

Environmental and Social Review Summary (ESRS) FRISA II – Mexico

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1 General Information of the Project and Overview of Scope of IDB Invest’s Review

The present transaction consists in a financing to FRISA Forjados, S.A. de C.V. (“FRISA” or the “Company”), for capital investments partially related to the start-up of a new lamination plant (the “Project”), within FRISA’s own land located in Nuevo León, Mexico. The financing resources will be mainly used for preparing the land and laying the foundations, the purchase of cranes and industrial tools, and the construction and launch of the Project. This will allow the Company to improve its productive capacity, expand its product portfolio, free the productive capacity of its existing operations and maintain vertical integration in its supply chain.

The environmental and social due diligence process (ESDD) included onsite¹ technical visits, interviews and meetings with Company employees, managers and top management, as well as reviewing the environmental and social (E&S) and occupational health and safety (OHS) information provided by FRISA, such as: (i) business strategy; (ii) E&S management policies and procedures; (iii) OHS programs; (iv) supplier management processes; (v) solid waste and effluents management processes; and (vi) community engagement mechanisms.

2 Environmental and Social Classification, and Rationale

The Project has been classified as a Category B operation as per IDB Invest’s Environmental and Social Sustainability Policy, since it will likely generate, among other, the following E&S impacts and risks: (i) increase in OHS risks; (ii) generation of noise and air emissions; (iii) solid (hazardous and non-hazardous) and liquid (mainly domestic and industrial wastewater) waste generation; and (iv) use of resources, mainly water and energy. These impacts and risks are deemed to be of medium-high intensity.

The Project triggers the following Performance Standards (PS) of the International Finance Corporation (IFC): PS1: Assessment and Management of Environmental and Social Risks and Impacts; PS2: Labor and Working Conditions; PS3: Resource Efficiency and Pollution Prevention; and PS4: Community Health, Safety, and Security.

3 Environmental and Social Context

3.1 General characteristics of the Project’s site

FRISA, a company founded in 1971, is a world leader in manufacturing seamless rolled rings and open-die forging. At present, it is involved in forging, manufacturing, machining and sale of industrial products

¹ Visits included the steel facilities at Planta García and the corporate offices located at the forging facilities in Santa Catalina, both of them located in Nuevo León, Mexico.

based on carbon steel, alloy steel, stainless steel, as well as titanium and superalloys. FRISA has its operational infrastructure formed by five productive plants (the “Plants”) strategically located in the state of Nuevo León close to the border with the United States of America (US).

The Project will be carried out at Planta García, in the municipality of García, Nuevo León. This plant started operating in 2009 and, at present, has the ISO 9001, ISO 14001, ISO 17025, C-TPAT², Pressure Equipment Directive (PED) certifications, among others. Moreover, as part of its E&S commitments, the Company submits regular reports on the compliance of its operations with the applicable environmental standards to the Department of Environment and Natural Resources (SEMARNAT), the Federal Environmental Protection Agency (PROFEPA), the National Water Commission (CONAGUA) and the Department of the Environment of the State of Nuevo León (SEMA-NL). In this sense, the Company has substantially and steadily completed the reports on terms and conditions of the environmental impact assessments (*Manifestaciones de Impacto Ambiental* [MIA]), the single environmental licenses (*Licencias Ambientales Únicas* [LAU]) and the permits granted to its business by federal, state and municipal authorities, as well as the annual operation reports (*Cédulas de Operación Anual* [COA]), including the verifications of greenhouse gases and compounds for its facilities (as applicable).

In compliance with the environmental legislation effective in the State of Nuevo León, FRISA prepared a MIA³ for the works and activities initiated (or Regularization MIA) for the Project describing, among others: (i) the works and activities for the expansion of the productive process; (ii) the impacts at each stage of the Project; and (iii) the applicable preventive and corrective measures⁴.

3.2 Contextual Risks

One of the biggest challenges faced by the State of Nuevo León is its hydric safety⁵, aggravated by the increasing demand for water, population growth, scarcity of rains, overexploitation of aquifers and climatic change. The Project is located in the Campo Durazno aquifer, which faces overexploitation issues and an estimated deficit of almost 1,480,420 cubic meters (m³) annually⁶. This has caused a type II water withdrawal closure restricting the exploitation of new wells and limiting current extractions for domestic use⁷.

In Nuevo León, 67.8% of the population is over 18 years and they consider insecurity and crime as the most serious problem. Their perception of trust in law enforcement and judiciary authorities is under 73.6%⁸. During 2022⁹: (i) it is estimated that 26.9% of homes had at least one victim of crime; (ii) 34,099

² C-TPAT (Customs-Trade Partnership Against Terrorism) is an initiative led by the US administration and the private sector to protect the different areas of the supply chain against terrorism and guarantee its security.

³ Upon preparing this ESRS, the MIA was in the process of being evaluated and authorized by the applicable authorities (SEMA-NL).

⁴ Measures such as: restoration, remediation, restitution, or compensation.

