

Annex – 2 – Summary of review of four CNO's active construction projects

IFC appraisal included the review of a diverse pool of CNO's active construction projects. Even though none of these projects are likely to be under the Facility, the review provided evidence of how the ISMS is actually being applied by CNO. Three of the four projects reviewed were fairly advanced in construction, and therefore the *PI-Sustentabilidade* were presented, as well as evidence of the execution of specific ESHS plans and procedures. The fourth project is still in early stages, and therefore only the initial assessment information / approach was reviewed.

Santo Antonio Hydroelectric Power Plant - Brazil

The Santo Antonio Hydroelectric project in the Madeira River is one of the most controversial infrastructure projects in Brazil in recent years (<http://www.uhesantoantonio.com>). The project involves the construction of a 3,150 MW low head power plant in the Madeira River, near the city of Porto Velho, capital of the state of Rondonia, in northwestern Brazil. It was classified as a Category A under CNO's ESMS, and significant corporate resources have been used in the development and implementation of the PI-Sustentabilidade for this project. The PI Sustentabilidade includes a total of 61 ESHS plans and procedures, with clear identification of potential impacts and risks, applicable management measures, indicators, responsible staff, supervision and corrective feedback procedure as well as reporting. The Santo Antonio project involves a total of 300 ESHS professionals, in addition to many expert consultants managing specific issues such as biodiversity conservation -including management of migratory fish species, impacts of indigenous people, involuntary resettlement of 1200 families, malaria management and control, to name a few. From the beginning CNO recognized that the potential ESHS impacts and risks associated with the project were significant, and invested together with its partner Furnas, approximately 130 million US dollars in preparatory plans and social and environmental studies. To date, the total budget for the social and environmental programs during construction is in the order of 800 million US dollars, and includes social compensation programs, investments in health and educational public programs, ecological studies and monitoring programs, community engagement, local training, and indigenous peoples development programs. This project is under constant supervision from CNO ESHS Corporate Department, and during 2010 was visited at least once a month. It is currently rated as "excellent" in its environmental performance. It must be noted that in 2010 the project was awarded ISO 14.001 and OHSAS 18.001 compliance certificates.

Santo Antonio has not been free of conflict, but based on solid good ESHS practices CNO has managed to sustain the scrutiny of environmental authorities and environmental NGOs to the point that the IBAMA – the Brazilian environmental agency - has publicly acknowledged CNO's practices in Santo Antonio as best ESHS practice for large infrastructure projects in Brazil. Furthermore, a vocal opinion-creator from the well known Brazilian think-tank Ethos Institute which originally was against the project, publicly broadcasted over his radio program a positive view of the Project and CNO's ESHS management, after he was invited to visit the project site and saw what the Company is doing on the ground. More recently upon their request, CNO extended an invitation to the WWF Consulting Board, who paid a visit to the project early in 2011.

Even in the international media, in October 2010 the WSJ published an article on Santo Antonio titled “Brazil Engineers a Critic-Proof Dam” which provide a fairly positive review of CNO’s approach to complex and challenging environmental and social impacts and risks

(<http://online.wsj.com/article/SB10001424052748704652104575494023487169344.html>)

