

1. Project Description

Durli Brazil and Durli Paraguay will use the proceeds of the Loans to support the construction, operation, and maintenance of two (2) new leather manufacturing plants (one (1) in Brazil and one (1) in Paraguay), its working capital needs and refinancing of existing debt. Durli operates 8 plants, including six own plants based in the cattle ranching areas of Brazil and two leased facilities in Bahia and Rondonia. In Brazil Durli produces Wet Blue, Crust Leather and Finished Leather. The Paraguay operation is planned to produce only Wet Blue.

IIC due diligence for this proposed transaction involved: (i) a review of Durli's documentation pertaining to E&S management; (ii) written responses to questionnaires regarding Durli's management of E&S aspects; (iii) conference calls with Durli's E&S staff; and (iv) a site visit to the company operations in Cuiaba and Erechim in Brazil, and to Asuncion in Paraguay where the new construction will take place.

Durli has obtained the Gold Leather Working Group Certification (LWG) with the objective to promote sustainable and environmental business practices. The Company has provided to IIC the Licenças da Companhia Ambiental do Estado de Para (SEMA). The groundwater abstraction authorization has been granted by SEMAS/Para, by the Secretaria Adjunta de Gestao de Recursos Hidricos - SAGRH.

While all Performance Standards are applicable to this investment, IICs environmental and social due diligence indicates that the investment will have impacts, which must be managed in a manner consistent with the following Performance Standards:

PS 1 - Assessment and Management of Environmental and Social Risks and Impacts

PS 2 - Labour and working conditions

PS 3 - Resource Efficiency and Pollution Prevention

PS 4 - Community Health, Safety and Security

Once IIC's investment proceeds, IIC will periodically review the project's ongoing compliance with the Performance Standards.

PS5 does not apply to this investment since there are no land acquisition transactions. PS6 is not applicable as there are no key biodiversity areas in the project's area of operations. PS 7 is not relevant as there are no indigenous populations in the areas where the Company's operations are located, and, PS 8 is not applicable, as there is no evidence of cultural heritage in the regions of Brazil where Durli operates.

2. Environmental and Social Categorization and Rationale

This investment is a Category B project in accordance with IIC's Policy on Environment and Social (E&S) Sustainability. Based on information reviewed by IIC, the proposed Project will have limited adverse environmental and social (E&S) impacts that are few in number, site specific, largely reversible and readily addressed through mitigation measures, as outlined in the Environmental and Social Action Plan (ESAP) attached.

3. Environmental and Social Context

Potentially significant E&S risks and/or impacts include: occupational health and safety issues during construction and operations; hazards in workstations; supplier E&S management following IIC policies, and traceability back to a specific slaughterhouse; discharge of hazardous chemicals and effluent management; energy and water resource efficiency; waste management of all sources during construction and operational phases; and community grievance mechanism.

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

IIC's appraisal considered environmental and social management plans for the Project and gaps if any between these plans and IIC requirements. Where necessary, corrective measures intended to close these gaps within a reasonable period of time, are summarized in the paragraphs that follow and in the agreed Environmental and Social Action Plan (ESAP) disclosed in conjunction with this Environmental and Social Review Summary document (ESRS). Through implementation of these measures and the ESAP, the Project is expected to be designed and operated in accordance with Performance Standards objectives, national regulations, WBG General Environmental Health and Safety (EHS) Guidelines, and the EHS Guidelines for Tanning and Leather Finishing.

4.1 Assessment and Management of Environmental and Social Risks and Impacts

Environmental and Social Management System (ESMS): As per the ESAP, Durli will upgrade its management system to encompass social, occupational health and safety, human resources, and environmental affairs management for all its operations. The upgraded ESMS will achieve parity with all the elements of PS1 requirements. The ESMS will also specify operating policy requirements as well as basic procedures that must be in place for quality control and compliance during construction and operational phases in Brazil and Paraguay (pollution loads, solid waste, OHS, life and fire safety, management of hazardous materials, etc.). As a whole, the ESMS will provide adequate assurance of Durli's ability to manage all aspects of operations and the means to communicate management-approved decisions to employees. To demonstrate compliance of the ESMS with the applicable requirements of PS1, Durli will provide to IIC its upgraded Procedures Manuals, evidencing that is operational. This will be verified by IIC through site supervision visits.

Policy: As set forth in the ESAP, Durli will present to IIC the ESMS Overarching Policy Statement, revised and updated to fully align with the 2012 IFC Performance Standards. The policy shall include provisions for a supply chain policy to promote sustainable procurement (Durli Group Sourcing Policy). Once updated, the revised Overarching Policy Statement will be communicated internally to employees, contractors, suppliers, and externally to stakeholders, using best available communication procedures.