⁵ <https://www.nl.gob.mx/webform/reto-del-agua-2023>

⁶ <https://sigaims.conagua.gob.mx/dma/acuiferos.html>

⁷ <https://sigagis.conagua.gob.mx/dvedas/>

⁸ National Victimization and Perception on Public Security Survey (ENVIPE, in Spanish) 2022; INEGI (<https://www.inegi.org.mx/programas/envipe/2022/>).

⁹ The benchmark periods of the information are: January to December 2021 in the case of victimization and March and April 2022 for the perception on public security and performance of the authorities.

crimes took place per 100,000 inhabitants, out of which 43.5% relates to robbery, theft and threats, 33.1% to fraud and extortion, 23.4% to other crimes¹⁰ and injuries; and (iii) robbery, theft, use and sale of illegal drugs, gangs and violent gangs were the most frequent criminal activities.

Public problems, such as insecurity and violence tend to be complex in Nuevo León being the most visible one urban violence where the main component is the struggle between criminal groups¹¹. Nuevo León is an attractive market for the sale of drugs and other illegal products since: (i) it has a large portion of young population with a greater purchase capacity than the country average; (ii) it is strategically located regarding the border with the US; and (iii) it is next to Tamaulipas, a state with significant criminal governance levels. In addition, it is worth mentioning that gangs are not only engaged in robberies and fights but on many occasions collaborate with criminal groups in the distribution of illegal drugs.

On the other hand, the economic success of Nuevo León has also caused many people to migrate to the outskirts of the Monterrey metropolitan area to live in precarious conditions. In addition to the above, we have the family violence challenge, which is difficult to resolve since it usually takes place in the home and is fueled by cultural aspects and overcrowded living conditions.

The Project is also subject to natural disaster threats, such as earthquakes, storms, droughts and hurricanes, as well as social unrest threats, such as vandalism, and protests or demonstrations. However, these threats represent a moderate to low risk for damages on the physical infrastructure of the Plants and on personnel and suppliers.

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

4.1 Assessment and management of environmental and social risks

4.1.a E&S assessment and management system

FRISA has in place an Environmental Management System (EMS) certified under ISO 14001:2015 standard. In addition, the Company has an EMS Manual including several procedures for its effective implementation at the Plants. Owing to the ISO 14001:2015 certification, the EMS is audited bi-annually and reviewed periodically by an authorized auditing entity.

4.1.b Policies

As part of its EMS, the Company has in place a Quality, Safety and Environmental Policy stating its commitment to the applicable legal requirements, the ongoing improvement of effectiveness and efficiency, and the optimization of the use of natural resources to minimize environmental impact and prevent pollution. Such policy, consistently with the provisions of the EMS, was made available to the public in general.

¹⁰ Including crimes such as kidnappings or express kidnappings, sexual and other crimes.

¹¹ Anatomy of insecurity and violence in Nuevo Leon ("*Anatomía de la inseguridad y violencia en Nuevo León*"), by: Sumano R., José Andres, CONACYT Scholar attached to the Colegio de la Frontera Norte. May 2023. Opinion article, Civil Development, <https://consejocivico.org.mx/>.

4.1.c Identification of risk and impacts

4.1.c.i Direct and indirect impacts and risks

As a step prior to the execution of the Project, FRISA updated the Environmental Risk Study of Planta García in compliance with environmental impact requirements. This update identified the potential risks that expanding the productive process could generate taking into account the characteristics of the substances or materials to be used. The results proved that: (i) the areas potentially affected by all the fire events arising from breaks of natural gas pipelines would be within the property; and (ii) the Company has the resources to prevent the risk events identified; consequently, it should maintain all the security systems and devices, as well as maintenance programs, up and running at all times.

As part of the procedures in its EMS, the Company has identified the main significant risks and impacts related to its operations and rendering of services. These include: (i) impacts on the soil related to waste generation; (ii) the decrease in water availability due to increased consumption; (iii) impacts on the recipient bodies of water because of wastewater discharges; and (iv) impacts on the air due to polluting emissions from the use of fuels (direct source) and energy consumption (indirect source). In response to these impacts, the Company promotes practices focused on the adequate management of waste, decrease of emissions, savings in water and energy, and awareness of the personnel and suppliers regarding forms of optimizing the use of resources.

4.1.c.ii Analysis of alternatives

Since the Project will be carried out in the Company's existing facilities, no alternatives other than space distribution and evaluation of several technology options based on their economy and efficiencies (in terms of electricity and water consumption), were considered.

4.1.c.iii Cumulative impact analysis

Due to the characteristics of the Projects, it is considered that the cumulative impact to be generated will be marginal.

4.1.c.iv Gender risks

Even though in Mexico there are laws¹² and agencies¹³ fighting to protect women, in terms of gender violence and sexual crimes, the State of Nuevo León ranked 23 among the Mexican federated states with the highest rates of violence against women aged 15 and over throughout their lives¹⁴. For the January

¹² Federal Law to Prevent and Eradicate Discrimination; Men-Women Equality Law (2006); Women's Access to a Violence-Free Life Law (February 2007) and Regulation of the Women's Access to a Violence-Free Life Law (March 2008).

