued by SERNA and MiAmbiente;
- Operation Permit (or similar), issued by the Ministry of Economic Development;
- Sanitary License (or similar, for those activities that require it), issued by the Head of the

Sanitary Regulations and Health Affairs Department of the Ministry of Health;
- Contract of National Water Use (or similar), issued by SERNA and MiAmbiente;
- Fuel storage/supply permits (or similar), issued by the Directorate General of Transport ("DGT") of the Ministry of Infrastructure and Public Services ("INSEP");
- Construction Permit (definitive or similar), issued by the Municipal Authority (Municipal Town Hall of Choloma); etc.

This compliance matrix must include: (i) the competent Authority that grants the authorization or issues the permit/licensel (ii) dates of issuance and validity; (iii) the person within INHDELVA's organizational structure who is responsible for follow-up/compliance; and (iv) future communication and compliance procedures (if non-compliant).

Finally, in compliance with PS-1, and independent environmental and spcial consultant will periodically prepare a consolidated report on the compliance status of all environmental, social, and OHS policies and measires applicable to the Project;s works, incluiding the progress of the SMS actions regarding the established key performance indicators, as well as the compliance status of IDB Invest's Environmental and Social Sustainability Policy, the environmental, social and OHS legislation of Honduras, and of the IFC's Performance Standards (Action 1.7 of the ESAP).

h. Participation of Social Actors

The participation of social actors is essential for the establishment of solid, constructive and appropriate relationships that are key for the successful management of a certain Project's environmental and social impacts. However, according to the nature, risks and impacts of a project and the presence of affected communities –or lack thereof–, the level or relationship with the community and other social actors may vary from the implementation of a basic external public communications channel to a comprehensive consultation process that includes the active and informed consultation and participation of the affected communities.

In this regard, considering the characteristics of the Project and that its possible environmental and social risks and impact are within the limits of the ZIP INHDELVA property, thus limiting exposure to any community located near to the industrial park, the participation of key social actors is focused on establishing a grievance mechanism and details on the participation process of those interested and how to access this grievance mechanism. (see Section 4.1.i).

i. External Communication and Grievance Mechanism

As mentioned earlier, although INHDELVA has regular contact with the communities surrounding ZIP INHDELVA (within a 1 km radius), in accordance with PS-1 requirements, INHDELVA is required to develop a communication and grievance/complaints mechanism, which documents external communication detailing: (i) how information is received from key stakeholders and/or the general public; (ii) how these complaints or grievances are evaluated; (iii) how answers are provided and followed up, concluding with the closure of the grievance; and (iv) any adjustment or improvement to the ESMP in terms of communication and spreading information. Therefore, INHDELVA provides the following:

- An External Grievance Mechanism specifically for the construction phase of the Project, focused on key stakeholders, including local authorities, surrounding landowners and public highway users within the surrounding area of the Project (within a 1 km radius), who are affected or in some way interested. This external grievance mechanism should include details

of how complaints or grievances are registered, investigated/evaluated, and the follow-up and closure/resolution process. (Action 1.8 of the ESAP)
- An External Grievance Mechanism, similar to the above, but specific to the O&M of the Project (Action 1.9 of the ESAP), including the experiences and lessons learned during the construction phase.

4.2 Labor and Working Conditions

a. Human Resources Policies and Procedures

INHDELVA relies on an employee Code of Conduct, specific to ZIP INHDELVA, that complies with the labor laws of Honduras [8] and the PS-2 guidelines. This Code of Conduct includes standards and provisions to avoid/prohibit forced labor, child labor, discrimination, and abuse or harassment; likewise, it establishes remuneration and payment conditions, working hours, freedom of association, health and safety, independent surveillance, environmental commitments and Customs compliances.

Finally, this Code of Conduct establishes that this set of standards and provisions must be adopted by all its associates and suppliers (contractors and subcontractors), reserving the right to cancel any relationship in light of failure to comply with these standards.

b. Employment Terms and Conditions

INHDELVA has a certification from the Secretary of State for Work Premises and Social Security, which approves the Internal Labor Regulations in compliance with the Labor Code, its regulations and the Social Security Laws in Honduras. This Regulation establishes employment procedures and hiring and firing conditions in compliance with the indications of the International Labor Organization ("ILO"), including, as a minimum, standards to prevent child labor and forced labor.

Finally, in order to comply with PS-2, INHDELVA will create a Coexistence Manual (regulation) for workers, contractors, and subcontractors (Action 2.1 of the ESAP), as well as an internal grievance mechanism (see Section 4.2.d).

c. Occupational Health, Safety and Security

INHDELVA already has an Occupational Health and Safety Program for the ZIP INHDELVA industrial park, which complies with the occupational health and safety legislation in Honduras [9] , and the PS-2 occupational health and safety guidelines, including: (i) identification of any possible dangers to workers; (ii) establishment of preventative and protective measures; (iii) worker training; (iv) documentation and presentation of accident, illness, and occupational incident reports; and (v) preventative, preparative and emergency response arrangements.

