

Environmental and Social Review Summary (ESRS) Adelca - Ecuador

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

This transaction (the "Project") consists of a senior committed facility that will be used to finance steel coil imports to produce flat pieces and metal profiles that are part of the new growth strategy of Acería del Ecuador C.A., ("Adelca", the "Company" or the "Client"), a leading company in the production and trade of long steel in Ecuador. For this purpose, Adelca has 2 production plants located in the Ecuadorian highlands and coast and a shipbreaking yard, located in the town of Durán, on the banks of the Guayas River, also on the Ecuadorian coast.

The environmental and social due diligence ("ESDD") process included, among other aspects, a review of relevant environmental and social information, including an analysis of the Client's Environmental and Social Management System ("ESMS"), as well as the occupational health and safety plans and programs, emergency response plans, environmental permits and current certifications. The ESDD also included a visit to the Client's facilities (plants in Alóag, in the highlands, and Milagro, on the coast; and the Durán shipbreaking yard); meetings with directors, managers, plant managers, process personnel; and interviews with Adelca employees and community representatives in the direct area of influence ("DAI") of its production plants.

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 impacts and risks among others: i) risks of bruising and blows from handling the steel coils and the products to be manufactured (sheets and profiles); ii) exposure of personnel to hazardous chemicals (oils, greases); iii) probability of accidents at work; iv) noise pollution due to the production process of the profiles and steel sheets; and v) possible impacts on the communities neighboring the plants due to noise, dust, and possible accidents caused by increased traffic and road infrastructure deterioration. These impacts and risks are deemed to be of medium-low intensity and will be managed by implementing standard control measures.

The Performance Standards (PS) triggered by the Project 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

Adelca, founded in 1963, manufactures steel products from steel scraps through the following operating centers ("OCs"): (i) two industrial plants (production and marketing) located in the rural parish of Alóag, Mejía canton, Pichincha province, and in the El Edén precinct of the San Francisco de Milagro canton, Guayas province; (ii) a shipbreaking and open scrap metal stockpiling plant located in the Durán canton, Guayas province; (iii) a secure landfill for industrial waste (steel mill dust) located in the Aníbal de San Andrés parish, Montecristi canton, Manabí province; and (iv) a head office located in the Cumbayá parish, Quito canton, Pichincha province.

The Alóag industrial plant, spanning an area of 24.68 hectares (ha), which borders cattle ranches and houses in the town of the same name. The area is surrounded by volcanoes in the Western and Central Andes Mountain ranges. Since 2020, the plant has shut down the smelting process and one rolling mill and has only kept the wire drawing process active.

The Milagro industrial plant has an area of 66 ha with the following active processes: i) scrap storage and processing; ii) smelting; iii) rolling; iv) blueprinting; and v) material dispatch. The plant also has smelter fume treatment and administrative areas and has an exclusive transmission line that connects it to the Milagro substation.

To optimize the collection and recycling of ferrous scrap, Adelca has developed a strategy of working together with recyclers, forming the "Adelca Recyclers' Club".

The shipbreaking yard and scrap metal yard, located on the banks of the Guayas River in the Durán canton, has an area of 4 hectares, with a depth of up to 6 m for receiving ships; it has storage areas (ship scrap and others), areas for oxycutting, reception, transportation, dispatch, and handling of scrap metal, and berthing docks.

The industrial waste landfill, located in the province of Manabí, has a total area of 102 hectares and a construction area of 3 hectares. The following activities are carried out in the landfill: earthworks and cell shaping, adaptation of drainage systems, waterproofing of the base of the cells, stockpiling of material, and cell closure.

3.2 Contextual Risks

Between 2021 and so far in 2023, Ecuador has seen an increase in gang violence, especially in the country's overcrowded prisons, and an unprecedented rise in common crime with violent deaths. Most of the crimes are related to disputes between criminal groups for territorial control of drug trafficking on a micro and macro scale.

In response to the various structural problems affecting Indigenous communities and low-income households (inadequate access to health, education, employment, and the elimination of fuel subsidies), in June 2022, violent social demonstrations were held by Indigenous groups, which resulted in roadblocks and blockades of food and supply lines to the country's main towns. These

demonstrations also generated significant economic impacts on various industries, affecting their value chains due to the impossibility of transporting raw materials and finished products.