¹³ Instituto Nacional de las Mujeres (Inmujeres); Comisión Nacional para Prevenir y Erradicar la Violencia contra las Mujeres (CONAVIM); Consejo Nacional para Prevenir la Discriminación (CONAPRED); Comisión Nacional de los Derechos Humanos (CNDH); among others.

¹⁴ 2021 National Survey on Household Relationships (ENDIREH), <https://www.inegi.org.mx/programas/endireh/2021/>.

through June 2023 period, there were 36 presumed femicides in Nuevo León, second at a national level; and 179.5 presumed domestic violence crimes per 100,000 inhabitants, ranked sixth nationally¹⁵.

Nevertheless, given the type of activity and business (metallurgical and metalworking industry), together with the fact that the Project is located in an industrial corridor, gender risk is estimated to be low and can be mitigated by applying the principles in the Code of Ethics and the equity and equality practices of the Company.

4.1.c.v Gender programs

The Project is not expected to have different impacts on men and women. FRISA promotes non-discrimination and equal opportunity in seeking and promoting human talent. In this sense, it is expected to generate equitable employment opportunities. The activities of the Project will not enable gender violence or pandering.

FRISA has incorporated provisions to guarantee an adequate treatment of the women working at its facilities regarding: (i) provision of personal protection equipment (PPE) adapted for women; (ii) separate locker rooms and showers by work area and gender; (iii) provision of work environments that are adequate for pregnant women; (iv) adoption of zero tolerance policies in the event of gender violence in its Code of Ethics; and (v) compliance with local legislation and international practices related to the non-discrimination and equal opportunity for its personnel regardless of their gender. Any behavior contrary to the guidelines in the Code of Ethics is investigated and analyzed by the Company, and it is subject to corrective and disciplinary measures if applicable.

4.1.c.vi Climate change exposure

In general, the Project's infrastructure is moderately exposed to physical risks and hazards due to climate change, as follows: (i) as per a global climate model, high exposure to droughts and moderate exposure to changes in precipitation patterns and earthquakes; and (ii) high exposure to droughts with a moderate upward trend in the RCP 8.5 climate change scenario¹⁶.

However, climate change exposure risk is expected to be handled with the measures proposed in the design of the new Project infrastructures and its Contingency Plan, which is annually reviewed.

4.1.d Management Program

All of FRISA's plants have management (mitigation, restoration and compensation) measures as described in the environmental impact and environmental risk study regularization reports, as well as compensation programs and contingency and emergency plans in the event of natural disasters. Some of the measures necessary to eliminate or mitigate each of the impacts or risks detected include: (i) preventive measures

¹⁵ According to the Executive Department of the National Public Safety System for June 2021 (<https://www.gob.mx/sesnsp/articulos/informacion-sobre-violencia-contra-las-mujeres-incidencia-delictiva-y-llamadas-de-emergencia-9-1-1-febrero-2019?idiom=es>).

¹⁶ A Representative Concentration Pathway (RCP) is a greenhouse gas (GHG) (not emissions) concentration pathway adopted by the IPCC. The pathways describe the different climate future scenarios, all of which are deemed possible depending on the volume of GHG issued in the coming years. RCPs, originally RCP 2.6, RCP 4.5, RCP 6 and RCP 8.5, are labeled based on a potential range of radiative forcing values in 2100 (2.6, 4.5, 6 and 8.5 W/m², respectively).

aimed at eliminating or decreasing the frequency or severity of negative impacts or risks, supported by (a) preventive and predictive equipment and machinery maintenance programs, and (b) ongoing employee training programs and scheduled drills; and (ii) technical and operational recommendations based on the compliance with national regulations, specifically in NOM-002-STPS-2010 establishing fire procedures and equipment.

The regularization MIA includes management programs on the risks and impacts generated by the different Project activities and stages (preparation of the site and construction, operation and maintenance, and abandonment and closure of the site).

4.1.e Organizational Capacity and Competency

FRISA has a sound organizational structure specifically dedicated to E&S and OHS aspects. The Company's EMS coordinator jointly with the Project leader and coordinators of each plant are in charge of (i) making sure the environmental and OHS standards are met; (ii) promoting a sustainable and environmentally-friendly business model; (iii) identifying opportunities for improvement of the energy performance; (iv) preventing pollution; and (v) advising the managers at each plant on the implementation of emergency preparedness and response procedures. The Company also has a medical service with personnel who, jointly with the environmental and safety specialists at each plant, are in charge of implementing and monitoring OHS protocols, as well as the Timely Detection and Monitoring of Chronic Disease Program ("DOMECA", in Spanish) and *Vive Saludable* Program¹⁷.

