

## Environmental and Social Review Summary (ESRS)

### Fondería - MEXICO

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#### 1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This transaction consists of a long-term facility in favor of Grupo Fondería S.A. de C.V. ("Fondería" or the "Company") to finance the construction of a steel mill (the "Project") that will manufacture steel slabs from recycled scrap. This new facility, which will be located within one of its existing plants in San Luis Potosí ("SLP"), Mexico, will allow the Company to vertically integrate its supply chain, minimizing (and in the future, eliminating) its dependence on slab suppliers that sometimes supply from other countries, and even from other continents.

The second part of the transaction consists of an uncommitted revolving reverse factoring facility (the "Factoring Facility"), intended to provide financing at competitive prices to Fondería's suppliers, through the deduction or monetization of their credit rights derived from the sale of goods and/or services to the Company.

The environmental and social due diligence ("ESDD") process included the documentary review of the elements of the Company's Environmental and Social Management System ("ESMS") and technical information on the Project, as well as a visit to the flat products plant ("Plant 124") and long products plant ("Plant 212"), which included meetings with operating personnel; with the people responsible for managing environmental, social, and health and safety issues; with workers (skilled and unskilled); and with one of the Company's scrap suppliers.

#### 2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with IDB Invest's Environmental and Social Sustainability Policy since it will likely generate the following environmental and social (E&S) impacts and risks among others: i) increased risk of occupational accidents and to workers' health and safety ("OHS"); ii) increased groundwater consumption; iii) noise pollution, emissions and greenhouse gases; iv) the generation of waste; v) potential impacts to communities as a result of heavy vehicle traffic; and vi) risks related to potential fires during the Project's operation. These impacts and risks are estimated to be of medium-high intensity.

The risks related to the Factoring Line involve the E&S performance of Fondería's suppliers, mainly carriers and suppliers of raw materials (scrap, sheet metal, spare parts). Potential impacts are related to labor practices, the OHS, and pollution prevention.

The Performance Standards (PS) triggered by the Project and the Factoring Facility are: 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

The Fondería Group is engaged in the manufacture of steel products from recycled scrap. The Company has four production plants, all located in the SLP industrial zone, Mexico: i) a scrap yard and steel mill with a rod and wire rod mill on Axis 122 ("Plant 122"); ii) a rod mill located on Axis 108; iii) a wire drawing plant on Axis 132; and iv) a flat mill located on Axis 124 ("Plant 124").

The construction of the Project will take an estimated 24 months and will include: earthworks, demolition of existing infrastructure, expansion of the industrial building for finished product storage, and construction of a slab smelting plant with an annual capacity of up to 1.2 million tons. The smelting plant will have (i) an electric arc furnace, an electric refining furnace, and a reheating furnace; (ii) a continuous casting hall; (iii) a smoke and dust plant; (iv) a closed-loop water plant; (iv) an electrical substation; and (v) eight electric moving cranes.

The Project will be located within Plant 124, on a site with a total area of 4.7 hectares. The nearest urban area is Palma China-Joyas del Aguaje, which is approximately 10 kilometers from the Project. Neither the Project nor its area of influence affects any natural protected areas ("NPAs"), Priority Terrestrial Regions ("PTRs") or Important Bird Areas ("IBAs").

#### 3.2 Contextual Risks

The SLP aquifer is the most important in the region since it supplies almost 50% of the State's needs. Approximately 67% of the water withdrawn is used to supply the population, followed, in order of importance, by agricultural use (19%), industrial use (almost 8%), services (4.5%), and finally livestock use. Today, the SLP aquifer suffers from overexploitation, with an estimated deficit of almost 60,000 cubic meters (m<sup>3</sup>) per year<sup>1</sup>, which is why it is under a type II closure. This means that no new wells can be exploited, but limited extractions are allowed for domestic, industrial, irrigation, and other uses.

In San Luis Potosí, 86.7% of the population aged 18 and over perceives insecurity and crime as the most important problem that most affects them<sup>2</sup>. San Luis Potosi is under constant threat from groups linked to drug cartels such as: the Gulf Cartel, which is present in 19 municipalities; Los Zetas, whose influence is felt in 11 municipalities; the Jalisco Cartel – New Generation, with a presence in 7 municipalities; and the Taliban, with a marginal presence in the highlands of San Luis Potosi<sup>3</sup>. Recently a new criminal group, known as the German Cartel, has begun sending threatening messages to the authorities through social media.