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 Environmental and Social Management System

Adelca is ISO 9001¹, ISO 14001², and ISO 45001³ certified for its industrial plants in Alóag, Milagro, and shipbreaking and scrap collection facilities in Durán. It also has valid environmental permits required by Ecuadorian law for the operation of its industrial plants in Alóag, Milagro, for ship dismantling and scrap collection, and for the landfill. In 2023, the Company obtained authorization, through the Basel Convention⁴, to export its hazardous waste (steel mill dust) and stop storing it in its authorized secure landfill. Nevertheless, the Client will align its Environmental and Social Management System (“ESMS”) with international best practices.

4.1.b Policy

The Client has an Integrated Management Policy that establishes its commitment to environmental protection, employee health and safety, and the satisfaction of its stakeholders as part of its business strategy. Nevertheless, it will update this policy to include its commitment to the safety and health of neighboring communities and, once approved, will disseminate it to its workers, contractors, and the communities surrounding its OCs.

4.1.c Identification of Risks and Impacts

The Environmental Impact Assessments (“EIAs”) conducted by Adelca identify and assess the main environmental and social risks and impacts that may be generated by its operations. These studies have helped the Company to obtain the required environmental and social permits, including water use permits.

To identify the risks to its employees, Adelca has a Hazard Identification and Risk Assessment Procedure (HIRAP)⁵ that generates HIRA matrices for each workstation, which are regularly submitted to the competent national authority. Nevertheless, it will develop a procedure to identify and evaluate the risks and impacts of its operations on the community at all its production centers. This procedure will include, among others, the following: i) a social risk matrix for each operation center; ii) stakeholder mapping of the area of direct social influence (“ADSI”); and iii) a cartographic map of the operation's critical points (discharges, noise, emissions) with their corresponding ADSI.

¹ Quality System

² Environmental Management System.

³ OHS Management System.

⁴ The Basel Convention regulates the transboundary movements of hazardous and other wastes and obliges its parties to ensure that they are managed and disposed of in an environmentally responsible manner.

⁵ There are matrices for the industrial plants of Milagro and Aloat, for the shipbreaking yard and for the security landfill.

4.1.c.i Gender Risks

Although the steel industry in Ecuador, as in many other countries, has been historically dominated by men, in the last few years there has been an effort to promote gender equality and diversity in this industrial sector of the country. This includes initiatives to increase women's participation in technical and leadership roles in the steel industry and to improve opportunities for their professional development in this sector. In this regard, the Client will: i) identify and assess gender risks in its OCs.

4.1.c.ii Climate Change Exposure

The production plant in Alóag is exposed to heavy rains that produce flash floods, posing a risk to the plant, its supply chain, and the associated transportation system. It is also exposed to extreme weather events exacerbated by climate change, such as heat waves, which can affect worker safety, equipment performance, and energy consumption.

The exposure of both the production plant in Milagro and the shipbreaking operation in Durán relates to their location in low-lying coastal areas. Consequently, both sites are exposed to flooding and heavy rains and tropical storms. The Durán shipbreaking yard, being in the Guayas estuary (a portion of the river strongly influenced by tides), is exposed to sea level rise and coastal erosion.

Given the above, the Client will update its Emergency Plans to consider the climate change scenarios most relevant to its operations and will include climate events in its HIRA matrices.

4.1.d Management Programs

Adelca has Environmental Management Plans for all its OCs. These plans include the following topics: i) risk analysis and prevention alternatives; ii) impact prevention and mitigation; iii) waste management; iv) biodiversity conservation actions; v) communication, environmental communication, education, and training; vi) community relations; vii) contingencies; viii) industrial safety and occupational health; ix) monitoring, follow-up, and reporting; x) abandonment and handover of the area; and xi) restoration of affected areas. The Company has developed specific programs and procedures for each of its OCs, which allow it to meet the targets specified for each of the topics described above.

Likewise, it has developed specific occupational health and safety management plans, programs, procedures, and instructions, prioritizing the risk level of the special activities in each OC.

4.1.e Organizational Capacity and Competency

The Company currently has an Integrated Management Area Director who reports directly to the General Manager and oversees the National Heads of Environment, Social Responsibility, Occupational Health, and Industrial Safety. Each head oversees an inspector, supervisor, or assistant, depending on the demand of activities in each operating center. Adelca also has two medical clinics, one in Milagro and the other in Alóag, which are staffed full time by a doctor who reports to the Head of National Occupational Health.

