

1. Scope of Review Fitesa is one of Brazil's most international companies (over 75% of its sales are international) and the second largest hygienic nonwoven fabric producer in the world. Nonwoven fabric is the main component in the production of diapers, baby wipes and other hygiene and general use goods. Fitesa is a holding company and controls the operating, investment and financing activities of its subsidiaries in Brazil, Peru, Mexico, the United States, Sweden, Germany, Italy and China - a total of 11 plants. Fitesa's customers include major consumer goods companies, such as Procter & Gamble, Kimberly Clark, SCA and Domtar, among others. The project entails: a) the construction of a greenfield plant and installation of a new line with a capacity of 20,000 tons/year in Cosmopolis (Sao Paulo, Brazil); and b) a installation of a new line in an existing plant in San José de Iturbide (Guanajuato, Mexico), allowing it to add 20,000 tons/year to its current 20,000 tons/year capacity. The plants in Brazil and Mexico would represent, respectively, 22% and 12% of Fitesa's 333,000 tons total capacity after the implementation of the project. The technical due diligence visit was conducted on January 30th, 31st, and February 1st, 2017. The visit was performed by staff from the IIC's Environmental, Social, and Governance Division. The visit served to assess environmental and social conditions, verify socio-environmental management records (e.g. internal documents on procedures, certifications and operating authorizations), and interview those in charge of social, environmental, human resources, occupational health and safety issues, as well as workers. The mission visited Fitesa's first plant site and the current company headquarters for several corporate-wide functions in Gravatai, Rio Grande do Sul, Brazil and the new plant in Cosmopolis, Sao Paulo, Brazil. Both site visits involved factory floor inspections.

2.Environmental and Social Categorization This is a category B project according to the IIC's Environmental and Social Sustainability Policy because it could produce certain effects that may be avoided or mitigated by following generally recognized performance standards, guidelines, or design criteria. The main project-related environmental and labor issues related to the Project are: i) assessment and management of environmental and social risks and impacts, ii) labor and working conditions; iii) resource efficiency and pollution prevention, and iv) community health, safety and security.

3.Environmental and Social Context Fitesa's Gravatai plant is located at an industrial site. Both the Cosmopolis and the San José de Iturbide plants are located at brownfields, alongside major highways. Hence, the Project and its physical investments are located in either completely urbanized areas or locations where natural environment components, such as soil and water, should be considered in a fully anthropic context.

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

4.1 Assessment and management of environmental and social risks and impacts Fitesa has a comprehensive Environmental and Social Management System that encompasses an approved Environmental, Security, Occupational Health and Safety and Social policy (Health, Safety and Environmental Policy Charter, 2017). The Fitesa Management System (FMS) is based on the company's Management Standards[1], a framework processes and tools designed to ensure that the company can fulfill all tasks required to achieve the established objectives of the company. The building blocks of the FMS are organized around four pillars: i) strategic planning, ii) management by guidelines, iii) daily work routine management, and iv) rewards. The FMS follows a plan-do-check-act philosophy whose continuous improvement is applied to sustain results at a desired level through standardize-do-check-and-act cycles. The FMS is applied at all 11 plants through an on-line software system (MEREO) that ensures that all employees have access according to their objectives and management responsibilities. The FMS includes procedures for identifying environmental risks and impacts during construction and operational stages (i.e. aspects identification and risk assessment matrix). Every Fitesa plant has a contingency and emergency response plan (PPRA) in place. For the plants in Brazil, these PPRAs conform to the Ministry of Labor's national regulation (NR09). Similarly, Fitesa plants in other countries conform to applicable national legislation. The company has global committees involving all plants to share best practices and drive continuous improvement in the key areas of occupational health and safety, quality, energy efficiency, maintenance, human resources management, and process engineering. All plants are ISO 9001 (quality management) certified, and most are also ISO 14001 (environmental management) and

OHSAS 18001 (occupational health and safety) certified. The new Cosmopolis plant is currently preparing for an integrated certification of all these standards to be carried out in 2018. The MERO system also includes a management-by-objectives module that includes the development of objectives and targets, action plans, and performance results evaluation (KPI). The system is real-time based and it allows the generation of customized statistics to gauge performance across indicators, areas, plants, etc. All plants have an internal audit and a cross-site audit every year to ensure compliance and continuous improvement. These audits are also used as benchmarking exercises across all plants in order to boost learning and enhance performance. Fitesa has a global webpage (<http://www.fitesa.com/>) where information on the company's activities is published. Every plant has a dedicated mechanism for promoting community external communications and receiving and dealing with any complaints. For instance, for the plant in Gravatai the public has access to a telephone line, email and front desk reception to voice concerns/complaints or make suggestions. However, because the industrial processes involved do not generate significant atmospheric emissions, effluents, odors, or noise, these mechanisms are very rarely used by external parties.