Identification of Risks and Impacts: The Company is required to update its risk management process to (a) improve identification of risks and impacts of its OHS management. Further, Durli will: (b) Present to IIC the Environmental Licenses and Water permits from the all the States where Durli operates its 8 plants (Mato Grosso, Parana, etc.) and the future facilities in Brazil and in Paraguay; (c) formalize ESMS procedures for supply chain E&S risk assessment and traceability back to a specific slaughterhouse; (d) Obtain LWG Certification for the Paraguay operation.

External communication and Grievance Mechanism: Durli currently does not have a formal mechanism to accept and act upon community grievances. Durli will formalize and implement an external communication procedure and an effective community external grievance mechanism to assess, address, document, and report back to IIC on grievances and concerns about the company's environmental and social performance.

As part of the ESMS, Durli will enhance their process for periodic Monitoring and Review to senior management. And, will adopt additional Key Performance Indicators (KPIs) to mainstream Environmental, Occupational Health and Safety and social parameters, including: a) Safety - Lost Time Incident Frequency Rate (LTIFR - Number of lost time incidents per million hours worked); Accident Free Days (Number of Days since last Lost Time Incident); b) Sustainability - Greenhouse gases (tps CO₂-equivalent/annum); Water Usage (m³/tonne of bovine raw hide), Energy consumption in KWh/unit of production of bovine hides - Emissions: monitoring quality of effluents and any air emissions parameters, solid waste generation in Kg/tonne of bovine hides; c) Social - Number of environmental and social complaints from communities; % of suppliers (slaughterhouses) collecting

geographic origin information.

Environmental and Social Impact Assessment (ESIA): Durli will present to IIC for review and approval the environmental and social impact assessment (ESIA) and the environmental and social Management Plan for the construction and operational phase of the new plants in Brazil and Paraguay. It will include all applicable WBG General EHS Guidelines, the specific guidelines for Tanning and Leather Finishing, and the Performance Standards.

Supply Chain: Durli procures hides from approximately 40 different formal slaughterhouses. The Company typically sources directly from slaughterhouses to enhance traceability. And, has some procedures based on LWG to avoid procurement of hides from cattle ranching in deforested lands. These include the review of the GTA (Guia de Transito de Animais) that in some instances certifies that no deforestation and no forced labour or child labour was involved in the supply chain. According to national law, the cattle ranches should not have been involved in any form of deforestation in the Amazon biome since 5th October 2009. As set forth in the ESAP, Durli will provide to IIC the ESMS procedures showing the information required from suppliers (slaughterhouses), both in a general sense, and for each sale related to the origin of the cattle. Further, the ESMS procedure will show in what format Durli requests specifically the cattle geographical coordinates of the ranches locations (i.e. GPS Point? polygon in a geographic format?).

Supply Chain Monitoring:

a) Policy: As part of the supply chain component of the Corporate ESMS, Durli will develop a policy (Durli Group Corporate Sourcing Policy) to promote sustainable procurement practices. The Policy will promote compliance with national environmental legislation (for example illegal land clearing), LWG code, and Performance Standards, including among others, avoidance of child labor, forced labour, occupational health and safety issues, significant land conversion, deforestation, biodiversity protection and impact on critical habitats. The Group Sourcing Policy will ensure procurement from ranches not involved in slave labour, invasion of indigenous lands and protected areas, or ranches not included in the embargo list of IBAMA (www.ibama.gov.br). The Durli Group Sourcing Policy should be operationalized aiming to meet 100% traceability targets to ensure the origin of hides sourced are sustainable and not contributing to illegal land conversion in the Amazonia. The Policy will further indicate that Durli will proactively seek opportunities to foster E&S best practices in its supply chain over time and develop mitigation measures, and at all locations should shift over time to compliant suppliers to increase the procurement of hides from traceable sources (lower risk categories).

b) Monitoring of Procurement: IIC recognizes that Durli cannot ensure compliance with PS2 and PS6 and with Durli Group Corporate Sourcing Policy across its entire supply chain at all locations, but can gradually increase procurement from compliant suppliers of hides over time, proactively influencing adherence to standards. Hence, it is likely that there will be instances of hides procured that will not be consistent with Durli sustainability requirements. Durli will develop corporate-wide ESMS procedures to implement monitoring of key environmental and social information on its supply chain at origins and track information in a "Supplier Database". Suppliers will be classified in categories based on E&S risk, depending on their level of compliance with Performance Standards, national legislation, LWG code, and the reliability of Durli's information on their traceability and compliance. The categories (Traceable to a slaughterhouse, Traceable within a Region, Non-Traceable) will reflect the level of knowledge available to Durli regarding E&S standards and risk assessment under which the hides are procured.

