

International Finance Corporation

Environmental and Social Review Summary of Buddha Air Nepal May 2008

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Project Description

Buddha Air Private Limited ("BAPL" or "the Company") began operations in Nepal in 1997 and currently operates seven 18 passenger Beech 1900 planes providing passenger services between Kathmandu and the country's nine other domestic airports, as well as mountain flights catering to the tourist market. BAPL has established itself as a premium brand based on its reputation for safety, reliability and service. The Company is seeking financing from IFC to replace part of its fleet with larger capacity aircraft (ATR 42-300) to improve operational efficiencies and control costs.

Overview of IFC's Scope of Review

IFC's appraisal of its proposed investment in BAPL included assessment of the Company's management capacity and review of the following documentation: 1) Operations Manual; 2) Flight Safety Program; 3) Engineering Department Quality Management System; 4) Civil Aviation Authority Aviation Safety audit reports; and 5) Staff Performance Management System. IFC's appraisal also included a physical inspection of all aircraft operations and maintenance systems, back-office operations and interviews of key management and supervisory personnel.

Identified Applicable Performance Standards

While all Performance Standards are applicable to this investment, IFC's review indicates that the investment has or will have impacts that must be managed in a manner consistent with the following Performance Standards:

- PS1: Social and Environmental Assessment and Management Systems.
- PS2: Labor and Working Conditions.
- PS3: Pollution Prevention and Abatement.
- PS4: Community Health, Safety and Security.

The findings of the of the project review confirm the application of these performance standards and indicate that there are no impacts related to Land Acquisition and Involuntary Resettlement (PS5), Biodiversity Conservation and Natural Resources Management (PS6) Indigenous Peoples (PS7) or Cultural Heritage (PS8).

Environment & Social Categorization Rationale

This is a category B project according to IFC's Procedure for Environmental and Social Review of Projects because a limited number of specific environmental and social impacts that may result have been, or are being, avoided or mitigated by adhering to generally recognized performance standards, guidelines or design criteria.

Based on a preliminary review of project information, IFC identified potential environmental, social, health and safety risk in the following areas: environmental, health and safety management systems; aircraft operations safety, including training programs; aircraft maintenance and servicing, including handling and management of hazardous materials and wastes; environmental protection at ground sites; aircraft noise and emissions controls; employee health and safety and fair conditions of work; and cargo handling policy; consumer health and hygiene conditions; and Oil/chemical spill containment and recovery.

BAPL practices responsible environmental, health and safety (EHS) management to minimize potentially adverse social and environmental impacts of its operations. The Company maintains integrated systems to manage EHS performance commensurate with the level of risk associated with their operations. These systems incorporate, or are consistent with, ISO standards of quality management and continuous improvement, and are consistent with IFC's EHS General Guidelines and EHS Guidelines for Airlines.

Description of Key Environmental and Social Issues and Mitigation

Information concerning how these potential impacts are addressed by the Group is summarized in the paragraphs that follow.

1. Social and Environmental Assessment and Management Systems – IFC's assessment considered the Group's management of its environmental, health and safety performance in the establishment and operation of its facilities; compliance with national and local permitting requirements; and the Group's engagement with local communities regarding environmental, health and safety performance.

Management Systems – BAPL has developed comprehensive systems to ensure compliance with Civil Aviation Authority of Nepal (CAAN) requirements and the requirements of the International Civil Aviation Organization (ICAO) for aircraft operations and maintenance. Annual audits of BAPL's performance against ICAO standards are undertaken by the regional ICAO authority, the Cooperative Development of Operational Safety and Continuing Airworthiness/South Asia (www.coscapsa.org), which reports directly to CAAN for any follow-up action. The Company's Flight Safety Department maintains detailed Standard Operating Procedures with respect to air and ground operations covering all aspects of aviation, flight operations, maintenance, crew procedures and aircraft handling. All scheduled routine maintenance is undertaken by certified BAPL personnel in accordance with the aircraft manufacturer's guidelines. The repair or replacement of aircraft components is outsourced to vendors approved by the US Federal Aviation Authority or the European Aviation Safety Agency. Regularly scheduled heavy maintenance of aircraft engines is undertaken by the manufacturer's (Pratt and Whitney) regional maintenance facility in Singapore. The Company's Quality Assurance Office monitors and validates all scheduled and non-scheduled maintenance.

The Company has committed to seeking ISO certification for its quality management system (ISO 9000) and will subsequently assess the rationale for developing an environmental management system consistent with ISO 14001 standards.

Training – BAPL has established and maintained approval of Beech 1900 training of flight crew members and flight dispatchers from CAAN. Crewmembers are provided with up-to-date systems training and are regularly tested on their familiarity with those systems. All pilots have at least 4,000 hours experience with Beech 1900 and have completed flight training from US-based institutions. CAAN-approved instructor pilots are utilized for refresher flight training, flight checks and simulator training programs for all BAPL pilots.