Autopista del Coral – ADC – Dominican Republic

The second project reviewed, was the Coral Highway Concession (Autopista del Coral – ADC) project in the Dominican Republic, which consists of the design and construction of a new four-lane toll-highway in the southeastern province of La Romana. Seventy kilometers of new road will be built by a wholly-owned subsidiary of Construtora Norberto Odebrecht S.A. of Brazil, under a construction and finance contract with the Government of the Dominican Republic. The project also includes a 25 year concession for the operation (toll stations) and maintenance of the highway. The ADC is a Category A project under Odebrecht’s risk category. The key environmental and social issues include traffic patterns and flow, air quality and noise, water resources and drainage, waste and spill management, public and workers health and safety, land acquisition and compensation, land use, loss of natural and modified habitat, and biodiversity management. Additionally, the project required the involuntary resettlement of 19 households and the peripheral affectation of the 5.5 kilometers of a protected area named “Monumento Natural Hoyo Claro”. In addition to standard plans and procedures, and coherent with CNO’s ISMS and guidelines, the Company developed and implemented (a) an alternative route design to avoid unnecessary impacts and potential displacement in the town of La Romana; (b) a complementary involuntary resettlement plan which exceeded the requirements under local law; based on a detailed gap analysis between the government resettlement and compensation process and IFC PS5, CNO proposed and took responsibility for a series of additional compensation procedures, that assured the total 19 affected household were rebuilt to equal or better conditions than the originals, and that livelihoods of all the affected people were either restored or improved; and (c) supplementary technical study to support the affectation of the Hoyo Claro Natural Monument, which included specific mitigation/management measures to meet PS6 requirements. This project has been visited (audited) 4 times in the last two years, and it is currently rated as excellent in its environmental performance.

CONPAR – Petrochemical Complex

The CONPAR (<http://www.consorcioconpar.com.br/>) consortium, involves the construction of a total of eight petrochemical industrial facilities (five gasoline and three coke) in an existing industrial complex in the Brazilian central State of Paraná. CNO is the leading company in the consortium and responsible to provide all the ESHS management system. The information of the *PI - Sustentabilidade* reviewed was divided in two distinctive groups: (a) Planning documents, which included the initial identification of a total of 64 activities with potential social and environmental impacts and a total of 181 tasks with occupational and health and safety risks. These document included matrixes with activities, potential impacts and risk, expected mitigation management measure, targets, applicable Brazilian norms, monitoring and reporting frequency and protocol, and responsible people. Additionally, personnel training programs and goals were also provided; (b) Execution, which provided documental

evidence of the application and supervision of the plans and procedures described in (a). Under CNO's ISMS, this specific contract has been Categorized as an A risk. The contract includes an ESHS group composed of 78 professional permanently based in the field. It has been audited by internal and external auditors concerning compliance with ISO 14.001, OHSAS 18.001 and ISO 8000 standards at least twice a year in the last three years. This project is currently rated as "excellent" under CNO's rating system for environmental and social performance. Even though this is a Cat A project with a significant ESHS footprint, it has not received any negative attention in the press or any other mass media.

Chaglla Hydroelectric Power Plan

Lastly, the fourth reviewed project was the Chaglla Hydroelectric Power Plan (Chaglla HPP) project in Peru, which will involve the construction of a 406 MW hydroelectric power plant in the Huallaga River in Huanaco, Peru. Chaglla HPP CNO's is still in the planning phase and construction is scheduled to begin in the second semester of 2011. In 2009, CNO acquired *Empresa de Generación Huallaga* (EGH) which had been awarded a BOP concession contract by the Ministry of Energy and Mines (MINEM). The acquired project had performed a full Environmental and Social Impact Assessment (ESIA) compliant with local law and had an approving Environmental License issued in 2009. Following the acquisition, CNO conducted an extensive review of the already approved ESIA, and hired two recognized international environmental consulting firms to perform additional studies and develop complementary management plans to meet CNO's ESHS policies and guidelines as well as those of potential financing multilateral banks, including IFC Performance Standards and the Equator Principles. Main issues addressed in the studies include (a) further assessment of the adequacy of the Ecological Flow to meet IFC Performance Standard 6 on Biodiversity Conservation and Sustainable Natural Resource Management, (b) increased community consultation and engagement, and (c) a gap analysis on existing plans and IFC Performance Standard 4 on Community Health, Safety and Security. Field surveys were designed to update the biological, physical and social baseline studies to support hydraulic and ecological modeling of the reduced flow. Even though CNO describes the overall social-environmental risk for this project as moderate, to be conservative, CNO rated it as a Category A under its ISMS. CNO is committed to bring this project to full compliance of IFC Performance Standards as well as the Inter-American Development Bank Safeguard Policies.