4.1.f Emergency Preparedness and Response

Adelca has emergency and contingency plans for all its OCs. They include procedures for the following risk scenarios: i) fire or explosions; ii) medical emergencies; iii) chemical and hazardous product spills; iv) presence of radioactive elements; v) earthquakes; vi) floods; and vii) bomb threats. The Milagro and Alóag industrial plants have the necessary resources to respond to emergencies, namely: i) fire extinguishers (dry chemical powder or "DCP", CO₂, foam, etc.); ii) emergency lights; iii) firefighting network; iv) emergency stretchers; v) first aid kit; vi) brigade members⁶; and vii) emergency alarms.

The plans include procedures for maintaining the safety of the electrical system, fire extinguishers, machinery, and safety signage, among others. They also include contacts with external support agencies (firefighters, national police, ministry of public health, among others) and emergency medical evacuation procedures, for which Adelca has 24-hour ambulances with their respective paramedics at the Milagro and Alóag industrial plants. The Company conducts drills by plant area and a general drill at least once a year in each of the OCs.

Adelca holds the operating permit granted by the Fire Departments of each of the jurisdictions where it operates (Milagro, Alóag, Durán and Manabí).

4.1.g Monitoring and review

The Client, as required by the environmental permits it has been granted, submits Environmental Compliance Reports (ECR) to the Ministry of Environment, Water, and Ecological Transition (MAATE), which report on compliance with the corresponding Environmental Management Plans (EMPs), as well as the results of the environmental compliance audits (ECAs) it performs. The EMPs contain a monitoring, follow-up, and reporting plan that includes periodically monitoring: i) environmental air quality; ii) air emissions; iii) ambient noise; iv) groundwater quality; v) surface runoff volumes; vi) effluents (black, gray, and industrial water); vii) hazardous, non-hazardous, and special solid and liquid waste generated; and viii) the impacts of the implementation of the community relations plan, among others.

The Company, under the ISO certifications it holds, is audited annually by external and internal teams, which verify its quality and environmental and occupational health and safety performance. In this regard, Adelca has established internal control processes based on scheduled inspections and has a calendar of external audits that are carried out annually.

The Company receives unannounced audits from the Ecuadorian Social Security Institute ("IESS" by its acronym in Spanish) and the Ministry of Labor ("MDT" by its acronym in Spanish) to verify compliance with employer and social security obligations. To date, these audits have not recorded any nonconformities.

The Client regularly maintains and updates its environmental and occupational health and safety compliance matrices.

⁶ First aid, fire, and evacuation, for which personnel are trained and qualified.

4.1.h Stakeholder Engagement

Adelca, as required by local regulations and prior to obtaining environmental permits for each of its OCs, undertook a stakeholder participation process to socialize and disseminate the Project. The questions, concerns, and consultations made by the community at these events were taken up and incorporated into the EMP structuring process. Nevertheless, the Client will develop a Stakeholder Engagement Plan ("SEP") to summarize past stakeholder engagement activities of its OCs, identify and map the OCs' ADSI stakeholders, and describe future stakeholder engagement activities, including social investment programs.

4.1.h.i Disclosure of Information

Complying with applicable regulations, the Client socialized and communicated to the different stakeholders (representatives of the national government, sectional governments, public institutions, community associations, and society at large) information regarding the possible environmental and social impacts that could be generated by its operations, as well as the management measures to be implemented to prevent or mitigate these effects. Nevertheless, the Client will provide the neighboring communities with relevant information on: i) the purpose, nature, and scale of the Project; ii) the risks and potential impacts that the Project may have on ADSI communities; iii) relevant management measures; and iv) how the community can submit inquiries, complaints, claims, and suggestions.

4.1.i External Communication and Grievance Mechanisms

4.1.i.i External Communication

Stakeholders can communicate with Adelca through the following channels: i) the Company's website⁷; ii) the telephone line (593) 2396 8100; and iii) the email info@adelca.com. In addition, the Company's regional advisors can be used as channels to receive communications on environmental and social issues. The Company's environmental and social performance is reported through its annual sustainability report.⁸

4.1.i.ii Grievance Mechanisms for Affected Communities

The Company currently receives complaints, suggestions, and requests through calls, telephone messages, in person at its OCs, and, in the case of the Milagro plant, through a physical space provided for this purpose at the community center. Nevertheless, Adelca will update, at the corporate level, a grievance mechanism to receive concerns and complaints that communities may have regarding the environmental and social performance of the Client. This mechanism, which will be culturally appropriate, easily accessible, and free of charge for those who use it, will include the following: (i) a detail of the channels for receiving complaints and grievances; (ii) the processes for documenting, recording, tracking, and analyzing complaints and solutions; (iii) the timelines for

⁷ <https://www.adelca.com/contacto.html>.