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<sup>1</sup> [https://sigagis.conagua.gob.mx/gas1/Edos\\_Acuiferos\\_18/sanluispotosi/DR\\_2411.pdf](https://sigagis.conagua.gob.mx/gas1/Edos_Acuiferos_18/sanluispotosi/DR_2411.pdf)

<sup>2</sup> 2019 National Survey of Government Quality and Impact (ENCIG)

<sup>3</sup> <https://www.infobae.com/america/mexico/2020/08/11/narcoviolencia-en-san-luis-potosi-ataques-levantones-y-la-irrupcion-de-un-nuevo-cartel-azotan-al-estado/>

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

### **4.1 Assessment and Management of Environmental and Social Risks and Impacts**

#### 4.1.a E&S Management System

Fondería's Environmental and Social Management System ("ESMS") comprises a series of policies, manuals, and procedures implemented by the Company to assess, support, and comply with the requirements of local legislation. The ESMS assessment revealed the need to update some policies and develop some management system procedures, mainly to manage environmental risks.

#### 4.1.b Policy

At the corporate level, Fondería has developed a Safety, Health, Hygiene, and Environment Policy ("SHHE"), which is posted at all its facilities and included during the induction of new employees. Nevertheless, this policy will be updated to i) incorporate the Company's commitments to the communities; ii) indicate who, within the organization, will ensure compliance and will be responsible for its implementation; iii) describe how the policy will be communicated to all levels of the organization; and iv) incorporate a program to measure continuous improvement in its implementation.

#### 4.1.c Identification of Risks and Impacts

##### 4.1.c.i Direct and Indirect Impacts and Risks

The Company has prepared an Environmental Risk Study and has submitted it to the competent authorities to obtain the corresponding environmental permits. In parallel, as part of the initial engineering design of the Project, Fondería has also conducted a hazard and operability study ("HAZOP") in two credible and significant scenarios, and a Consequence Analysis, using a vapor, fire, and explosion dispersion model for the latter to calculate the areas affected in the event of a given accident. The recommendations of the environmental and risk assessment studies will be incorporated into the Company's E&S management plans.

Nevertheless, Fondería will develop a procedure to systematically identify and update, in an integrated manner, the full range of likely risks and impacts (E&S, labor, OHS) associated with the Project and its existing operations.

##### 4.1.c.ii Analysis of Alternatives

Since the Project will be located at the Company's existing facilities, no other alternatives were considered other than the evaluation of various technology options based on their economics and efficiencies (in terms of electricity and water consumption).

##### 4.1.c.iii Cumulative Impacts

Due to the characteristics of the Project, its cumulative impact is considered to be marginal.

#### 4.1.c.iv Gender Risks

The Project is not expected to have differentiated impacts on men and women. The Fondería Group promotes non-discrimination and equal opportunities in the search for and promotion of its talent, so the Project is expected to generate equitable employment opportunities. The Project's activities will not promote gender-based violence, nor will they be conducive to procuring activities.

#### 4.1.c.v Gender Programs

Fondería has incorporated provisions to ensure proper treatment of women working in its facilities in terms of: i) provision of personal protective equipment ("PPE") adapted for women; ii) provision of separate locker rooms and showers by work area and gender; iii) provision of adequate working environments for pregnant women; iv) adoption of zero tolerance policies towards gender-based violence in its Code of Ethics ("CoE"); and v) compliance with local legislation and adherence to international practices on issues such as non-discrimination and equal opportunity regardless of gender. Any conduct contrary to the guidelines established in the CoE is investigated and analyzed by the Company and is subject to corrective and disciplinary measures as applicable. While all direct and contractor workers receive CoE training at induction, Fondería will develop and implement specific programs to address issues related to gender-based violence.

#### 4.1.c.vi Climate Change Exposure

The Fondería Group's plants are located in an area that is not prone to being affected by adverse natural phenomena that could put its facilities, operations, or workers at risk. Nevertheless, the Company's emergency plans describe the actions to be taken in the event of extreme events, such as torrential rains and floods.