4.1.f Emergency Preparedness and Response

FRISA has contingency or emergency response plans in place for each of its plants, which comply with the requirements of the internal civil protection program required by the Department of Work and Social Services (STPS, in Spanish) and federal and local civil protection legislation¹⁸. Each Contingency Plan establishes the mitigation and emergency preventive actions at a site to safeguard the physical integrity of workers, visitors, suppliers, other people or customers within the facilities, as well as to address a wide range of emergencies threatening property and uninterrupted production.

The EMS Coordinator is in charge of establishing the annual training program to implement Environmental Contingency Programs, as well as Air Contingencies Response Plans, and reviewing the frequency of such trainings.

Even when FRISA has a Contingency Plan for the different processes of the Planta García, the Company will update it, through the environmental and safety specialist, in order to include the new processes to be implemented by the Project. The Plan will include: (i) a risk analysis updated based on the distribution of the new Project facilities; (ii) the chart of the new evacuation routes and the location of the meeting points and firefighting equipment; (iii) the brigade organization requirements; (iv) the requirements to form the Emergency Control Committee and the Internal Civil Protection Unit (if modified).

¹⁷ This program seeks to promote the development of lifestyles favoring health, preventing diseases, improving physical and mental performance, and fostering emotions management. It also aims at encouraging personnel to use the Nutrition and Psychology services available at the Company.

¹⁸ Civil Protection Law and its administrative order; and the Comprehensive Civil Protection and Risk Management Law for the State of Nuevo León.

4.1.g Monitoring and Evaluation

Some of FRISA'S goals include monitoring the compliance with all environmental legal provisions. Therefore, as part of the EMS and in order to avoid being penalized, it plans and prepares statutory environmental audits through a systematic and objective review based on international standards (ISO-14001) ensuring compliance with any applicable legal requirements at each work center.

FRISA will prepare¹⁹ a consolidated annual sustainability report on the status of compliance with all the E&S and OHS policies and measures applicable to the Project, including the progress of the EMS actions regarding the KPIs established, as well as the status of compliance with IDB Invest's Environmental and Social Sustainability Policy. Through these internal or external audits, FRISA will define specific measures to reduce its impacts, improve efficiency and document and report progress and new procedures, as well as other certifications, depending on which country the facility will be located at.

4.1.h Stakeholder engagement

FRISA has identified all the major stakeholders (including local authorities and parties involved in its operations) and it has open and permanent communications with them. In this sense, it has implemented: (i) an internal and external Communications Procedure; (ii) an inquiries, grievances and claims mechanism; and (iii) a protocol to post information on its E&S performance related to its operations through digital media (web site, mainly).

4.1.i External Communication and Grievance Mechanism

4.1.i.i External communication

FRISA's Internal and External Communication Procedure establishes the way in which the Company receives information requests from external stakeholders and the procedure to register and subsequently resolve them. This procedure requires that all communications be analyzed depending on the related matter.

4.1.i.ii Community grievance mechanism

FRISA has a reporting system which offers different means of formal communication to receive inquiries, claims and grievances, which may be found on the web site²⁰ or also available by email (integridad@frisa.com). This system is available for employees and external personnel, and it seeks to make the Company's business management more transparent, maintain open and honest relations, and promote the values of integrity, honesty, transparency and respect. Likewise, it has an internal and external communication procedure governing the treatment of all the communications related to the EMS from external stakeholders.

¹⁹ Whether internally (internal audit) or through an independent external E&S expert (external audit).

²⁰ <https://proveedores.frisa.com/Home/wfAnonymousBox.aspx>

4.1.j Ongoing reporting to affected communities

Through its website²¹, FRISA provides general information on the Company's environmental and safety system as well as its quality, safety and environmental policy, as well as any certifications it may have in this regard. Information is also provided on the community support actions and projects carried out by Fundación FRISA.

4.2 Labor and working conditions

4.2.a Working Conditions and Management of Worker Relationships

4.2.a.i Human resources policies and procedures

FRISA has in place a Code of Ethics and Integrity Policy, establishing: (i) the transparency, respect, integrity and equity values; (ii) the business ethics and conditions to relate to shareholders, workers, customers, suppliers, competitors, regulators and government agencies, and the community; (iii) the working and behavior conditions of workers, management and contractors; (iv) the actions to be taken in the event of conflicts of interests; (v) information management and prevention of fraud and corruption; and (vi) the responsibilities and compliance obligations under this code. Those in charge of monitoring Code of Ethics compliance are the Internal Control Department, Human Resources and the Integrity Committee, which are responsible for disseminating the Code of Ethics and training all the members of top management, managers, workers, contractors and suppliers directly involved in the operation of the Project's plants.

In addition, in compliance with Federal Labor Law of Mexico, the Company has Internal Work Rulebook covering the standards and conditions related to: work days, work and break times; vacation; pay days and places; permits, absences and leaves; rights and obligations of both the Company and the workers; work of minors, protection of women and from discrimination or harassment; health and safety, workers compensation medical services; behavior and disciplinary measures; risk prevention and, in general, compliance with federal and state labor laws, including the standards and grounds established by the International Labor Organization (ILO) and other organizations determining labor regulations.