c) Multiyear Plan for Traceability Monitoring: Durli will present to and agree with IIC on a multiyear plan which will include specific operational targets to increase the amount of Traceable hides in Brazil and Paraguay and promote compliance with the "Durli Group Corporate Sourcing Policy". The

baseline will be the 2017 current procurement in all Durli facilities, and later on involve the new facilities in Brazil and Paraguay. In the case of Paraguay, Durli will provide to IIC data of what share of the hides of the annual total procured are from the Chaco. The Company will report annually to IIC all activities performed to promote sourcing of Traceable hides.

d) Supplier Database: Durli will provide documentary evidence of the development of a Supplier Database to deliver summary information of Traceability data gathering and report supplier categories per origin. The Supplier Database will provide a tool to monitor increased traceability in the supply chain. It will be expanded to incorporate broader country supply chain data and allow aggregation.

e) Supply Chain Training: Implementation of training of staff in the Durli Group Corporate Sourcing Policy, national legislation, pertinent LWG code requirements, and Performance Standards, will be a significant commitment of Durli. Durli will implement a training programme and build in-house capacity to collect accurate E&S information on suppliers at origins, to reliably input data into the supply chain component of the ESMS and allow senior management to assess the procurement risks at any given location. The training shall include training for suppliers with whom the Company has procurement contracts. The Company will develop an ESMS procedure to formalize the training to Company staff suppliers (slaughterhouses) and on sustainable procurement, indicating the frequency of the training, and will provide to IIC the list of training offered to suppliers and the contents of each training session.

4.2 Labour and Working Conditions

Human Resources (HR) policy, working conditions, and terms of employment: As of July 2017, Durli as a group has 1260 workers of which 191 are women. The national law of Brazil governs all labour standards and addresses all aspects of employment relations, including unacceptable forms of work, occupational health and safety (OHS), freedom of association and working conditions. Each year the Ministry of Labour conducts planned and spot audits of working conditions. The minimum monthly wage at Durli is 995.21 Rs (316 USD), while the national minimum wage is 937 Rs. All labour standards are equally applicable to workers engaged by contractors. Durli has no HR policy. As per the ESAP, Durli will present to IIC a Corporate HR Policy, aligned with the national law of Brazil, the requirements of the International Labour Organization (ILO), and consistent with PS2 requirements.

Workers' Organization: National legislation provides the right to organize and bargain collectively. Employees at Durli have membership in a Union. Durli has no grievances or lawsuits pending due to labour issues.

Non-Discrimination and Equal Opportunity: Durli is an equal opportunity employer. Durli employs individuals with different abilities.

Employee Grievance Mechanism (GM): Although implemented in the HR function, the Company does not have a documented formalized ESMS procedure for an employee grievance mechanism. As set forth in the ESAP, the Company will establish an ESMS procedure to ensure all types of worker grievances are captured, recorded, communicated, and monitored, with records maintained on actions taken and feedback provided to employees on each grievance. The GM will allow for anonymous reporting of complaints.

Occupational Health and Safety: The due diligence review of IIC found that the OHS management at Durli has room for improvement, as OHS aspects are managed at different levels throughout Durli's operations, and some would welcome an improvement in the use of Personal Protective Equipment

(PPE) and renovate the electrical wiring and circuits, to upgrade employee safety during operations. As set forth in the ESAP, the Company will perform an Occupational Health and Safety and a Life and Fire Safety (L&FS) gap analysis, including electrical circuits, at all operating plants. More emphasis will be placed in the future on follow up on implementation of OHS procedures, including training, in order to ensure that agreed tasks have been completed in all the plants. Durli will submit a final report to IIC with a certification from the Company OHS task manager that all observed deficiencies have been corrected. There have been no fatalities at Durli. The Lost Time Injury Frequency Rate (LTIFR) is reported as 6.59.

Biological Hazards: Durli will provide to IIC a management system procedure and report annually of measures taken to avoid the negative consequences of worker exposure to biological hazards which may be present in the hides or as part of the manufacturing operations. These will include, but not limited to, conduct training sessions to inform workers of potential risks of exposure to biological agents.