Studies by the Universidad Autónoma de SLP show that the state's climate has changed over the last 30 years in terms of both maximum temperatures and rainfall. Temperature projections made by Mexico's National Institute of Ecology and Climate Change ("INECC") show an increase in the State's temperature ranging from 1.1°C to 1.5°C in the most favorable scenario, and from 1.2°C to 4.9°C in the most pessimistic scenario. Similarly, INECC precipitation projections show a slight increase in precipitation in the different periods for the most favorable scenario, while a gradual decrease in precipitation in the medium and long term for the most pessimistic scenario.

If population growth and resource use trends in the hydrological regions of SLP continue, water availability in the State is expected to decrease drastically in the medium term. Fondería is aware of the effects of climate change on the availability of water resources, so it minimizes its consumption by recovering and recirculating the water used in cooling processes.

#### 4.1.d Management Programs

Fondería undertakes a number of informal activities to manage its environmental risks and impacts as required by local legislation. Its OHS, human resources, solid waste, and hazardous materials management procedures are included in its ESMS. Nevertheless, the Company will develop and implement procedures for: i) the efficient use of water resources; ii) the quantification of Greenhouse Gases ("GHG"); iii) the

management of pollutant emissions and air quality; and iv) the safe and efficient transportation of employees.

#### 4.1.e Organizational Capacity and Competency

Fondería has established a matrix organizational structure with defined roles, responsibilities, and authority to implement its policies and procedures. Its SHEE Management is part of in the Human Resources Department and is responsible for the implementation, compliance, and update of the ESMS. The SHHE Manager reports to the corporate physician, as well as eight SHHE coordinators and 21 health specialists located in the different plants of the Fondería Group.

The Company offers introductory and refresher training throughout the year to all its employees, including SHHE and plant personnel. The Company's training activities are disseminated through GASA University<sup>4</sup> and include general and specific induction on the SHHE Model, job-specific technical training, and soft skills training focused on personal and professional development.

#### 4.1.f Emergency Preparedness and Response

Fondería's approach to emergency preparedness and response is well developed and follows all relevant national regulations on emergency scenarios based on Mexico's Civil Protection regulations. The Company has developed an Emergency Preparedness and Response Plan ("EPRP") for the steel plant and its associated facilities, which includes different emergency scenarios based on a basic risk analysis, and clearly defines the roles and responsibilities of its staff during emergency events. The emergency scenarios included in the EPRPs are fires, earthquakes, incidents caused by violent persons or intruders, spills, terrorism, civil disturbances, accidents, floods, and natural events.

Nevertheless, the Company will update the EPRP to adapt it to the risks associated with the Project and describe the use of future fire protection systems that will be installed at Plant 124 as part of the Project. The EPRP will include detailed procedures for handling any leaks of natural gas, oxygen, or flammable liquid discharges, as well as details of the information to be shared with the community whenever necessary.

#### 4.1.g Monitoring and review

Fondería conducts formal audits to verify compliance with its SHHE Model and regulatory requirements. The Company mainly conducts inspections focused on health, safety, and cleanliness issues at all of its plants, on at least a monthly basis. Actions resulting from these audits are incorporated into a corrective action closure plan and once validated by senior management, are disseminated throughout the organization. Fondería also evaluates the effectiveness of its SHHE Model every six months through scheduled audits and pre-established checklists. Every year, the SHHE team meets with senior management to present the results of the system and approve the strategy and action plans for the coming year.

Although the Company currently performs environmental monitoring on a regular basis, Fondería will prepare and implement a formal procedure to manage the monitoring and evaluation of its E&S

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<sup>4</sup> <https://universidadgasa.com>

performance.

#### 4.1.h Stakeholder Engagement

Currently, there are approximately 650 companies located in the SLP industrial zone, 325 of which are members of the Unión de Usuarios de la Zona Industrial de San Luis ("UUZI"). Fondería is an active member of the UUZI and meets periodically with other member companies to i) address physical safety issues in the industrial zone; ii) manage, with the support of the authorities, the improvement of physical infrastructure including roads, lighting, signage, among others; and iii) promote adequate communication and coordination in responding to major emergencies. Nevertheless, the Company will develop and implement a Stakeholder Engagement Plan that outlines communication channels and details how it will regularly report on E&S performance.