⁸ <https://www.adelca.com/memoria-sostenibilidad.pdf>

recording and processing responses; (iv) the mechanisms for communication and dissemination of complaints filed and processed to external stakeholders; (v) how the mechanism will be made known to the Project's ADSI communities and its relevant stakeholders; and (vi) guarantees of anonymity to its users, when desired, and non-retaliation.

4.1.i.iii Ongoing Reporting to Affected Communities

The Client, consistent with the level of concern of the ADSI communities of its OCs, will provide periodic reports on environmental and social impacts, the implementation status of action plans to prevent risks or impacts to the communities, and responses to complaints received through its grievance mechanism related to environmental and social issues.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

Adelca, as required by the labor regulations in force, has an Internal Labor Regulation ("ILR") approved by the Ministry of Labor, which details the relationship between the employer and the employee in aspects related to: (i) personnel hiring and contracts; (ii) working days and hours; (iii) additional working days; (iv) holidays, paid annual leave, paid and unpaid leaves of absence; (v) remuneration and pay periods; (vi) minimum production performance and evaluation; (vii) training and training events in general; (viii) transportation, transfers, and travel expenses; (ix) provisions to prevent harassment; (x) employee obligations, rights, and prohibitions; (xi) disciplinary regime; (xii) cessation of functions or termination of contracts; (xiii) obligations and prohibitions for the company; (xiv) health and safety; (xv) operation of motor vehicles and tractors; and (xvi) general provisions.

The Company currently employs 1,116 workers at its operating centers in Milagro (601), Alóag (490), and Durán (25), of which 8% are women. Also, 16% and 20% of the labor force is hired locally at the Milagro and Alóag plants, respectively.

The Client provides its workers with transportation and meals as an additional benefit to those required by law and, in the last year, has been working on the development of a nutritional plan for its personnel. In this regard, it carries out inspections of how food is handled and processed in the cafeterias of its Alóag and Milagro plants and monitors the quality of water for human consumption three times a year.

4.2.a.i Human Resources Policies and Procedures

Adelca, in addition to its ILR, has procedures related to: i) training; ii) hiring and induction; iii) performance evaluations; and iv) recruitment and selection. It also has a travel, transportation, and food expense policy in place. In addition, as part of its legal compliance, the ILR stipulates zero tolerance for alcohol and drug use in all its operations.

4.2.a.ii Working Conditions and Terms of Employment

All Adelca employees have fixed-term employment contracts. There is no outsourcing.

4.2.a.iii Workers' Organizations

The Client, complying with the international conventions and treaties of the International Labor Organization ("ILO") related to workers' rights and ratified by Ecuador, allows freedom of association, protects the right to organize, the right to associate, and the right to collective bargaining. Nevertheless, Adelca's employees are not currently represented by a labor union.

4.2.a.iv Non-discrimination and Equal Opportunity

The Client, abiding by national legislation (including the ILO agreements⁹ ratified by Ecuador), its ILR, and its recruitment and selection procedure, recruits its human talent without discriminating based on disability, ethnicity, origin, sex, gender and cultural identity, marital status, language, religion, political ideology, socioeconomic or demographic status, or health condition.

4.2.a.v Retrenchment

The Company complies with the provisions of the Labor Code ("LC"), the rules and regulations in force with respect to the termination of personnel, whether voluntary or involuntary (untimely dismissal). The Company does not anticipate any curtailment of the workforce.

4.2.a.vi Grievance Mechanism

The Client has a grievance mechanism in place to prevent, deter, detect, and react to inappropriate behavior by personnel; and to verify compliance with the ILR and the Code of Conduct. The channels for submitting complaints are: i) physical format through suggestion boxes placed in the cafeterias of the Alóag and Milagro industrial plants; and ii) email.¹⁰ Nevertheless, the Client will update and disseminate its internal reporting mechanism to allow anonymity and ensure zero tolerance for retaliation by those who access it.

4.2.b Protecting the Workforce

The Client, abiding by national legislation¹¹ including the ILO agreements ratified by Ecuador, prohibits child and forced labor both for its workers and its contractors. It does, however, take in high school students between 17 and 18 years of age for pre-professional internships.

