

1. General Information and Overview of Scope of IDB Invest E&S Review IDB Invest's review included meetings with Xignux's management teams in their corporate offices in Monterrey, and included discussions with the heads of Environment, Human Resources (HR), Xignux Foundation, and Finance. The evaluation included an assessment of the conglomerate's general environmental and social management across its divisions. A site visit was carried out at three of the group's plants, including its transformers, cable, and consumer goods facilities. The visit took place January 22-25, 2018. The due diligence included a review of supporting information such as environmental management plans, manuals, and procedures, HR policies, occupational health and safety (OHS) programs, workplace and environmental monitoring data (e.g. air emissions and effluents), emergency procedures, and sustainability strategy plans under discussion.

2. Environmental and Social Categorization and Rationale According to the IDB Invest Environmental and Social Sustainability Policy, the Project has been classified in Category B (medium risk), since its potential environmental and social risks and impacts are limited, are largely reversible, and can be mitigated via measures that are readily available in the context of the operation. The IFC Performance Standards triggered in this operation are the following:

- Performance Standard 1: Assessment and Management of E&S Risks and Impacts
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention

3. Environmental and Social Context Xignux is a Mexican-based global company founded in 1956 and active in the production of cables, transformers, food products and construction materials. It produces over 15,000 products, which are sold across 40 countries in the Americas, Africa, Asia and Europe. It operates 26 different plants across five countries with more than 21,000 employees (roughly 65% are men). Its principal brand names and divisions are Viakable (cables), Prolec GE (transformers), Voltrak (infrastructure), and Qualtia, with brands such as Zwan, Kir, Alpino, Caperucita and Duby, among others (processed food).

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

4.1. Assessment and Management of Environmental and Social Risks and Impacts

E&S Assessment and Management System - Xignux has a long history of environmental and social management. A total of 13 of its plants currently have ISO 14001 certification, and three more plan to obtain it. Four of its plants include OHSAS 18001 certification. Its food plant is certified to ISO 22000 quality standards. A total of five of its plants have 'Industria Limpia' certification, and seven more are being certified. A Sustainability Committee exists across all four of its divisions, with each committee comprised of five representatives from HR, Environment, and the Administration department. Each committee defines performance goals which are periodically evaluated on and reported against annually. Xignux maintains a wide set of policies (environment, code of ethics, health and safety, etc.) consistent with international standards. Xignux publishes an annual sustainability report in line with Global Reporting Initiative (GRI) guidelines.

Identification of Risks and Impacts and Management Programs - Identification of risk is managed at the company level and in accordance with defined policies and procedures under ISO 14001 standards. Xignux has implemented a program of 'lean management' to identify throughout the production cycles of its various plants opportunities for both product and health and safety performance improvements. Last year a total of 64 accidents were reported resulting in 983 lost days of work. By comparison, the previous year had 75 accidents and 1,554 lost days. Each year, Xignux defines strategic EHS goals based on business and market needs, recurring challenges, past learnings, and both internal and external audits. Goals are signed off by senior management and key targets monitored quarterly.

Organizational Capacity and Competency - Xignux has well established management teams focused on environmental performance, health and safety, and sustainability at large within each of its operating plants. Sustainability goals and metrics are defined annually by each division's Sustainability Committee and reported to senior management. Employees undergo extensive continuing education both within defined Xignux programs as well as via external training. Xignux has a large and highly qualified team working in an EHS capacity across its four divisions.

Emergency Preparedness and Response - Each operating plant has specific emergency procedures based on the risks that may affect the business. These take into account the capacity of nearby emergency services, and in certain