#### 4.1.i External Communication and Grievance Mechanisms

Through its website<sup>5</sup>, Fondería provides information on its global sustainability vision. In addition, the Company will develop a Corporate Communication Plan to ensure that all communications directed to external audiences, including stakeholders, are carried out thoughtfully, responsibly, and efficiently. This plan will determine the official external communication channels (reports, websites, press releases, social media, transparency mailboxes, contact centers, focus groups, social events, etc.) to reach the relevant stakeholders.

Fondería has a formal contact site for receiving complaints and suggestions from the general public through its website<sup>6</sup>. Nevertheless, the Company will improve its existing system by developing and implementing an explicit procedure to address and follow up on complaints and suggestions made by the community and other stakeholders. The procedure will (i) indicate who is responsible for addressing and following up on complaints and suggestions, as well as for reporting semi-annual performance indicators; (ii) establish a methodology for determining how the complaint or suggestion is captured, classified, evaluated, investigated, and resolved; what follow-up will be given once it is resolved; and how the ESMS will be adapted or improved in terms of communication and information disclosure; and (iii) determine the channels for capturing complaints and suggestions from individuals and related organizations.

The communication channels, which will guarantee anonymity and confidentiality, will be: (i) written means (pre-established formats) that may be placed in mailboxes located in the facilities; (ii) verbal, through a dedicated telephone line; and (iii) electronic, through e-mail or the Company's web page.

## 4.2 Labor and Working Conditions

#### 4.2.a Working Conditions and Management of Worker Relationships

The Fondería Group currently has 2,075 direct employees. The labor required for the construction of the Project is expected to reach approximately 600 workers at the peak of construction. Approximately 362 permanent positions will be created during the operation phase. All of the positions are expected to be filled by SLP residents.

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<sup>5</sup> <https://grupoacerero.com.mx/>

<sup>6</sup> <https://grupoacerero.com.mx/contacto/>

#### 4.2.a.i Human Resources Policies and Procedures

The Company has several procedures in place to manage its human resources, including recruitment, selection, hiring, induction, compensation, and termination. Although Fondería has a Code of Ethics that contains the fundamental values and principles governing all employees, this document does not address issues such as the right of association and the rejection of child labor and forced labor.

All employees have a written contract and receive copies of the Internal Labor Regulations (“ILR”) which describe work schedules, days off, overtime pay, rights and obligations of both employees and the Company, disciplinary practices, and causes for termination of employment.

#### 4.2.a.ii Working Conditions and Terms of Employment

The working week is 48 hours for the day shift, 45 hours for the mixed shift, and 42 hours for the night shift, with one rest day per week and half an hour per day for food consumption (supplied by the Company). In the last five years, there have been no strikes, protests, or labor problems at the Fondería Group.

#### 4.2.a.iii Workers’ Organizations

Fondería complies with the principle of freedom of association of its employees without fear of reprisals, respecting and assuming all responsibilities derived from compliance with applicable local labor laws, including international conventions and treaties signed by Mexico with the International Labor Organization (“ILO”)<sup>7</sup>. Approximately 62% of the labor force is affiliated with the Metal-Mechanical, Similar and Related Industry Workers Union of the State of San Luis Potosi, and the Union of Transportation, Service and General Industry Workers of the State of San Luis Potosi. The Company respects the collective bargaining agreements with the two unions, which workers are free to join. Collective bargaining agreements are renewed annually.

#### 4.2.a.iv Non-discrimination and Equal Opportunity

Mexico is signatory to several ILO international conventions and treaties related to workers' rights, including Convention No. 100 concerning Equal Remuneration and Convention No. 111 concerning Discrimination (Employment and Occupation). The Fondería Group, in addition to complying with these provisions and with the Federal Labor Law and its regulations, establishes, within its Code of Ethics, respect for individual diversity and equity. The Company respects and does not allow any type of discrimination based on age, religion, sex, race, illness, or sexual orientation. This provision applies to all aspects of the employment relationship, including recruitment, selection, promotion, change of position, transfers, termination of employment, compensation, education, and training. Approximately 17% of the labor force are women.