4.2.a.ii Working conditions and terms of employment

The provisions in the Code of Ethics and Conduct, the Integrity Policy and the Internal Work Rulebook meet both Mexican legislation and OHS standards, as well as the best international practices. These provisions govern personnel recruiting and hiring forms and conditions; work days and times, break periods; vacation; leave; flexible work schemes to promote collaboration and productivity; salaries and benefits; the rights and obligations of the employer and the employees; conduct and disciplinary measures; safety of assets; prevention of risks, and disabled workers, among others. In order to reinforce the people's knowledge of these work conditions, the Company requires that each worker commit to observe the Code of Ethics and report any real, potential or seemingly noncompliant situation.

FRISA recruits, selects and hires talent following transparent, confidential, objective, stringent processes that guarantee that the principles of equality and non-discrimination are respected. In addition, within its

²¹ <https://www.frisa.com/es/welcome>

Integrity Policy, the Company states that the personnel are selected and hired based on their skills, abilities, professional experience and how closely the candidates relate with the Company's values.

4.2.a.iii Workers' organizations

Upon committing to complying with the applicable local legislation, FRISA recognizes the workers' rights to form labor associations and to be part of them, and it observes and assumes all the responsibilities arising from the legislation, including international treaties and conventions executed by the countries with the ILO²². Also, the Code of Ethics and the Integrity Policy acknowledge the workers' right of freedom of association and their right to enter into collective bargaining agreements. Finally, under Federal Labor Law, FRISA and the *Sindicato Industrial de Trabajadores* (industrial workers union) of Nuevo León submitted the Company's Internal Work Rulebook to the applicable enforcement authorities of the State of Nuevo León.

4.2.a.iv Non-discrimination and equal opportunity

Mexico is a signatory of several ILO conventions and international treaties related to workers' rights including Convention 100 on Equal Remuneration and Convention 111 on Discrimination (Employment and Occupation). Apart from complying with these provisions, the Company establishes, within its Code of Ethics, the Integrity Policy and the Internal Work Rulebook, the respect for individual diversity and equity by acting justly, equally and impartially and looking for an inclusive, positive and social impact. In addition, these two instruments state the Company's zero tolerance in the event of discrimination, harassment or abuse at the workplace and they ratify the Company's commitment to promote an environment in which no candidate, employee, supplier or contractor of services may be excluded or discriminated against in an external or internal selection process based on ethnical or national origin, gender, age, disability, social status, health condition, religion, immigration status, opinion, sex preference, civil status or any other type against human dignity.

4.2.a.v Retrenchment

FRISA does not anticipate any retrenchment in the future. However, if this happened, the Internal Work Rulebook establishes the need to meet the provisions in Federal Labor Law regarding the suspension and termination of work relations collectively (sections 53 and 434).

4.2.a.vi Grievance mechanism

The means to submit complaints or claims on any inappropriate or ethically questionable behavior or any noncompliance with FRISA's Integrity Policy, values or Code of Ethics is the Grievance System. This mechanism includes different communication channels from direct reports or claims in writing to the next hierarchical level, the Director of Human Resources or the Integrity and Internal Audit Head, to anonymous claims using the Grievance Box by digital means, such as email, website, employee portal or WhatsApp. The Code of Ethics establishes that all reports are confidential and any retaliation against those reporting suspected violations or cooperating in the investigation of any suspicious act is prohibited.

²² Convention 87 provides for the protection of the right to freely create and participate in trade unions; Convention 98 refers to the right to freedom of association and reaching collective bargaining agreements.

The Company has in place a Grievance System Management Procedure defining the guidelines to secure that all the grievances received are addressed and investigated in a timely manner in order to create and maintain an adequate control environment based on the values and the Code of Ethics. These guidelines establish the functions of each person involved (the Integrity and Internal Audit Head, the authorized Compliance and Monitoring Manager, the person against whom the report is being filed and the Integrity Committee) and the stages in which each one is involved: reception, classification, review, analysis, investigation, development of the action plan with the person against whom the report was filed, monitoring, management and presentation of performance indicators.

However, in first-time situations, the Integrity Committee is the one in charge of making a decision on the penalization to be applied on the parties involved and, when the nature of the events entails a violation of Mexican legislation, such Committee shall file the complaint with the related authorities after obtaining the approval from the Company's General Management and Legal Department.

4.2.b Protecting the workforce

FRISA, in observance of the local legal labor requirements applicable in Mexico, engages in labor relationships respecting the rights and duties of employers and employees, and promotes equality and equity in the enjoyment of human, civil, political, economic, social, and cultural rights between women and men.

Likewise, its Code of Ethics and Integrity Policy establish that the Company's workers, contractors, outsourced employees, and suppliers in general should meet all the applicable labor laws and regulations in each country where FRISA operates.

