

SUSTAINABILITY IN OUR SUPPLY CHAIN

2021

ACEROS
AREQUIPA



Sustainability in the Supply Chain of Aceros Arequipa

Our suppliers are a key part of the success and sustainability of our business. The effective management of our supply chain allows us to ensure the supply of supplies and raw materials, goods and services locally and abroad to develop our growth plans and satisfy the expectations and needs of our customers.

We know that we are facing increasingly demanding and challenging environments, which is why we seek to strengthen the relationship with our business partners, suppliers and contractors in order to grow together from an integral and responsible management in our value chain.

Mission

Guarantee the availability of products for sale, providing an adequate level of services to our internal and external clients, optimizing working capital and logistics costs.

Vision

Being a highly motivated team and committed leaders who provide solutions, create opportunities for improvement, with innovation, integrating all logistics processes, focused on customer satisfaction with cost optimization.

Supplier management



We classify our suppliers into two types, based on the nature of the goods or services they provide to us. They are managed through our two areas:

Strategic Purchases

Purchase of raw materials (scrap and pig iron), strategic supplies (limestone and anthracite), finished and semi-finished products, which are a direct part of the company's value chain.

Corporate Purchases

Purchase of other inputs, services and supplies for the rest of the company's operations such as maintenance, food and transportation services.

Our Indicators



We establish our key indicators and metrics in order to fulfill our **mission** and **vision**.

Indicator	Description	Goal	Target year
% of National scrap acquisition	The main raw material used in our production is ferrous scrap, a recyclable resource that represents around 95% of the composition of our finished products. For this reason, our annual scrap acquisition goal is between 390,000 and 410,000 TN.	100%	2021
% of local suppliers	As part of our commitment to sustainable development and social responsibility throughout Corporación Aceros Arequipa, we have set ourselves the goal of working with suppliers in each location.	7%	2021
% of supplier evaluations	In 2021, we evaluated 556 providers who provided timely services.	100%	2021

Expected Behaviors of Our Suppliers



Code of ethics for suppliers and contractors

We establish the guidelines for conduct, values and responsible business practices that we expect our suppliers and contractors to ensure for the development of their businesses and relationships with third-party companies or institutions.

Ethics Code for Suppliers and Contractors



Prepared by:	Revised by:	Approved by:
Strategic Administration Control Management Supply Chain Management Strategic Procurement Management	Audits and Risks Committee Chief Executive's Office General Management	Board of Directors

	ETHICS CODE FOR SUPPLIERS AND CONTRACTORS	Code: CO-P002i Version: 00 Approved on: May 27, 2021 Page: 2 of 8
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Risk and Supplier Management



We have different classifications of suppliers according to the risks they pose for the achievement of the objectives of our organization. For this we define two types of providers:



Strategic Suppliers

They are defined as providers of materials or services that may jeopardize the organization's ability to deliver quality materials or services to its customers. Of these providers, only a part are made up of non-substitutable providers, since they are difficult to replace with other providers.

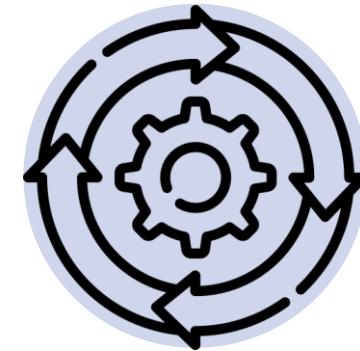


High risk suppliers for sustainability

We define "high sustainability risk" suppliers as those that, after internal evaluation, have a high possibility of engaging in conduct contrary to CAASA's ethical, social, environmental and governance principles.