#### 4.2.a.v Retrenchment

Fondería has no plans to reduce its workforce in the future. Nevertheless, the Company will update its

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<sup>7</sup> Convention No. 87 concerning Freedom of Association and Protection of the Right to Organize and Convention No. 98 concerning the Right to Organize and Collective Bargaining.

Termination Procedure to document the actions to be taken in the event that it is forced to carry out untimely collective dismissals<sup>8</sup>.

#### 4.2.a.vi Grievance Mechanism

Workers may file claims by various means, depending on their nature, and without fear of retaliation. For issues related to discrimination, OHS, harassment, and sexual harassment, direct and indirect employees can file complaints anonymously through the mechanisms contained in the Code of Ethics<sup>9</sup>. For labor matters (salaries, benefits, services), direct employees can submit their grievances through the "Más Orden" email inbox. To date, there is no ESMS procedure documenting how these mechanisms operate. The Company will develop and adopt a Grievance and Whistleblowing Procedure that establishes the conditions of confidentiality and anonymity of reports, prohibiting any type of retaliation against those who report suspected violations or cooperate in the investigation of any suspicious act.

#### 4.2.b Protecting the Workforce

Fondería does not support, promote, or tolerate child labor or forced or compulsory labor practices.

#### 4.2.c Occupational Health and Safety

Fondería's priority is to prevent and avoid accidents in order to protect the health and safety of all its employees. To this end, in compliance with local legislation, the Company has developed a series of policies, procedures, instructions, and controls aimed at achieving its goal of zero accidents.

Fondería's SHHE model: i) identifies safety risks in its activities through risk matrices that must be reviewed annually; ii) institutes prevention and protection measures for unacceptable risks including the implementation of engineering improvements, administrative controls, and the provision of PPE; iii) includes initial and periodic training for workers on OHS issues; and iv) establishes procedures to document accidents, as well as to identify, analyze, and eliminate the causes through the implementation of preventive and corrective actions. Nevertheless, the Company will update the OHS risk matrices to include any new risks arising from the execution of the Project and will reinforce the correct use of PPE through training programs.

Fondería keeps statistics and reports on work accidents that have occurred with its direct and indirect workers, including a cause analysis and measures to prevent their recurrence. During 2022, the Company reported a total of 12 lost time accidents (direct and indirect), resulting in a total of 3,008 days of disability; a Lost Time Injury Frequency Rate ("LTIFR") of 16.41; and a Lost Time Injury Severity Rate ("LTISR") of 573.87. The LTIFR reported by the US Department of Labor for the steel industry<sup>10</sup> (NAIC Code 331513) during 2021 was 8.99. This means that Fondería has a higher lost-time accident frequency rate than the industry average, which is why it will establish a roadmap to achieve the goal of zero serious accidents within five years.

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<sup>8</sup> Collective dismissals cover all multiple dismissals arising from economic, technical, or organizational reasons, or other reasons not related to performance or other personal reasons.

<sup>9</sup> Fondería's ethical channels consist of a dedicated phone line, e-mail, or through the mailboxes located in the Company's plants. All complaints are reviewed by the Ethics Committee, which reports directly to the Advisory Committee of the Board of Directors.

<sup>10</sup> <https://www.bls.gov/iif/oshsum.htm>



Fondería has 24-hour nursing services on each of its floors and its own ambulance for major emergencies. Its occupational health program includes the application of pre-employment examinations and periodic evaluations, as well as the evaluation of noise levels, temperature, and lighting in the different work areas. People identified as "vulnerable" (including pregnant women) are offered relocation to lower risk areas.

Fondería will develop a specific OHS Plan for the construction of the Project to manage potential OHS risks arising from construction actions. It will also develop risk matrices and procedures to manage OHS risks related to the activities to be carried out during the operational stage of the Project. Finally, as part of its Monitoring and Evaluation, the Company will incorporate key performance indicators ("KPIs") to monitor the level of implementation of its OHS procedures, including updating risk matrices and accident investigation.

