

Classification: This is a Category III project according to IIC environmental and labor review procedures because the environmental impacts can be avoided or mitigated by following generally recognized standards, performance guidelines, or design criteria.

Environmental Management: At the IIC's recommendation, Caracol Knits prepared and is implementing an Environmental Management Plan that includes atmospheric emissions, liquid effluents, solid and hazardous waste management, worker health and safety, and labor issues. The Company has completed an environmental impact study (EIS) and was issued an environmental license in 2000 by the Natural Resources and Environment Department (SERNA) authorizing operation of the industrial plant and a thermoelectric plant (projects to be developed in stages). At present, steps are being taken with SERNA to update the EIS, including an increase in the generating capacity authorized in 2000 for the thermoelectric plant. In March 2005, the Company prepared an environmental management manual as part of the process leading to ISO 14001 certification.

Atmospheric Emissions: At the Company's facilities there are sources of combustion gases that operate on diesel and bunker fuel. The combustion gases from these sources are tested regularly; the concentration levels are within the acceptable ranges suggested by the World Bank for this type of industrial activity. The concentration of particulate material (breathable fraction) in the Company's fabric and cutting departments is measured regularly to verify that concentrations do not exceed recommended limits in any area. The next set of measurements is scheduled for late 2005. The Company has acquired its own measurement equipment to determine boiler emissions. Gas, particulate material, and noise emissions from the new thermoelectric plant must also meet World Bank requirements and shall be duly evaluated and monitored to ensure that the equipment operates and burns correctly and that environmental impact is in fact mitigated. To mitigate noise, insulating materials will be included in the structure built to house the equipment in the thermoelectric plant.

Liquid Effluents: The Company has a wastewater treatment plant that receives the water used in the wet fabric dyeing process. Standard industry processes are used to treat wastewater, including straining, homogenization, biological oxidation, neutralization, and sedimentation. Treated wastewater is disposed of in the Blanco River. Color is one of the main pollutants present in the wastewater produced in this industrial sector and until now was being removed by a chemical bleaching and filtering process. However, the project includes the purchase and installation of equipment that uses ozone technology to remove color, replacing the filtering system and the chemical products used until now. Installation of the ozone equipment will raise wastewater quality to above local and international requirements. Domestic sewage is treated separately in a septic tank system.

Solid and Hazardous Waste: Fabric scraps are collected and transported along with the end product to the Company's warehouses. Solid domestic waste is collected in containers located at strategic points inside the plant for final disposal by outside contractors. Through a special agreement with the municipality of Potrerillos, Cortes Department, Honduras, the Company has received authorization to establish and exclusively manage a manual sanitary landfill site. Under this agreement, both the Company and the community of Potrerillos can use the sanitary landfill. This will help Potrerillos dispose of its solid waste and will also help eliminate unofficial dumps, thereby improving the healthiness of surrounding communities.

The bunker fuel to be used at the thermoelectric plant will be centrifuged, and the waste sludge will be managed by the fuel supplier so that it can be treated correctly at the supplier's facilities. The sludge will be handled in pipes and tanks duly protected by secondary concrete containers large enough to contain any accidental spills. Used oil from the thermoelectric plant will be treated

(recycled) by the fuel supplier, as will used oil from textile equipment maintenance. All used oil will be handled in tanks duly protected by secondary concrete containers large enough to contain any accidental spills. All secondary containers will be inspected monthly, and a structural inspection will be carried out annually.

Occupational Health and Safety: The Company has a workplace safety management system that includes, among other programs, orientation for new employees, monthly fire extinguisher inspections, a firefighting system, secondary containers, emergency showers, hazardous materials management, emergency brigades, maintenance, and training. The use of ear protection is mandatory for workers in high noise zones. The Company provides personal protection equipment and monitors its use, as well as providing the necessary workplace health and safety training.

Labor Issues: The Company adheres to core labor principles concerning worker rights, as well as the ban on forced labor and a child labor code that protects children and sets the minimum working age at 18. At present, there is no trade union activity at the Company, although workers have the right to join unions if they so desire. There is a worker association with a savings and loan cooperative that provides employees with financial assistance, including for housing. The workplace regulations have been approved by the Ministry of Labor.

Monitoring and Annual Reports: The IIC will verify that the Company continues to implement the environmental management plan in compliance with the IIC environmental protection and safety measures and labor standards set out herein. The sponsors will present annual reports summarizing the monitoring data on atmospheric emissions, liquid effluent disposal, solid and hazardous waste management, worker health and safety, and labor issues.