Integrated Risk and Opportunity Management (GIRO)

allows us to analyze the threats in the environment and in our processes, so that we can define response strategies to face them. Our process is divided into 4 steps:

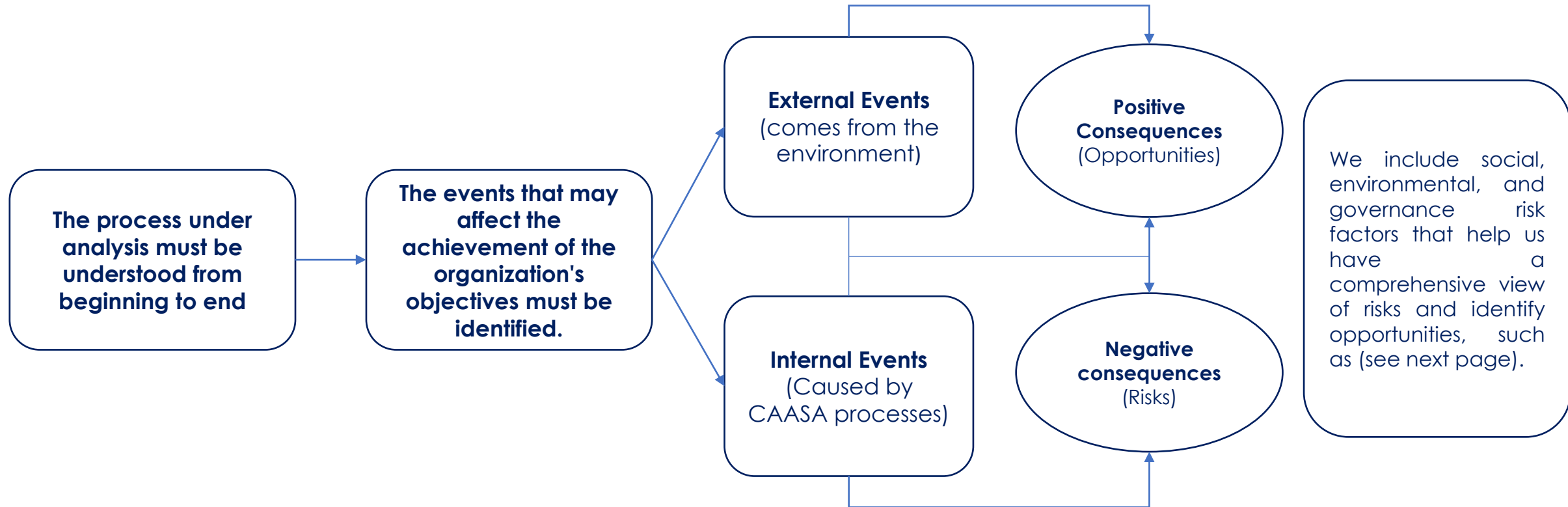


We seek to generate continuous improvement of processes, as well as effectiveness and efficiency and control of operations.



1. Risk identification

How does Aceros Arequipa identifies risks?



As a result of our risk identification process, we have generated 6 management instruments for our **Corporate Purchasing** and **Strategic Purchasing** areas:



Risk Matrix of Corporate Purchases

As management instruments we have two risk matrices:

1. Corporate Purchases risk matrix
2. Supplier Performance Evaluation risk matrix

Strategic Purchasing Risk Matrix

We have four risk matrices as management instruments:

1. Scrap Purchase risk matrix
2. Risk matrix for the Purchase of Strategic Supplies
3. Bidding risk matrix
4. Contract Management risk matrix



2. Risks evaluation

How does Aceros Arequipa evaluates risks?



According to our internal policies, we have procedures to evaluate our suppliers for both **Corporate Purchases** and **Strategic Purchases**.

The evaluation processes allow us to segment our suppliers according to risks, for which quality criteria and purchase volume are considered, but, since 2019, we also include sustainability criteria such as compliance with health and safety standards, as well as environment, in our corporate purchasing assessments for new contracts and renewals.

	Corporate Purchases	Strategic Purchases
Pre-Hire evaluation	2a. Evaluation prior to hiring in Safety, Health and Environment factors.	2a. Evaluation prior to contracting suppliers of strategic supplies. Requested requirements for the registration of national scrap metal suppliers.
Annual evaluation	2b. Annual supplier evaluation, including Safety, Health and Environment issues.	2b. Annual evaluation of incidents includes issues of Safety, Health and Environment.