#### 4.2 Labor and Working Conditions

##### 4.2.1 Working conditions and management of labor relations

Fitesa complies with all domestic labor laws applicable to its employees, in some areas going beyond national requirements. For instance for the two plants in Brazil main labor regulations include obligatory social security contributions, freedom of association and freedom to organize labor unions, nondiscrimination in the workplace, and full medical and dental health insurance cover. Fitesa has a Code of Ethics applicable globally that embodies the principles of trust, respect for individuals, transparency, honesty and integrity, empowerment and responsible autonomy, teamwork, and meritocracy. Fitesa does not tolerate forced or involuntary labor or child labor in its facilities and it requires the same commitment from its customers, suppliers and other partners in its supply chain. The human resources policies are accessible to all employees through the company's 'Soft Expert' system. Fitesa has procedures in place for selecting new workers that include orientation on administrative issues, induction on the operational safety risks, and ownership of the OLA program (organization, cleanness and housekeeping) as well as the ethics code. Compliance with the OLA program is controlled through periodic audits in all areas, including operational and administrative. The company has a low turnover of staff, high retention rates (average 9+ years), a successful internship program: many of its current top managers are former interns; and a shadowing and coaching program is also in place to ensure smooth career progression. Fitesa's fire protection systems generally follow recommended national or international design standards, such as the US National Fire Protection Association (e.g. NFPA 13: standard for installation of sprinkler systems). Every Fitesa plant has an emergency, fire and accident brigade, composed of workers from different areas on a rotation basis. Emergency evacuation and fire drills are conducted regularly as per individual plant's Emergency Response Plan, along with training sessions on workplace risks, which are conducted annually and coordinated by the occupational health and safety units. Participation in the emergency brigades is not only encouraged but also rewarded as part of the individual performance assessment. The company has a sophisticated variable merit pay, performance assessment system design to drive performance across all areas. In the case of the Gravatai plant, Fitesa has a partnership with other industrial site operators and the local fire department to ensure mutual support in case of emergencies. Fitesa plants are not labor intensive: its plants usually employ between 50-60 direct workers in total. The Gravatai unit has the largest workforce because of corporate headquarter functions (approximately 336 people). Gender rates are approximately 85% male/15% female. Even though Fitesa does not have a formally established workers' grievance and complaints system, there are substantially equivalent mechanisms in place to cover this function. For instance, a dedicated human resources department confidential email address is in place, as there are specific provisions of the Ethics Code pointing to line management focal points to address any complaints, in addition to the Ombudspersons Committee that gathers senior managers on an ad hoc basis to deal with more complex cases.

#### 4.2.2 Worker health and safety (HSE)

The Company attaches a very high priority on worker health and

safety. All facilities must comply with the Code of Ethics and the corporate Health, Safety and Environmental Policy Charter. Each facility is also responsible to continuously improve its safety and quality metrics toward a zero accident and zero quality incident target. The Fitesa information reviewed has included the company's HSE policy, that spells out Fitesa's commitments and objectives on health and safety that every plant and employee is required to follow. Written work procedures and records on compliance with health and safety management include, for example[2]: i) identification of hazards, risk evaluation, and control measures (risks identified include both operational and administrative); ii) incidents, accidents, and occupational illnesses; iii) investigation of accidents and corrective measures; iv) occupational medical examinations; v) monitoring of physical, chemical, biological, and psychosocial agents, as well as ergonomic risk factors; vi) internal workplace health and safety inspections; vii) distribution of personal protective gear; and viii) induction, orientation and training - amongst others. Fitesa has a procedure in place for orienting new staff, and it has a program for training and annual reorientation of its workers and contractors. Annual HSE training includes 'Emergency Action Plan', 'Lock-out, Tag-out', 'Machine Guarding', 'Use of Personal Protective Equipment', 'Behavioral Based Safety and Safe Start', among others. All sites are audited annually from both sister sites and corporate HSE. Additionally, each site is also assessed annually by an insurance company with the objective of protection of physical assets (buildings, equipment, etc.). Fitesa tracks its overall accident rates (e.g. Loss Time Injury Frequency-LTIF; Severity Risk-SR) across all factories.

#### 4.2.3 Supply chain (contractors and suppliers)

Fitesa has a specific set of norms and procedures that every supplier or contractor has to follow[3]. The Company tracks supplier performance through key performance indicators and regular (monthly) meeting with key providers in order to discuss specific issues (e.g. HSE matters), align expectations and assess progress.