4.2.c Occupational Health and Safety

In compliance with Federal Labor Law and the Federal OHS Rules, FRISA has in place OHS programs for each Project plant. Such programs include the guidelines and actions to take in order to: (i) protect the physical integrity of its workers; (ii) prevent injuries and damage to their health; (iii) avoid affecting the safety of the process by implementing and executing procedures related to industrial safety and the environment in the EMS; and (iv) identify any dangers, evaluate risks and establish prevention, correction, control and transfer measures. In addition, for all the risk work defined in the OHS Assessments, the Company requires that all its contractors provide evidence of labor capacities and work permits duly authorized by the environmental and safety area.

4.2.d Provisions for people with disabilities

FRISA does not discriminate against its workers based on their disabilities and it meets the regulations on the inclusion of people with disabilities²³.

4.2.e Workers Engaged by Third Parties

In accordance with the Code of Ethics and the Integrity Policy, all of the Company's labor regulations, its policies and procedures cover its personnel, customers, suppliers, contractors and other third parties

²³ General Law for the Inclusion of People with Disabilities; as amended, published in the DOF on July 12, 2018.

equally. Workers, both hired by Company and by third parties, can remain as long as they respect the above and the local applicable laws and regulations. These measures are supported with contract clauses included in the work and service agreements.

4.2.f Supply chain

The Code of Ethics and the Integrity Policy establish that the Company shall not use child labor and it shall not incorporate into its business activity any product or service employing child labor. It also states that FRISA shall seek compliance with the applicable legal provisions and agreements ratified by Mexico, including those related to child labor.

The Code of Conduct for Suppliers of FRISA, to be compulsorily met by such suppliers, sets forth the minimum principles and standards expected from suppliers, employees, head offices, subsidiaries and their subcontractors. The principles and standards include: (i) freedom of association and of entering into collective bargaining agreements; (ii) the prohibition of forced or compulsory labor in all its forms; (iii) the prohibition of child labor; (iv) equal opportunity and treatment regarding employment and occupation without any discrimination for any reason; (v) fair and timely payment of salaries in legal tender at regular intervals not exceeding one month fully and directly to the workers; (vi) if possible, OHS; (vii) respect for human rights proclaimed globally; (viii) the promotion and maintenance of an environment treating all employees with dignity and respect; (ix) effective environmental policy; (x) commitment with meeting and having others meet current environmental legislation and regulations; and (xi) initiatives to promote increased environmental responsibility and encouraging the dissemination of environmentally-friendly technologies driving the circular economy.

The Company's Procurement personnel are in charge of managing suppliers and this entails reviewing compliance with the environmental, labor and OHS legislation effective and applicable to each of them.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

The energy needed by FRISA is mainly provided by the public grid of the Federal Electricity Commission (CFE, in Spanish) through a qualified provider. The other main resources required by the Company to manufacture its products, in addition to scraps as raw material and other minerals for the alloys, are natural gas, water and oxygen²⁴.

4.3.a.i Greenhouse Gases

In compliance with Planta García's COAs, the Company annually submits its records of greenhouse gas (GHG) emissions, both direct, due to fuel use (scope 1) and indirect, due to electricity consumption (scope 2).

As to the Project, the generation of GHG during the construction period is expected to be brief and immaterial²⁵. Subsequently, although during its operations FRISA has already implemented effective

²⁴ The oxygen is provided by a plant operated by a contractor within the Company's facilities.

²⁵ Lower than the emission of 25,000 tons of CO₂ equivalent p.a.

measures to reduce GHG²⁶, in addition to continuing recording the emissions of scope 1 and 2 GHG, it will continue assessing the implementation of additional reduction measures within the energy efficiency improvement framework and the promotion, development and use of renewable energy (either its own or generated by third parties) in its operations and productive processes.

Each of FRISA's plants has control equipment or systems to maintain gas and particle emissions within the limits specified by applicable current regulations. The gases and particles generated during the general process of smelting, refining, degassing, emptying, thermal treatment and finishing are extracted and channeled through a global smoke and dust extraction system to a fabric collector or baghouse (where dust is separated with 95% efficiency and stored for subsequent management as hazardous waste) before releasing the gases to the atmosphere through a chimney. In addition, all the industrial premises operate under negative pressure thus minimizing emissions to the air.

In addition, based on the municipal and state provisions to prevent, control and address any events of high concentration of atmospheric pollutants exceeding the allowable caps established by Mexican Official Standards, each of FRISA's plants has in place an Atmospheric Contingencies Response Program to resolve any atmospheric contingencies at the Monterrey Metropolitan Area and thus contribute to minimizing any health risks for its workers and the nearby communities during a contingency.

4.3.a.ii Water Consumption

Drinking and industrial-use water is supplied by the public municipal supply system (Monterrey water and sewage service). The latter is residual water treated as provided for in NOM-003-SEMARNAT-1997.

The supply for the Project's construction works will be through the municipal industrial water network and no significant increase is expected. After the implementation of the Project, process water will continue to be recovered and recirculated to the cooling system and storage tanks to be subsequently reused. In addition, rain water and part of the treated sanitary water will continue to be redirected to the process water treatment plant for subsequent use. However, as part of the requirements in its EMS and ISO 14001 certification, the Company has implemented some projects to reduce and optimize the use of water in its operations by substituting the drinking water from the municipal network by treated residual water previously discharged to the final receptors. In addition, it has implemented the following measures: (i) the substitution of obsolete or damaged devices by state-of-the-art technology to reduce consumption; (ii) the implementation of leak detection programs; and (iii) water use awareness campaigns.