#### 4.2.d Provisions for People with Disabilities

Fondería does not discriminate against workers on the basis of their disability. To date, there is one person with a disability on the payroll in an administrative position.

#### 4.2.e Workers Engaged by Third Parties

Fondería's contractors are contractually obligated to comply with the Company's Code of Ethics and Safety, Health, and Environmental procedures. Fondería provides OHS training to contractor workers and conducts monthly inspections and periodic walk-throughs to identify unsafe conditions at construction sites. In addition, as part of its HR procedures, the Company verifies the age of the people hired, that each employee has a written contract, and that social security payments are up to date.

#### 4.2.f Supply Chain

Fondería has more than 2,100 local and international suppliers that provide raw materials and services<sup>11</sup>. Through its Code of Ethics, it promotes respect for human rights in its internal operations and throughout its value chain. In this regard, the Company ensures compliance with the applicable legal provisions on labor matters, including the prohibition of child labor<sup>12</sup> and forced labor<sup>13</sup>. In addition, the Company requires that its suppliers comply with all local environmental and OHS laws and those of the countries where they operate and requires that all employees know and comply with the Code of Ethics.

Nevertheless, in order to attend to the supply chain, Fondería will prepare and implement a Sustainable Sourcing Policy, which regulates the acquisition of goods (materials, equipment, etc.) and the contracting of services, and will require its suppliers to comply with the labor (specifically the prohibition of child and forced labor, nor will it incorporate into its business activity any product or service that employs them), OHS, and environmental protection regulations applicable in each country where it operates. This policy will include a methodology for rating the E&S performance of its suppliers and will identify those that do not comply with these provisions and will allow the Company to apply, when necessary, sanctions ranging

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<sup>11</sup> The Company has two yards where it receives local and imported scrap and the slabs used in Plant 124 are supplied by international distributors.

<sup>12</sup> ILO Convention No. 138 concerning Minimum Age for Admission to Employment and Convention No. 182 concerning the Worst Forms of Child Labor.

<sup>13</sup> LO Conventions No. 29 on Forced Labor and 105 on the Abolition of Forced Labor.

from a simple warning to the cancellation of the corresponding contracts.

### 4.3 Resource Efficiency and Pollution Prevention

#### 4.3.a Resource Efficiency

Fondería's main resource is electricity. In 2022, its electrical necessities reached 427,719 MWh, provided mainly (94%) through a power purchase agreement ("PPA") with a combined cycle gas-fired power plant. The rest is provided by the public grid. The new slab smelting line will have an additional electricity demand of 0.5 MWh per ton, for which the Company expects to negotiate a new PPA with a combined cycle gas-fired power plant.

The other resources required by the Company to manufacture its products are: i) natural gas, with an annual demand of approximately 45m<sup>3</sup>/ton of final product; ii) water, with an average consumption of 0.48 m<sup>3</sup>/ton of final product; and iii) oxygen, which is supplied by a plant operated by a contractor.

##### 4.3.a.i Greenhouse Gases

Fondería generates Greenhouse Gases ("GHG") in its natural gas fired reheating furnaces and its fleet of trucks, totaling approximately 82,163 tons of CO<sub>2</sub>eq in scope 1 or approximately 0.09 tons of CO<sub>2</sub>eq per ton of final inventory processed. Scope 2 emissions (purchase of electricity) totaled 217,406 tons of CO<sub>2</sub>eq (0.23 tons of CO<sub>2</sub>eq per ton of product) for a total of 299,569 tons of CO<sub>2</sub>eq per year. This natural gas consumption in the process, added to the electricity consumption, gives an estimated 0.32 tons of CO<sub>2</sub>eq per ton of final inventory processed (in scopes 1 and 2).

As for the Project, GHG generation during the construction period is expected to be brief and non-material. After implementation, Fondería's carbon footprint will be approximately 0.60 tons of CO<sub>2</sub>eq per ton of final inventory (in scopes 1 and 2), as a result of the increase in natural gas consumption (between 7 and 9 m<sup>3</sup> of natural gas per ton of slab produced) and the increase in the purchase of electricity. This carbon intensity is 53% lower than the decarbonization pathway established by the International Energy Agency (1.03 tons CO<sub>2</sub>eq in 2030)<sup>14</sup>.