instances adjacent communities (most plants are located within industrial parks). The respective managers are responsible for ensuring that the requirements of each plan are implemented and met, with the necessary personnel, equipment and facilities. Emergency management plans are documented, accessible and communicated clearly. Exercises and checks are carried out to evaluate and improve the management capacity in the face of crisis situations or emergency response, including contacting and participation of external organizations. The plans and procedures for emergency situations are periodically reviewed and incorporate the lessons learned from incidents and previous exercises. Monitoring and Review: - Xignux practices a continual improvement process influenced by strict lean management procedures. As part of this process, plants define respective goals for how to reduce impacts and improve efficiency, documenting and reporting on progress and new procedures. Employee identified improvement opportunities are encouraged and incentivized. Changes are highlighted through posted placard displays throughout the production cycle. Performance is reported both internally, and through its annual sustainability report. Xignux has a target to have no increase in its environmental footprint by 2020. Towards this aim it measures its water, greenhouse gas (GHG), and waste generation targets periodically. Stakeholder Engagement - Xignux has a strong commitment to its stakeholders and the surrounding communities adjacent to which several of its plants operate. The materiality and relevance of these stakeholders is mapped and reported on periodically. Xignux established in 2011 the Xignux Foundation with a stated purpose to strengthen its relationship with the surrounding community in four areas: education, nutrition, energy, and community development. A total of 60 projects were undertaken last year. External Communication and Grievance Mechanisms - Xignux has both internal and external grievance mechanisms that attend to clients, communities, and employees. Last year, a total of 162 grievances were recorded, and managed in accordance with an established procedure defined by the Ethics Committee. 4.2.Labor and Working Conditions Human Resources Policies and Procedures - Xignux has in place HR policies and procedures that cover recruitment, ethics, induction and training, diversity and inclusion, performance evaluation, promotion, and disciplinary action. All new employees undergo an induction and training process, which describes core values and available policies. Employee satisfaction surveys are undertaken annually, and last year reported positive results from 80.46% of its employee base. Working Conditions and Terms of Employment, Third Party Workers - Xignux provides clear terms of employment, which are defined in internal rules and regulations, and are provided to employees on hiring. They include benefits, hours of work and overtime, life insurance, health insurance, etc., which exceed legal minimum requirements in Mexico. Xignux has a range of programs oriented towards employee engagement, work/life balance, continuing education, and retirement planning. Continuing education programs (Cultural de Trabajo Xignux, Programa de Certificación Xignux, Programa de Liderazgo Xignux, etc.) emphasize product quality, leadership, and career advancement, and are oriented at distinct ages and employee functions. Worker Organizations - The company's HR policies establish freedom of association for all employees. Of its employee base, roughly 7,000 belong to labor unions, which include la Federación de Sindicatos de Trabajadores Autónomos (FTSA) and la Confederación de Trabajadores de México (CTM). Supply Chain: Xignux has a set of procedures to evaluate supplier's basic information and conformance with local law. Non-discrimination and Equal Opportunity - Xignux's HR policy includes provisions related to non-discrimination based on race, nationality, disability, social class, sex, religion and/or political ideas. The company is an equal opportunity employer that extends equal employment opportunity to all applicants and its selection decisions are merit based. The minimum hiring age is 18 years old, and Xignux is in compliance with the local law and IFC PS2. In addition, in compliance with the local requirements as well as IFC PS 2 there is no forced labor in either its or its contracted operations. Xignux has in place a process to evaluate and audit third-party labor. Grievance Mechanism - Xignux has in place an internal grievance mechanism whereby employees can raise complaints via an online portal, in conversations with line managers, or via a suggestions box. The Ethics Committee manages and responds to all complaints, and written procedures define the response time, classification, and suggested resolutions for complaints received. This mechanism

is communicated to all new employees. 4.3.Resource Efficiency and Pollution Prevention Resource Efficiency Pollution Prevention - With a diverse set of companies under several divisions, Xignux has established environmental management programs guided by ISO 14001 and Cleaner Production programs. Water use in 2016 totaled 1.65 million cubic meters and was dominated by its food processing business. For 2018, a corporate target was defined to reduce water consumption within its food business by 30%. Energy use in 2016 reached 358 million kWh, and was dominated by its cable business. In 2016, Xignux calculated that its CO2 emissions totaled roughly 250,000 tons, of which electricity consumption represented 65% of the total, and the remainder was associated with fossil fuel use across its divisions. Reduction plans are aligned around a corporate goal to have no increase in its environmental footprint by 2020. Xignux produced rough 40,000 tons of waste, of which 4,000 was considered hazardous. The handling and management of hazardous waste is carried out in accordance with the General Law for the Integral Prevention and Management of Waste. Pollution Prevention - Xignux has a wide range of recycling programs across its divisions. An estimated 450,000 tons of raw material is used in its production processes of which slightly over 20% is derived from recyclable material. Through the use of new packing materials in its consumer foods business, Xignux reduced the use of plastic wrapping by 25%.

Contact Information

For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see Investment Summary tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.