Life and Fire Safety and System Design for the new construction in Brazil and Paraguay: As set forth in the ESAP, Durli will: a) develop and implement a management system procedure and Master Plan for Life and Fire Safety identifying major fire risks, applicable codes, standards and regulations, fire drills, and mitigation measures. Life and fire safety design shall be responsive to one international life safety code, such as NFPA, and the Brazil and Paraguay life and fire safety codes. The design shall comply with the Life and fire Safety requirements of the WBG General EHS Guidelines; b) At the end of construction, besides the approval of the local governments in Brazil and Paraguay, the Client will provide to IIC a third party certification by a qualified professional acceptable to IIC, that the design and construction of life and fire safety systems for the new facilities complies with the specifics of an international life and fire safety code

4.3 Resource Efficiency and Pollution Prevention

Resource Efficiency: Durli consumes annually approximately 9.000.000 KWh. The specific energy consumption is 952.3 MJ/tonne of raw hide processed.

Water Consumption: Water is guaranteed from wells (90% of sourcing). The specific total fresh water demand is 6.17 m³/tonne of raw hide to tanned. Water is recycled through recover of cooling water and processing water. Water use by Durli does not affect availability of the resource for neighboring communities.

Greenhouse Gas Emissions: Durli will implement a Management Systems procedure for Emissions Inventory of Greenhouse Gases (tps CO₂-equivalent/annum) to be reported annually to IIC.

Air Emissions and Ambient Air Quality: There are no stacks emitting VOCs, since solvents are not used. Evidence has been presented to indicate that emissions do not warrant or do not require monitoring, however monthly evaluation of smoke (Ringleman assessment) is undertaken. No odours are detected within site property limits or at the site boundary.

Wastewater Treatment: Effluent quality is monitored to ensure compliance with national regulations for effluent discharge. The most common tanning material is chromium. As outlined in the ESAP, the Company will: a) provide a detailed description of the actions taken by Durli to limit use and discharge of chromium; b) assess wastewater quality at the points of discharge at each of the 8 plants, and compare against regulatory standards for Brazil, and the applicable WBG General EHS Guidelines Effluent levels for Tanning and Leather Finishing, and report to IIC. If continuing assessment indicates deterioration, Durli will take specific action to mitigate the situation and reach compliance. Further, the wastewater treatment for the new plants in Brazil and Paraguay should be

constructed to meet national regulations and WBG General EHS Guidelines Effluent levels for Tanning and Leather Finishing.

Solid Waste Management: the waste management procedure complies to local regulatory standards for waste management. Leather trimmings are not generated. Total discharge in kg of salt as chloride per tonne of hide processed is 2.71 Kg. Various sludge's are discarded in soil by Durli as fertilizer. Disposal of wastes with Chromium: Wet blue trimming, and sludge with oil from gas station is done in the licensed Durli's landfill. Sludge without chrome is sent to recovery. Final disposal and recycling of solid waste (paper, plastic, empty containers, and metal, nonhazardous) is done through licensed third party contractors (Reciclagem Oliveira Cruz Ltda, FFGU Incineração e Construção Ltda, Araguaia Industria de Oleos e Proteinas Ltda, LWART, Flora Produtos de Higiene e Limpeza SA). Durli maintains records for collection and disposal of non-hazardous wastes

Hazardous Materials Management: Tanning and leather finishing processes at Durli involve the use of a variety of hazardous chemical agents. Management, recycling and discarding of hazardous residues is done through licensed third party contractors (LWART, Reciclagem Oliveira Cruz Ltda, FFGU Incineração e Construção Ltda, Araguaia Industria de Oleos e Proteinas Ltda, Gelnex Industria e Comercio Ltda). Chrome tanning sludge and other similar chrome-containing products are sent to Durli's certified landfill. Empty barrels or containers from incoming hazardous chemicals and empty barrels, containers pallets etc., that have been rendered hazardous due to contamination are returned to supplier or recycled by a licensed agent.

4.4. Community Health, Safety and Security

Community Grievance Mechanism: As part of the ESMS, Durli will formalize a community grievance mechanism.

Security Personnel: The security personnel conduct routine check at the gates and security monitoring. Operating ESMS procedures will include how security forces will be managed in accordance with IFC PS4 requirements as described in paragraph 12-14, and will provide a means for neighbors o channel complaints about the Company's security arrangements or personnel. An incident response system involving security forces will be implemented to ensure that all incidents are registered and responded to using correct disciplinary actions where required.

5. Environmental and Social Action Plan (ESAP) - see Related Files

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.