In addition, INHDELVA will have to develop a notification procedure to emergency response services and local authorities for major accidents or fatalities (Action 2.2 of the ESAP). This procedure must include the preparation of a Root Cause Analysis of the accident or fatality, as well as a description of the corrective actions necessary to minimize the risk of new occurrence.

d. Internal Grievance Mechanism

In accordance with the requirements of PS-2 and based on the Internal Labor Regulation, INHDELVA is required to document the internal communications of its employees, contractors and subcontractors, detailing: (i) how the information is received; (ii) how complaints and grievances are evaluated; and (iii) how responses are provided and followed up, leading to the complaint’s closure.

In this regard, INHDELVA will provide the following:

- An Internal Grievance Mechanism for direct employees, contractors and subcontractors for the Project's construction phase. This grievance mechanism should include details of how these complaints or grievances are recorded, investigated/evaluated, and the follow-up and closure/resolution process (Action 2.3 of the ESAP).
- A similar Internal Grievance Mechanism for the Project's O&M (Action 2.4 of the ESAP), incorporating the experiences and lessons learned during the construction phase.

4.3 Resource Efficiency and Pollution Prevention

a. Water

INHDELVA has the Resolution No. 0483-2015 issued by SERNA and MiAmbiente, which grants the renewal of the Contract for the Use of National Water for a period of 2 years (in renewal process again in February 2018), as, in accordance with the technical report, the use of the wells will not cause any third-party damages, nor will it reduce the flow currents of natural over ground water of public ownership. Currently, INHDELVA has three (3) wells, although one is not in service during 2018 due to minimal performance, leaving two (2) remaining wells in operation located in INHDELVA North and South, respectively. Based on the consumption measurements provided by INHDELVA, the average consumption in 2017 was 485,952 m3 (3% in INHDELVA North, 53% INHDELVA South and the remaining 45% in INHDELVA East). However, based on the information provided above related to the operation of the wells, according to the consumption reports of the first 10 months of 2018 (up to October), INHDELVA has had an approximate 20% decrease in its consumption.

b. Waste

INHDELVA has a solid and industrial waste collection service, provided by a private authorized consultant (Inversiones GOPA) and their final disposal is taken to the crematory of the Municipality of Choloma.

However, as part of the fulfillment of PS-3 with respect to the avoidance of non-hazardous waste material generation, INHDELVA is required to develop a Photovoltaic Module Recovery and Use Program (Action 3.1 of the ESAP) that provides for the contracting of a recycling service for its solar panels (approximately 18,000 modules or panels, excluding those which have been replaced in advance due to unforeseen failures) with a specialized company (for example: PV Cycle 11) once they have reached the end of their service life (25 years approximately), when their power generation performance is reduced to ~80%, as well as other fixed elements, such as the structure (trackers) and electrical equipment (cables, panels, stations, etc.).

4.4 Community Health and Safety

a. Security Personnel

During the inspection visit, it was found that, in general, there are security personnel at the Project facilities (mainly at the main access point). INHDELVA will therefore provide a copy of the contract held with the security company or companies, in order to verify, among other aspects, that conditions have been included that allow INHDELVA to: (i) conduct reasonable investigations to ensure that security personnel do not have a criminal record and have not been involved in cases of abuse in the past; (ii) verify details of necessary training in relation to the use of force and handling of weapons; (iii) verify restrictions on the use of firearms; and (iv) identify details of environmental and social awareness training, including issues on the respect of human rights (Action 4.1 of the

ESAP).

5. Environmental and Social Action Plan *(in chart form)*

The Environmental and Social Action Plan (ESAP) is summarized in **Annex 1.**

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[1] Chapter II of the Environmental Audit Regulations; D.O. January 15, 2010.

[2] Legislative Decree No. 104-93 – General Environmental Law; Gaceta 27,083 from June 30, 1993.

[3] Legislative Decree No. 189, Labor Code; Gacetas 16,827 to 16,834, from July 15 to 23, 1959.

[4] Agreement No. 109-93, General Environmental Law Regulation, Gaceta from February 5, 1994; Agreement No. 189-2009, National Environmental Impact Assessment System ("SINEIA") Regulation, Gaceta from December 31, 2009; Executive Agreement No. 887-2009, Environmental Audit Regulation, Gaceta from January 15, 2010; Agreement No. 826-2009, National Register of Environmental Service Providers Regulation, Gaceta from January 15, 2010.

[5] Ministerial Agreement No. 016-2015, Environmental Categorization Chart, Gaceta 33,851 from October 6, 2015.

[6] Chapter V, Granting Procedure for Environmental Works and Activities in Operation License; Art. 64, 65 and 66 of the National Environmental Impact Assessment System (SINEIA).

[7] Certificate issued by the Labor Inspector in the Occupational Hygiene and Safety Department of the Regional Social Welfare Office, in the City of San Pedro de Sula, Cortes (November 2016)

[8] Decree No. 189 of 1959, Labor Code; Decree No. 140 from May 19, 1959, Social Security Law and its reforms.

[9] Decree No. 189 of 1959, Labor Code; Executive Agreement No. STSS-053-04 from June 28, 2004, General Regulations of Workplace Accident and Occupational Illness Prevention.