4.3.a.iii Energy

The additional energy demand for the Project will be satisfied by the public grid of the CFE and under the same framework of the service contract with the qualified provider. Additionally, when applicable in compliance with Energy Transition Law, Planta García will continue to voluntarily and periodically report its energy consumption to the high-consumption users system.

²⁶ The use of recycled materials, thermal insulation and more energy-efficient equipment (e.g. furnaces, burners, electric motors, compressors, fans, pumps, lighting fixtures, etc.).

The Company has implemented initiatives to reduce electric consumption by 10% in average. These include: (i) progressively installing LED lighting²⁷; (ii) installing and replacing equipment by other more consumption-efficient one; (iii) turning off any equipment not being used; (iv) installing automatic or semi-automatic controls for high-consumption equipment, such as presses; (v) performing preventive maintenance tasks on equipment to improve its performance; (vi) turning lights off at the premises; (vii) using natural light in as many areas as possible; and (viii) training workers on energy savings.

4.3.b Pollution prevention

4.3.b.i Emissions and air quality

The smelting process generates particles and smoke which are collected by a system suctioning smoke and dust and transferring them to an intercooler, hoppers and a filter case where they are separated and managed as hazardous waste (control dust of melting shop emissions). In addition, the natural gas combustion used to support the heating of the furnaces generates carbon monoxide (CO) and nitrogen oxides (NO_x).

Most furnaces for forging, open-die forging, thermal treatment, etc., used at Planta García are exempt from the obligation to place chimneys or pipes to discharge atmospheric pollutants²⁸ and their emissions are estimated through the air pollutant emission factors of the US-EPA (AP-42). However, the chimney of the smoke and dust collection system of the facilities has monitoring systems so that accredited laboratories may measure particles and gases and report the results to local authorities on an annual basis. The latest emission data submitted in the 2022 COA show compliance with the caps established by local regulations and the General Environmental, Health and Safety (EHS) Guidelines of the World Bank. Auxiliary emissions relate to fugitive emissions arising during slag dumping (particles) and the vehicular traffic when delivering scraps and shipping the final product to the market.

The Project's construction activities will generate certain noise, vibrations and particulate matter (PM₁₀ and PM_{2.5}). However, the Regulatory MIA sets forth a semi-annual dust control and monitoring program in order to follow up on the compliance with applicable regulations and establish mitigation measures in accordance with the characteristics of each activity, if necessary.

4.3.b.ii Wastes

In compliance with environmental legislation, FRISA reports on its special-management, non-hazardous solid and metallurgic waste as well as the treated wastewater discharges (as the case may be).

In addition, the EMS ensures and assesses the compliance with legal and other requirements by following up on environmental controls, monthly audits of the environmental parameters which include the legal compliance with wastewater discharges. In this regard, FRISA has been formally authorized to dispose of special-management wastes and registered as the generator of such wastes and drafted a specific

²⁷ LED stands for Light Emitting Diode.

²⁸ Installing chimneys to channel emissions would generate negative pressure on the equipment, especially open-die furnaces, thus giving rise to instability in furnace operation as well as impacts on the metallurgic properties of the material (DGGCARETC/205/2021 authorization).

handling plan, as per the applicable regulations²⁹. The Project execution and implementation will not give rise to the amendment of the processes and procedures established by the Company.

At present, FRISA separates, classifies, and temporarily stores solid wastes produced in its facilities and hires an authorized third-party manager to collect, transport and manage non-hazardous solid wastes either for further assessment (recycling managers) or for final disposal in an authorized landfill.

FRISA implemented a waste management procedure promoting education campaigns on reduction, reuse and recycling for all the personnel and suppliers, as well as initiatives to classify and record (by weight and volume) its solid waste into hazardous, non-hazardous and metallurgic, as defined in environmental regulations³⁰. In addition, the Company engages in training campaigns aimed at its workers and awareness campaigns for its suppliers in issues related to the use of single-use waste and comprehensive waste management.

The metal scraps generated during the productive processes are shipped and segregated at the scraps yard. With the segregation of these materials, an inspection is carried out to categorize its subsequent use authorization as special-management waste. Once the authorization by the related authorities is obtained, the material is recycled as raw material; otherwise, it is segregated and moved away from the plant to be recycled by an external supplier. Likewise, the slag generated during melting, casting and cleaning is collected and reused. The sludge mud from water treatment processes (formed mainly by mill scale) is separated by sedimentation and the mill scale is subsequently recycled.

FRISA does not generate industrial wastewater. All the water recovered from productive processes is treated by sedimentation, filtered using sand filters and demineralized for subsequent reuse. Sanitary wastewater, as well as a part of the rain water, are channeled to a wastewater treatment plant to be treated as applicable³¹ and be later resent to the process water treatment plant to be reused as necessary.