#### 5. Resource Efficiency and Pollution Prevention

Fitesa's production process is not water dependent and it therefore does not generate significant amounts of liquid effluents. Similarly, there are no significant atmospheric emissions given the absence of process-related combustion at furnaces, or kilns, etc. Likewise, no hazardous waste are generated through the production process; these arise out of use of lubricants/oils for the machinery, occasional use of diesel generators for backup power supply, and excess quantities of liquid coating agents used to waterproof some nonwoven fabrics. Most of the machinery is electrically powered, and natural gas (GNP) is used to heat the raw materials (e.g. polypropylene or polyacetate pellets, natural resins) as inputs to the first production step, the extrusion. Fitesa keeps a daily record of use of energy, natural gas and water for all its plants. The company also constantly explores opportunities for optimizing water and energy consumption of its equipment, activities, and facilities in order to identify the operations and equipment that consume the most resources and, based on results, prioritize and take advantage of opportunities for saving energy and water in the future. For instance, at both the Gravatai and Cosmpolis plants rainwater is captured from rooftops and stored underground in reservoir tanks of approximately 91m<sup>3</sup> capacity; this water is used for restrooms and cleaning of factory floors. A new production process is being used at the Cosmopolis plant, called "blue extrusion", which consists in applying high efficiency insulation on all seven extruders in order to reduce heat loss and thus reduce energy consumption. LED lighting is also progressively being installed in all Fitesa plants, with motion presence sensors. In addition, the Cosmopolis plant is being built to receive a structural roof reinforcement that will allow the installation of photovoltaic solar panels. If installed, the electricity generated (approximately 2.5 MW) will make the plant self-sufficient, with excess energy sold to the national grid (approximately 0.6 MW). Because dust, particles and insects are a potential source of contamination that affects the quality of the industrial process, Fitesa's buildings are designed to ensure airtight containment, including customized double-door access chambers for all external pass troughs, effective positive air pressure in the production building (1.2 mbar), internal roof steel sheets covering the roof beams in the production bay to prevent dust build-up and reduce contamination risk. Fitesa's industrial process does not generate significant amounts of greenhouse gases (GHG). These arise out of combustion of natural gas necessary for the heating process. As a representative example, the latest available GHG

inventory for the Mexico plant has shown the following levels: Nitrogen Oxide (NOX): 157.19 kg/year; Sulfur Dioxide (SOX): 43.80 kg/year; Carbon Dioxide (CO<sub>2</sub>): 360.7 tons/year; and Carbon Monoxide (CO): 98.9 kg/year.

5.1 Waste management and hazardous materials Fitesa's production process ensures that there is insignificant materials left from the extrusion, injection and nonwoven stages: leftovers such as trimmings are recycled back into the initial extrusion step as raw material. All Fitesa plants have procedures for the identification, management and disposal of both hazardous (e.g. oils, lubricants, coating film, etc.) as well as non-hazardous materials (e.g. paper, metal, etc.)[4]. Volumes of hazardous materials are relatively small. For instance, for the Gravatai plant approximately 4.0m<sup>3</sup> of hazardous waste is generated monthly. This waste is removed and disposed of by a certified contractor licensed by the state environmental agency.

6. Community Health and Safety Performance Standard 04 applies to the Project only to the extent that construction and operational activities can present risks to health and to the health of the communities located in the area of influence of the works - albeit that these communities are all located several kilometers away from the plants, and that the industrial process itself presents low risk.

6.1 Infrastructure and equipment design and safety Fitesa has qualified technical personnel with proven experience executing subway projects and has qualified contractors for executing the projects.

6.2 Hazardous materials management and safety Performance Standard 3 includes more details on hazardous materials management and safety (see above).

6.3 Community exposure to illness (e.g. health risks from the construction works) Construction works at Cosmopolis did not present any significant risks to communities because there are no human settlements in the vicinity of the new plant. Similarly, warehouse and production area expansion at the Mexico plant do not pose significant risks to humans because there are no settlements near the plant. Regardless, for the construction of the new plant in Cosmopolis Fitesa included necessary safeguards (e.g. risk identification and mitigation measures) in the contract with the construction firm.

6.4 Emergency preparedness and response Performance Standard 1 includes more details on emergency preparedness and response (see above).

6.5 Security personnel Fitesa uses external surveillance/security services to protect its physical assets. In some cases (e.g. Gravatai and Cosmopolis) these personnel are armed and hired through specialized contractor firms that follow strict regulations issued by the Federal Police, as well as their own Code of Conduct that is made available to Fitesa. To date, no incidents involving these security personnel have been reported.

7. Land Acquisition and Involuntary Resettlement The Project has triggered the application of the Performance Standard 05 due to a land acquisition process for the plot of land of approximately 86 hectares for the construction of the Cosmopolis plant (total built area is approximately 42 hectares). Fitesa negotiated the acquisition of this private piece of land located along a highway in a developed area where previously intensive agriculture took place. The negotiation was conducted on a willing-buyer willing-seller basis in accordance with current law.

8. Cultural Heritage Project construction and operational activities do not include activities that affect cultural heritage. No archeological finds have been encountered during earthworks to prepare the land for construction of the new plant in Cosmopolis.

9. Access to Information on the Project At the request of the State of Sao Paulo Environmental Agency (CETESB), Fitesa has prepared a simplified environmental assessment (MCE) for the new plant in Cosmopolis as a precondition to issuance of an environmental permit, LP/LI, which is available online[5]. Subsequent to completion of construction, Fitesa has obtained the necessary operational license from CETESB for Cosmopolis. For the expansion at the San Jose de Iturbe, Guanajuato plant in Mexico, the state agency Instituto de Ecologia Estado (GTO) has issued an Environmental Impact Resolution as an operational license[6].