4.2.c Occupational Health and Safety

Adelca has Occupational Health and Safety Internal Regulations (OHSIR") applicable to all its OCs, which: i) determine the necessary occupational health and safety ("OHS") standards to perform tasks safely; ii) detail the obligations and responsibilities of employees and the Company; iii) provide

⁹ Convention No. 100 concerning Equal Remuneration and Convention No. 111 concerning Discrimination (Employment and Occupation).

¹⁰ denuncias@adelca.com

¹¹ Labor Code and Childhood and Adolescence Code.

information on existing hazards and risks and their prevention and mitigation measures; and iv) promote occupational safety by fostering a safe work environment.

The Company has manuals, procedures, and instructions for OHS management, which include, among other aspects: i) hazard identification and risk assessment; ii) instructions for special work (at height, hot, electrical, confined space); iii) job safety analysis ("JSA"); iv) medical evaluation requirements for special jobs; v) a schedule of planned inspections; vi) a contractor entrance manual; and vii) a regulation for carriers. Nevertheless, the Client will improve the safety signage at its industrial plant in Milagro to control the speed of internal circulation of heavy vehicles, light vehicles, motorcycles, and bicycles.

Adelca has provided lactation rooms at its industrial plants in Milagro and Alóag. For the occupational health management of its employees, the Company has plans, programs, and instructions for: i) health surveillance; ii) medical emergencies; iii) musculoskeletal-vibration health surveillance; iv) hearing conservation; v) drug and alcohol prevention and control; vi) COVID-19 protocol; vii) respiratory health-ionizing radiation; viii) investigation of occupational diseases; ix) preventive medical care; and x) control and inspection of ambulances, medical equipment, first aid stations, among others. In addition, it performs entry, periodic, special, and exit medical examinations for its employees.

Occupational hygiene measurements, which are taken every two years according to HIRA matrices, focus on chemical risk assessments (exposure to metallic fumes), biological controls (lead in blood), and occupational noise (audiometry and sonometry), among others.

Despite the above, the Client will: i) perform hygiene measurements related to chemical risk on an annual basis to all operators of its OCs that are directly exposed for 8 hours or more during the day and compare them to international standards¹²; ii) change the glass protection of the crushing equipment operator's cabin; and iii) implement signage in the external storage area for smelter materials (steel slag, white slag, and refractory).

Adelca, abiding by national legislation,¹³ has formed and registered with the Ministry of Labor two Occupational Health and Safety Joint Committees ("OHSJC"), which have their own representatives and workers' representatives. One of the main functions of these committees is to ensure compliance with the OHSIR and to promote a preventive safety culture to avoid accidents and occupational diseases. The OHSJCs meet monthly and the issues discussed are recorded in minutes for subsequent control and follow-up. Since 2023, as a good OHS practice, the Client has held monthly safety meetings with directors, managers, and process managers, and inspections of different areas to identify substandard conditions or actions. The result of these activities is an action plan to manage the findings and correct them.

¹² Threshold Limit Value (TLV) occupational exposure and biological exposure indices (BEIs) published by the American Conference of Governmental Industrial Hygienists; the Pocket Guide to Chemical Hazards, published by the U.S. National Institute for Occupational Safety and Health (NIOSH); Permissible Exposure Limits (PELs), published by the U.S. Occupational Safety and Health Administration (OSHA).

¹³ Regulation for Workers' Safety and Health and Improvement of the Working Environment (Executive Decree No. 2393/1986), every organization with more than 15 workers must form a Joint Safety and Health Committee.

The Client records occupational incidents and accidents and generates statistics containing frequency and severity indicators and risk rates. These data, together with the corresponding investigations, are reported to the corresponding control agencies.¹⁴ Thus, so far in 2023, there has been an 80% decrease in accident rates compared to 2022.

The Client has hired an external specialist with expertise in the steel industry to implement an accident reduction program. This program will be developed in four stages: i) diagnostic assessment; ii) intervention plan; iii) training at the strategic, operational, and tactical levels; and iv) evaluation of applied tools. The program is currently in stage 3 of the process.

The Company has and implements an Annual Training Plan, focused on the main risks associated with each of the jobs in the OCs.

4.2.d Provisions for People with Disabilities

The Company, as required by local regulations, employs a group of people with disabilities or who are recipients of a disability pension from any social security system, which ranges between 4% of the total number of its employees. In addition, its OHSIR includes specific controls and provisions to ensure the full development of workers with disabilities in its OCs.