As part of its ESMS, Fondería will establish and implement a procedure for quantifying scope 1 and 2 GHGs in accordance with the GHG Protocol of the World Resource Institute and the World Business Council for Sustainable Development.

##### 4.3.a.ii Water Consumption

Fondería uses water in the cooling systems of Plant 122, which it obtains from a well located on the Company's land. In the rest of its plants, the water used in the circular cooling recovery processes is supplied by Aguas del Potosí.

Process water is recovered and circulated to a cooling system and storage tanks for subsequent reuse. Fondería has two Concession Titles granted by the National Water Commission ("CONAGUA") authorizing the abstraction of up to 520,000 m<sup>3</sup> per year. During 2022, Fondería's well water consumption amounted

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<sup>14</sup> <https://www.iea.org/reports/iron-and-steel>

to approximately 444,652 m<sup>3</sup>, or approximately 0.48 m<sup>3</sup> per ton of final product.

The supply for the Project's construction works will be through the municipal network. During the operations phase, the Project will consume 0.7 m<sup>3</sup> per ton of slab processed, which is within the guidelines provided by the World Bank's Environmental, Health, and Safety Guidelines for Integrated Steel. (0.5-5.0 m<sup>3</sup>). Process water for the new Project will be obtained from the well located at Plant 122, for which the Company is negotiating with CONAGUA the transfer of an existing Concession Title in order to increase the abstraction capacity of the well.

#### 4.3.b Pollution Prevention

##### 4.3.b.i Emissions and Air Quality

The smelting process at Plant 122 generates particles and fumes, which are captured by a collection system that sucks the fumes and dusts and takes them, through a combustion chamber and a heat exchanger, to a filter house where they are separated and managed as hazardous waste. In addition, the combustion of natural gas, used to support furnace heating, generates carbon monoxide ("CO") and nitrogen oxides ("NO<sub>x</sub>"). The stacks have monitoring systems that measure particulate matter and gases, the annual results of which are reported to the local authorities. The latest emissions data collected (November 2022) show compliance with the maximum allowable levels established by local regulations and the World Bank's General Environmental, Health, and Safety Guidelines. Ancillary emissions relate to fugitive emissions arising during slag (particulate) dumping and vehicular movements related to the delivery of scrap and the final movement of the final product to market.

Project construction activities will generate noise, vibration, and particulate matter (PM<sub>10</sub> and PM<sub>2.5</sub>). The Project's smelting process will generate particulate matter, CO and NO<sub>x</sub> emissions, and fumes, which will be managed to comply with local regulations and the World Bank's General Environmental, Health and Safety Guidelines.

##### 4.3.b.ii Waste

During the construction stage of the Project, debris will be generated from the demolition of existing infrastructure, construction waste (petrous aggregates, wood, inert material, rubble, gravel, etc.), common waste (organic waste, wrappers, paper, plastic cutlery, etc.), and recyclables (scrap iron, plastic, paper, cardboard). Construction waste will be segregated and temporarily stored by the Company's contractors, recycled, and delivered to authorized entities for final disposal.

The Project's operation and the production processes of the Foundry plants generate hazardous industrial waste such as used oils, PPE, and contaminated grease and oil material, and dust generated in the smelting furnace. On a smaller scale, biological-infectious waste is also generated in the group's infirmaries. Hazardous waste is segregated and stored in a temporary storage facility and then delivered to authorized agencies for final disposal.

Metal scrap generated during the production processes is sent to the scrap yard to be recycled as raw material. The slag generated during the melting, casting, and cleaning processes is also collected and reused. The sludge formed in the water treatment processes (consisting mainly of iron scale) is separated by sedimentation and the scale is subsequently recycled.

Fondería does not generate industrial wastewater. All water recovered from the production processes is treated by sedimentation and filtering through sand filters, as well as demineralization for later reuse. Domestic effluents (gray and black water) are discharged into the public sewage system.