Monitoring and Reporting – All BAPL aircraft are equipped with an integrated Aircraft Data Acquisition System (ADAS), which records the performance of all flight systems during aircraft

operation. The Company's Flight Safety Department monitors the ADAS on a regular basis for exceedence of operating parameters, deviation from predictable equipment performance or violation of standard operating procedures and undertakes any necessary corrective action. The Company's Flight Safety Department carries out annual Ramp Audits of aircraft operations and maintenance indicators at random intervals. As noted above, COSCAP South Asia undertakes and annual audit of the Company's operations and maintenance on behalf of ICAO and CAAN and reports directly to CAAN. CAAN then issues requirements for corrective actions and monitors their implementation.

Community Engagement – No local communities are affected by risks or impacts from the investment for which BAPL is seeking IFC support. As a result, no formal information dissemination activities have been undertaken apart from the public disclosure of this document. For further information, see the Company's website www.buddhaair.com.

2. Human resources and working conditions. IFC's assessment considered BAPL's operations with regard to fair, safe and healthy working conditions in its operations. The Company employs 438 full time staff as of the end of 2007. Nearly 16% of the Company's workforce is female, including 6 female pilots. The Company does not employ contract labor nor does it outsource any service but heavy maintenance for aircraft equipment.

Human Resource Policy and Management – In 2004, BAPL established a comprehensive, Company-wide HR management system and an HR department to ensure the implementation of that system under the supervision of Corporate Management. This HR management system ensures the implementation of policies that are consistent with the ILO declaration on fundamental principles and rights at work. . The Company's Staff Performance Management System includes components related to: guidelines for recruitment, selection and continuity in service; standardized skill competencies; performance appraisal; career progression; professional development; rewards and recognition; and professional ethics.

Worker's Organizations – BAPL employees are not represented by trade unions. The Company does not restrict the organization of its employees and all employees are able to express opinions/grievances/suggestions regarding wages, benefits, working conditions, relations with management and professional development through their respective department heads for further consideration by the Managing Director. Employee satisfaction with terms and conditions of their employment is demonstrated in the very low staff turnover since the formation of the Company at 37%.

Occupational Health & Safety – BAPL complies with all national statutes governing the protection of the workforce. High standards of workplace health and safety such as good housekeeping, daily safety briefings, good safety signage, and low Lost-Time-Accident and employee health records are maintained by each operating unit. In those operations where Personal Protective Equipment (PPE) is applicable, operations managers enforce the use of PPE among employees.

3. Pollution Prevention and Abatement. IFC's assessment considered the Company's operations with regard to efforts to optimize resource inputs, including energy efficiency and waste minimization practices as well as the storage, handling hazardous materials used in the its operations.

BAPL's proposed investment in new, larger capacity aircraft is an effort to improve the fuel efficiency of its operations. The operations of new ATR 42-300 aircraft will yield an estimated 50% reduction in fuel consumption per passenger/hour compared to the existing Beech 1900. Aircraft air emissions and noise levels meet the certification requirements established by ICAO

and enforced by the CAAN. IFC will require BAPL to measure and report on GHG emissions from its aircraft emissions annually.

BAPL does not handle or transport hazardous materials; however ground staffs periodically undergo dangerous cargo training to be able to identify and refuse such cargo. Like all airlines operating in Nepal, BAPL contracts its fuel supply through CAAN. No fuel is stored or handled by the Company. BAPL ground crews perform only line maintenance of aircraft: waste oil, lubricants and cleaning solvents and their containers are deposited at designated sites and disposed by CAAN. In the absence of hangar facilities, line maintenance is conducted on a designated tarmac apron that is equipped with firefighting apparatus and a perimeter containment trench that diverts contaminated surface runoff to a settlement tank. All Company flight operations staffs are trained in the operation of firefighting equipment and emergency management.

Solid and liquid waste from aircraft operations, including chemical toilets, are collected and disposed by contractors licensed by CAAN. Water use in aircraft operations and maintenance is negligible. Passengers are served bottled water on BAPL flights but there is no food service. As such, food safety and disposal are not factors considered in this assessment.

4. Community Health, Safety and Security. IFC's assessment considered the Group's operations with regard to the impacts of the operation of its facilities on the health, safety and security of its clients and on surrounding communities.

BAPL operates in compliance with all internationally accepted standards of flight safety and passenger security as established by ICAO and regulated by CAAN. In its ten years of operation, BAPL has not made a single accident insurance claim. As noted above, the Company's Flight Safety Department monitors aircraft and pilot performance through its computerized Aircraft Data Acquisition System as well as regular physical inspection to ensure that all aircraft are operating, and being operated, in a safe and appropriate manner. Aircraft holds are equipped with smoke detectors and ground equipment includes fire fighting equipment in the apron area as required by the CAAN. CAAN oversees all airport security and emergency response in coordination with national security forces.

Client's Community Engagement

BAPL aims to promote rural development through its Corporate Social Responsibility efforts. It has supported an agricultural extension program in the Tarai area of Nepal with the objective of improving the productivity of existing commercial crops. The Company plans to expand this initiative by supporting the establishment of a rural bank to provide farmers with easier access to credit for cash crop investment.