4.2.e Workers Engaged by Third Parties

The Company's main contractors are: i) the transportation companies that move the raw scrap entering the plant and the finished product to be sold; and ii) maintenance contractors (civil, electrical, hydraulic). For them, the Client has developed a Contractor Entry Manual that verifies that such personnel have complied with the legal requirements (especially in labor matters regarding the prohibition of child and forced labor), as well as the policies, regulations, and procedures established by Adelca to reduce the risks of occupational accidents, occupational diseases, deterioration of facilities, etc.

4.2.f Supply Chain

The Company will require its main suppliers to sign a "Declaration of Principles Regarding Child and Forced Labor", in which they commit not to hire minors (under 18 years of age) and to avoid forced or compulsory labor practices.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

The main sources of energy for Adelca's OCs are: i) electricity from the national interconnected system; ii) fossil fuels for rolling mill furnaces and for transporting raw scrap and finished product; iii) liquefied petroleum gas for its refining furnace in the smelting process; and iv) anthracite and dolomite for the smelting process. The construction of the Milagro plant has contributed to a

¹⁴ Labor Risks of the Ecuadorian Institute of Social Security ("IESS") and the Ministry of Labor ("MT").

significant reduction in emissions per ton of finished product, considering the improvement in transportation efficiency, both for raw materials and finished product, and the improvement in energy efficiency in the smelting, refining, and rolling furnaces.

4.3.a.i Greenhouse Gases

In 2013, Adelca began quantifying and reporting its greenhouse gas (“GHG”) emissions from the Alóag plant, which ceased to be reported in 2020. It will therefore quantify the scope 1 and 2 GHG emissions at its Milagro plant and resume measurements at the Aloag plant.

4.3.a.ii Water Consumption

The Client has obtained the necessary water use and exploitation permits for its plants in Milagro and Alóag, and for shipbreaking. It currently keeps a permanent record of the flows used, in compliance with the obligations acquired by virtue of the permits granted.

The water (8 l/s) required for the Milagro plant is extracted from a well and treated in its raw water treatment plant prior to its use in the smelting and rolling processes or in the administrative areas (dining room, bathrooms, showers, and dressing rooms). The 85% of this water is reused thanks to its cooling water recirculation system; only about 8% is returned to the treatment pool due to the evaporation process. Adelca performs groundwater quality monitoring twice a year.

Industrial water consumption at the Aloag plant comes from deep wells and its main use is to replenish the water in the cooling systems, which is minimal because they are closed circuits; only about 8% is replenished into the treatment pool due to the evaporation process; currently a flow of 2.5 l/s is used for the production processes and administrative areas (dining room, bathrooms, showers, and dressing rooms), which has significantly decreased due to the shutdown of the smelting unit and a rolling mill.

Water consumption at the Durán shipbreaking yard is minimal; the water supply is mainly for the administrative areas and is purchased from authorized tankers.

4.3.b Pollution Prevention

Adelca's Alóag industrial plant has industrial water treatment plants for: i) smelting (currently out of operation); ii) rolling (in operation); and iii) runoff water. Water from the rolling process is treated through a physicochemical process and returned to the production process to cool the machines. Runoff water is likewise treated by a physicochemical process and is used for watering roads and green areas. Water quality at the runoff plant is monitored every six months to detect any deviation from the standard, which has been compliant to date.

Milagro’s industrial plant has treatment plants for the following processes: i) smelting; ii) rolling; and iii) runoff water. This water is treated through a physicochemical process; in the case of treated water from smelting and rolling, it is returned to the production process to cool the machines, while runoff water in compliance with the maximum permissible limits (“MPLs”) is discharged to a freshwater body, in this case to the Los Monos estuary. It also has a treatment plant for domestic

water, which is treated through a physicochemical and biological process. Treated domestic water is discharged to the Los Monos estuary in compliance with the MPLs¹⁵ for freshwater bodies. Nevertheless, the Client will: i) develop a corrective action plan for the operation of Milagro's domestic water treatment plant to comply with the MPLs set forth in the International Finance Corporation's (IFC") General Environmental, Health and Safety ("EHS")¹⁶ Guidelines and the EHS Guidelines for Integrated Steel Mills¹⁷; ii) hire an independent firm to verify the slopes of the raw scrap reception and storage platform and to collect runoff water with the approval of IDB Invest; iii) maintain and clean the perimeter runoff water collection channels of the entire industrial plant; iv) monitor runoff water discharged into the Monos Estuary at the beginning and end of the rainy season; and v) monitor the water quality of the Los Monos Estuary upstream and downstream of its operations during the rainy season.

