

Environmental Classification and Issues

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 and sludge management at the treatment plant, air emissions, workplace health and safety, and labor practices.

Environmental and Labor Issues

Obtaining Permits

For building the Cone Denim plant in Nicaragua the requisite environmental impact study was completed in compliance with Decree 45-94, which requires textile manufacturers and finishers to carry out such studies. In September 2006 the environmental protection authority Ministerio del Ambiente y los Recursos Naturales (MARENA) issued the environmental permit for building the industrial facility in Nicaragua. Cone Denim has an industrial plant in the city of Parras de la Fuente, Coahuila, Mexico (Parras Cone). This plant has an operating permit and is in compliance with environmental and workplace health and safety standards. Cone Denim's industrial plant in Nicaragua will be similar to Parras Cone and will comply with all Nicaraguan standards as well as good international environmental and workplace health and safety practices.

Liquid Effluent Treatment

Textile industry wastewater is characterized mainly by the presence of organic and inorganic pollutants, suspended solids, and color in the water. These liquid effluents must be treated to mitigate and control their negative environmental impact. Cone Denim's industrial facility in Nicaragua will therefore have a wastewater treatment plant. This conventional plant will use an extended-aeration biological activated sludge process and a chemical coagulation process. The Cone Denim Nicaragua wastewater treatment plant was designed to ensure that the liquid effluents comply with international and Nicaraguan standards. At Parras Cone, the liquid effluents are piped to the company's wastewater treatment plant. Liquid effluent quality is monitored regularly by chemical analysis. Mexico's environmental authority, Secretaría de Medio Ambiente y Recursos Naturales (SEMARNAT), also regularly supervises proper operation of the treatment plant on the basis of the company's liquid effluent quality reports, which include physical-chemical and biological analyses performed by an authorized laboratory.

Treated wastewater is used for irrigation. Parras Cone wastewater treatment plant is being upgraded to bring it into line with new effluent treatment requirements following changes in the industrial process. Cone Denim's investment in improving the wastewater treatment plant at Parras Cone will improve liquid effluent quality and ensure continued compliance with Mexican and international environmental standards. These effluent treatment plant improvements are expected to be completed by late 2007. The IIC will verify that the Company completes these improvements at Parras Cone plant and builds and brings on line the liquid effluent treatment plant in Nicaragua.

Solid Waste and Sludge Management at the Treatment Plant

Manufacturing denim at the Parras Cone plant produces mainly cotton waste and denim scrap, which is gathered and sold to third parties for marketing. Yarn waste and solid office and cafeteria

refuse are gathered in containers located strategically throughout the plant for regular collection and disposal by companies authorized by the municipality.

Sludge generated by the Parras Cone wastewater treatment plant is treated appropriately using filter presses and drying beds for ultimate disposal at a confinement site authorized by SEMARNAT. Sludge from the Nicaraguan wastewater treatment plant will also be treated and disposed of appropriately in compliance with Nicaraguan law and best international practices.

Air Emissions

At the Company's facilities there are sources of combustion gases running on natural gas and diesel fuel. Natural gas is a relatively clean fuel that is used to power the steam boilers and the fabric finishing and product packaging processes. Diesel fuel is used only as required for the emergency power plant.

Workplace Health and Safety

The Parras Cone plant has a workplace health and safety specialist trained by the Company in the U.S. Workers are provided with the requisite personal protection equipment, such as ear protection in high noise areas, as well as work clothes and footwear. The fire prevention and firefighting system consists of a network of detectors connected to an alarm system that triggers sprinklers and warns the fire brigades. Extinguishers are located strategically throughout the plant, and the Company has contingency and emergency response plans. The facility has safety and evacuation route signs. A regular training program covers firefighting and emergency response, first aid, and occupational health. The Nicaraguan plant will have all of these fire prevention systems and will meet all workplace health and safety requirements.

Labor Practices

The Company complies with domestic labor standards and adheres to such core labor standards and rights as freedom of association and collective bargaining, prohibition of hazardous child labor and forced labor, and prohibition of job discrimination. At the Parras Cone plant, the Company complies with the labor provisions of Mexico's federal labor act (Ley Federal del Trabajo) and other laws. All workers receive the benefits they are entitled to by law as well as those afforded by a collective employment contract. At the Nicaraguan plant, the Company will also comply with all domestic labor legislation and the core labor standards of the International Labour Organization, of which Nicaragua is a signatory.

Monitoring and Reporting

Cone Denim Nicaragua shall develop an Environmental Management Plan (EMP) satisfactory to the IIC to ensure compliance with domestic regulations and the IIC's environmental and workplace safety and health guidelines. The EMP shall provide for a yearly report on permitting, liquid effluent treatment, solid waste and sludge management at the treatment plant, air emissions, workplace health and safety, labor practices, and accident reporting. The Company will also keep the IIC apprised of progress on improving the effluent treatment system at the Parras Cone plant and the construction and start-up of the wastewater treatment plant in Nicaragua.