4.3.b.iii Hazardous Materials Management

Materials are used at FRISA's plants which, based on their characteristics, are deemed hazardous³² under Mexican regulations³³. In compliance with environmental legislation, FRISA reports the generation volumes, storage process and management of the hazardous waste generated during its operation and maintenance of the plants, as well as the transfer form to the companies rendering the management service. The Company has a Hazardous Waste Sustainable Management Plan approved by the related environmental authority.

²⁹ Comprehensive Waste Prevention and Management Law, and Environmental Laws of the State of Nuevo León and its administrative order.

³⁰ Comprehensive Waste Prevention and Management Law, and its administrative order.

³¹ Sanitary wastewater is treated by a biological activated sludge mud process for prolonged aeration and final filtering while rainwater is only treated through a grease and oil separation system.

³² For example, natural gas, compressed oxygen, oils and lubricants, and chemicals required for water treatment and other cycles of the process.

³³ NOM-052-SEMARNAT-2005, setting forth the characteristics, identification procedure, classification, and hazardous waste lists.

The EMS includes general procedures to manage hazardous waste, as well as emergency response protocols to address any incident. These procedures: (i) seek to identify, control, minimize, grant value and comprehensively manage hazardous waste; (ii) promote a culture of reduction based on the elimination of the use of this type of materials or the substitution by non-hazardous products; (iii) include the instructions to assess the internal collection and transportation measures to a temporary storage site for each type of hazardous or biological infectious material (in the case of medical waste or that generated during medical emergencies); and (iv) the requirements that an external supplier should have to ensure the definitive and final disposition at controlled sites.

4.4 Community Health and Safety

4.4.a Community health, safety, and security

FRISA runs the Project plants and property with the best applicable environmental and OHS practices. In addition, it has general civil liability insurance covering any type of claim apart from any damage caused in nearby properties and environmental and social impacts that the operation may generate.

4.4.a.i Infrastructure and equipment design and safety

FRISA hires qualified professionals in the life and fire safety systems (L&FS) area to certify³⁴ that all the Project's facilities and plants comply with national safety and fire protection at the workplace standards³⁵. Likewise, these standards mention the international standards of the National Fire Protection Association (NFPA).

However, upon finalizing the construction of the Project and before the start of its operations, the Company will hire L&FS qualified professionals to certify that: (i) all the Project facilities and buildings were built in conformity with the approved L&FS designs; (ii) all the equipment was installed in conformity with the L&FS design; and (iii) all L&FS equipment was approved following international requirements.

4.4.b Security Personnel

FRISA has an asset security area covered by duly-registered specialized security companies. The Company makes sure that all security personnel working at its facilities and plants holds the appropriate registration and certification to perform their duties issued by the applicable authority³⁶ and that they have been appropriately trained in operational personnel duties in issues such as: (i) requirements to engage in private security guard services; (ii) human rights; (iii) action principles, mainly preventive and deterring, with the use of force as the last resort; (iv) actions to be carried out to notify events to authorities; (v) abstention (vi) use of communication, computing and deterring equipment; and (vii) penalties.

³⁴ These certifications involve inspecting the facilities and the L&FS equipment layout, as designed, and their state of operation as per international requirements.

³⁵ Mexican Official Standard NOM-002-STPS-2010, Safety Conditions – Fire Protection and Prevention at the Work Sites.

³⁶ *Dirección General de Seguridad Privada* (general private security office), from the *Secretaría de Gobernación* (internal affairs office) of the State.

4.5 Land Acquisition and Involuntary Resettlement

The Project does not require the acquisition of land or property; therefore, no involuntary economic or physical displacement is expected.

4.6 Biodiversity Conservation and Natural Habitats

Since the Project will take place at Planta García in areas previously altered (leveled and compacted), no major impact on the vegetation or biodiversity alteration is expected.

As to the purchase of materials within its supply chain, FRISA works with purchase, sale, collection and transportation of special-management recyclable materials companies duly authorized by the State environmental authority. In addition, the Company advises its customers that it does not use any material classified as “conflict minerals” (also known as “3TG”) or their derivatives from the Democratic Republic of Congo or any neighboring or adjacent countries in its production of metals and alloys. In this sense, it represents that it meets the US legislation of 2010, the Dodd-Frank Wall Street Reform and section 1502 of Consumer Protection Act.

4.7 Indigenous Peoples

The Project does not involve any new properties and it is located in established industrial areas; therefore, no impact is expected on the lands or resources of indigenous peoples.

4.8 Cultural heritage

The Project does not involve any new properties and it is located in established industrial areas; consequently, no cultural heritage impact is expected.

5 Local Access of Project Documentation

The documentation related to the Project is available at: <https://www.idbinvest.org/es/proyectos>

In addition, FRISA offers additional information on the Company, its history and environmental commitment on its website: <https://www.frisa.com/es/about-us/our-group>