Air quality monitoring at the Milagro plant is performed on a semi-annual basis. This includes the following parameters: nitrogen oxides (NO_x), sulfur dioxide (SO₂), particulate matter PM_{2.5} and PM₁₀, carbon monoxide (CO), and ozone (O₃). To date, the results of the monitoring performed comply with the applicable regulations in force¹⁸.

Measurements of combustion gases and particulate matter are taken every six months in the crushing area, in the smelting area, in the rolling mill, and in the scrap storage piles, for NO_x, SO₂, PM_{2.5}, PM₁₀ parameters. Although there are no MPLs for the NO_x, SO₂, and CO parameters for the electric arc steel furnace, the MPLs for the parameters included in the standard (NO_x) for the refining furnace (LPG fuel) are met. The Client will therefore adjust its processes to comply with the MPLs detailed in the applicable IFC Integrated Steelworks EHS Guidelines for its electric arc furnaces, refining furnace, and heating furnace.

Ambient noise at the OCs¹⁹ is monitored on a semiannual or annual basis, as appropriate, in compliance with applicable regulations, and the results are submitted to the environmental authority through the ECR.

The company monitors the radioactivity of the scrap metal it receives, for which it has obtained the corresponding operating license.

The Client, at the Duran shipbreaking facility, will: i) conduct groundwater monitoring of the well at the location on a semi-annual basis; and ii) conduct additional sediment monitoring on an annual basis.

¹⁵ Ministerial Agreement 097-A, TULSMA, Book VI, Table 12 Discharge Limits to Water Bodies.

¹⁶ <https://documents1.worldbank.org/curated/en/862351490601664460/pdf/112110-SPANISH-General-Guidelines.pdf>

¹⁷ <https://documents1.worldbank.org/curated/fr/562841490090177687/pdf/113622-WP-SPANISH-Integrated-Steel-Mills-PUBLIC.pdf>

¹⁸ Ministerial Agreement 097-A, TULSMA, Book VI, Appendix 4, Environmental Air Quality Standard or Immission Level.

¹⁹ Ministerial Agreement 097-A, TULSMA, Book VI, Appendix 4, Environmental Air Quality Standard or Immission Level.

4.3.b.i Waste

The main hazardous waste generated in significant volumes and quantities is steel mill dust (around 4,000 tons/year) from the bag filters of the fume extraction system of the Milagro smelting plant, which is temporarily stored in large bags in a closed and waterproofed shed (concrete floor). Due to the lack of environmental managers in the country to treat this waste, the Company opted to obtain an environmental license to build a safety landfill in the province of Manabí, where this waste is currently disposed of in an environmentally safe manner.

The final disposal procedure involves the construction of a safety cell, which is dug into the ground and double waterproofed with high-density polyethylene ("HDPE")²⁰. Drainage material is placed around it, which conducts rainwater and leachate to a collection pit and a venting system. The cells are closed with a layer of clay, geomembrane, vegetative layer, and revegetation with native species (creeping plants). Although the water table at the disposal site is more than 18 meters deep, groundwater quality is monitored annually through a monitoring well. To date, the results obtained show compliance with the local regulations in force.

In 2023, through a management company (in compliance with the Basel Convention), Adelca exported this waste for the first time to an Asian country to recover the metals it contains and stop disposing of it in the landfill.

Another non-hazardous waste generated by the smelting process is slag (about 14% per ton of steel produced), which, once enriched with rebar, generates a by-product called "mix" (30% iron content), which is sold to companies in the cement industry to produce clinker.

Additional hazardous waste generated mainly in shipbreaking (empty plastic or metal chemical containers, hydrocarbon-contaminated solids, refractory bricks, mill scale, used lubricating oils, contaminated PPE, asbestos, electronic waste, lights, oily mixtures, bilge water, etc.) are disposed of through authorized waste managers, who are responsible for their collection, transport, treatment, and final disposal.

Non-hazardous and recyclable waste (cardboard, paper, plastic, among others) are managed through the municipality of the jurisdiction and managers, respectively.