#### 4.3.b.iii Hazardous Materials Management

Fondería's plants use hazardous materials, including natural gas, compressed oxygen, oils, and chemicals required for water treatment and other process cycles. Moreover, given that the scrap metal received may have been exposed to radiation sources during its previous use, the Company has developed procedures and measures to determine and manage the presence of radioactivity, thus avoiding any exposure that could put the health of its employees at risk.

Given that the current sites for the temporary storage of hazardous materials at Plant 124 lack a secondary containment system, as well as eye and body showers for emergency cases, Fondería will set up a storage site for these materials, which will comply with the requirements of the World Bank's General Environmental, Health and Safety Guidelines.

### **4.4 Community Health, Safety and Security**

#### 4.4.a Community Health and Safety

Fondería operates its plants and facilities using the best applicable environmental and OHS practices. In the updated EPRP for the Project plant, the Company will include a specific section on the protection of the communities where, through specialized emergency command personnel (fire, rescue, and evacuation brigades), it will coordinate with the External Authorities<sup>15</sup> on how to respond to leaks, spills, fires, or explosions that exceed the Company's response limits. Likewise, the Company, as set forth in its Communication Procedure and through the Plant, Operations, and SHHE Managers, will inform the communities about the contents of the EPRP, including the potential risks in its plants, response and combat devices, alarm and communication systems, evacuation routes, and the internal and external drill program.

The new Project works have been designed and are being constructed by competent and reputable contractors with experience in the construction and operation of this type of works, using international best practices and complying with applicable national and international construction and safety guidelines, standards, and codes. Nevertheless, in the event of any external damage beyond the limits of the property, Fondería, to mitigate such damage, will update the integral services contracts for the construction and improvements to the Project's plant to include specific clauses that obligate the contractors or service providers to attend to any type of loss and respond for any damage caused by their actions to private, communal, or state property.

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<sup>15</sup> Persons or entities with technical, legal, and judicial personality, such as: Civil Protection, SEMARNAT, PROFEPA, Red Cross, Firefighters, etc.

#### 4.4.a.i Infrastructure and Equipment Design and Safety

In its plants, Fondería has leak and spill detection and containment equipment, fire alarms and firefighting systems, and emergency communication mechanisms that comply with national regulations<sup>16</sup>.

Nevertheless, the Company will improve its fire and explosion prevention and protection systems. To this end, Fondería will develop a complete Fire and Explosion Protection Master Plan ("FEPMP") for each area of the plant, establishing KPIs, identifying responsible parties, indicating specific training, and developing a Plant Change Control Procedure.

Upon completion of the Project's construction, Fondería will obtain the services of a commissioning agent for the protection systems to perform acceptance testing and obtain certification that the systems were installed in accordance with the design project and the FEPMP. For the Project's operation, Fondería will establish, as part of the FEPMP, a detailed Operation and Maintenance ("O&M") procedure for: i) the risk control systems, including fire, detection, alarm, emergency lighting, alternate services (emergency power), dust collectors and explosion control systems, and ii) the emergency notification and plant shutdown systems (color-coded lamps, etc.).

#### 4.4.b Security Personnel

The Company has engaged the services of a private security company to protect its employees and its assets, and for preventive and defensive purposes. Security personnel are not armed.

### **4.5 Land Acquisition and Involuntary Resettlement**

The Project will not require land acquisition, since it will be located on the premises of Fondería's Plant 124, so there will be no involuntary physical or economic displacement.

### **4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

The Project will be located within a highly modified habitat, with no risk of biodiversity deterioration.

As regards the purchase of raw materials within its supply chain, Fondería makes reasonable efforts to ensure that they are sourced responsibly. The Company purchases, sells, collects, and transports special handling recyclable materials from companies duly authorized by the State Environmental Authority.

### **4.7 Indigenous Peoples**

The Project will have no direct or indirect impacts on Indigenous communities.

### **4.8 Cultural Heritage**

No evidence of archaeological remains or vestiges have been identified in the Project area.

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<sup>16</sup> Official Mexican Standard NOM-002-STPS-2010, Safety Conditions - Fire Prevention and Protection in the Workplace.

## **5. Local Access of Project Documentation**

The documentation relating to the project can be accessed at the following link:  
<https://grupoacerero.com.mx/>