4.3.b.ii Hazardous Materials Management

The Client, at its Milagro and Durán plants, has fuel storage facilities (diesel and bunker or fuel oil). These, as required by applicable regulations²¹: i) are properly waterproofed; ii) are in the middle of containment basins with a retention volume of 110% of the volume of fuel stored; iii) are surrounded by collection channels in the event of a spill; and iv) contain emergency kits (spill and fire prevention) and the necessary signage.

²⁰ 1000 mm thick HDPE geomembrane

²¹ Environmental Regulations for Hydrocarbon Activities, RAOHE 1215.

4.3.b.iii Pesticide Use and Management

The Company, through an external company, performs Integrated Pest Management ("IPM") or Integrated Vector Control ("IVC") for all OCs. Nevertheless, it will verify that the products used are not on the list of pesticides classified as Ia (extremely hazardous) or Ib (hazardous) under the recommended classification of the World Health Organization (WHO).

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

The main environmental impacts generated by the OCs primarily relate to the production of particulate matter, combustion gases, ambient noise, and discharges to freshwater bodies. To date, measures to manage these impacts are producing the desired effects.

In the social sphere, the most relevant social impacts include the increase in heavy traffic in the area, as well as the presence of non-local workers, both own and contracted (carriers). To control these effects, the Client has adopted: i) a Code of Conduct; ii) a Contractors' Manual; iii) Carriers' Regulations; and iv) the OHSIR.

As part of its carrier monitoring, Adelca verifies that carriers: i) comply with legal labor requirements (social security affiliation); ii) have a valid driver's license in accordance with the type of vehicle; iii) have a certificate of medical aptitude, including vaccinations; iv) maintain their vehicles and comply with legal regulations for driving (e.g., valid license plates, technical vehicle inspection); v) have installed a satellite tracking device in their vehicles; and vi) have general liability insurance against third parties. Vehicles transporting finished product and scrap metal are tracked at all times, allowing the Company not only to have control over the material transported but also to avoid risks to its ADSI communities.

The Company, at its Milagro plant, has implemented a parking lot for vehicles, which has a rest area, dining area, showers, dressing rooms, restrooms, and a recreation area so that drivers can have a space to rest until they are notified to load or unload their vehicles. Adelca enforces strict shift control of vehicles entering the plant, prioritizing the minimum hours of rest that a driver must have (minimum 8 hours) to avoid accidents due to driver fatigue. All carriers are frequently subjected to random breathalyzer tests.

The Company has included topics related to zero tolerance of harassment or gender-based violence in the ADSI in the training provided to carriers. It has also agreed with the ADSI communities to prohibit the sale of alcohol at the site and to prohibit the construction or establishment of nightclubs in the vicinity of the Milagro plant.

As part of its social investment programs, the Company has a medical clinic at its Milagro and Alóag plants for community care, which operates Monday through Friday afternoons in Alóag and Saturdays in Milagro. Care is free of charge and patients are provided with medicine.

4.4.a.i Infrastructure and Equipment Design and Safety

The Alóag and Milagro plants and the shipbreaking yard have been built in compliance with local and international standards such as the National Fire Protection Association (“NFPA”). In this regard, Adelca has valid operating permits issued by the Fire Department of the corresponding jurisdictions. It also has an emergency and contingency plan that considers ADSI communities in the event of an emergency involving the evacuation of their inhabitants.

4.4.a.ii Hazardous Materials Management and Safety

Adelca has rigorous procedures and protocols for managing its waste (steel mill dust and slag) and hazardous materials (mainly fuels).

4.4.a.iii Community Exposure to Disease

The Client, as part of its monitoring plan, upholds strict prevention, control, and mitigation measures to prevent the exposure of ADSI communities to disease.

4.4.a.iv Emergency Preparedness and Response

The Client, at least annually, conducts emergency drills with the participation of the ADSI communities.

4.4.b Security Personnel

At present, the Client has hired an external company to provide physical and property security for its facilities at the Milagro plant. For this reason, it will develop a Physical Security Management Manual that will include: i) professional ethics issues; ii) commitment to human rights through adherence to the United Nations Voluntary Principles (“VPs”) on Security Forces and Human Rights²²; iii) reasonable investigation methods to ensure that security personnel do not have a criminal record and have not been involved in cases of abuse; iv) specific procedures for the use of firearms; and v) training requirements in connection with the progressive use of force.

5. Local Access of Project Documentation

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

²² Based on the IFC’s “Good Practice Handbook. Use of Security Forces: Assessing and Managing Risks and Impacts. Guidance for the Private Sector in Emerging Markets.”