The selection of a strategic supplier of materials or services is divided into two stages, according to the criteria evaluated. This process is detailed in our Instructions for the selection and evaluation of suppliers - COCI01-I007.

Stage 1

1

Economic Evaluation: The behavior of prices in the market will be evaluated, according to their availability, and the existence of a potential risk in the productive capacity, health and/or damage to the environment.

2

Commercial and Financial Evaluation: The resume and/or business presentation, the SUNAT registration certificate to assess the supplier's status and their certification as a taxpayer, a financial report such as Infocorp, Sentinel, Financial Statements or others to verify the level of indebtedness and credit capacity.

3

Technical Evaluation: For materials, the user area will evaluate samples, safety data sheets and/or, if required, laboratory analysis results. For services, the user area will evaluate through certifications and/or technical visits if required.

Stage 2

Critical service providers also pass through an evaluation of the Occupational Health and Safety System, and Environment (SSO and MA). As detailed in Annex 01

Selection Stage

1

Evaluation of Price Behavior: The behavior of prices in the market will be evaluated, through a comparative table.

2

Financial and Commercial Evaluation: The curriculum and/or business cover letter, the SUNAT registration certificate to assess the supplier's status and condition as a taxpayer, a financial report such as Infocorp, Sentinel, Financial Statements or others to verify the level of indebtedness and the credit capacity.

3

Technical Evaluation: The user area will evaluate samples, safety data sheets and/or, if required, laboratory analysis results.

For the selection of our suppliers of strategic supplies, the Purchasing and Strategic Services area evaluates with the aspects presented, according to our Instructions for the evaluation of suppliers of strategic supplies - COCE04-I005



The annual performance evaluation considers economic, technical, performance, occupational health and safety, and environmental aspects.

This process is detailed in our Instructions for the selection and evaluation of suppliers. These aspects are evaluated according to what is established and a score is calculated for each supplier with the formula under internal criteria.

According to the result, the supplier will be qualified:

Qualification		Condition
From 70 to 100	Good	Recommended/Acceptable Supplier
From 50 to 69	Regular	Supplier under observation
From 0 to 49	Bad	Supplier not recommended

Types of suppliers according to qualification:



Regular supplier

According to the observations found, an action plan will be defined with the supplier. The Corporate Purchasing, SSO and MA areas will be responsible for monitoring the execution and compliance with the action plan.

Supplier not recommended

Removal from the list of providers will be made in the following cases:

- If after the performance evaluation the index is < 50 .
- If after the performance evaluation the index is between 50 and ≤ 70 in three consecutive or four non-consecutive periods.

Annual evaluation of suppliers – Corporate Purchases



On an annual basis, a comprehensive evaluation of the suppliers of strategic inputs is carried out, in order to measure their evolution throughout the period and verify compliance with the requirements requested by CAASA, according to our Instructions for the evaluation of strategic input suppliers - COCE04-I005

Annual Stage

1

Evaluation of Price Behavior: The behavior of prices in the market will be evaluated, through a comparative table.

2

SSO and MA evaluation: The curriculum and/or business cover letter, proof of SUNAT registration to assess the supplier's status and condition as a taxpayer, financial report such as Infocorp, Sentinel, Financial Statements or others to verify the level of indebtedness and the credit capacity.

3

Technical Evaluation: The user area will evaluate samples, safety data sheets and/or, if required, laboratory analysis results.

4

Compliance evaluation: The evaluation is carried out in compliance with the deliveries of quantities and deadlines agreed in the contract.



3. Risk control and response

How does Aceros Arequipa control and respond to risks?



We have a procedure to define if the supplier should be removed from the list of suppliers for not meeting the standard required by CAASA in the following cases:

Corporate Purchases	Qualification		Condition
	From 70 to 100	Good	Recommended/Acceptable Supplier
	From 50 to 69	Regular	Supplier under observation
	From 0 to 49	Bad	Supplier not recommended

Regular supplier

According to the observations found, an action plan will be defined with the supplier. The Corporate Purchasing, SSO and MA areas will be responsible for monitoring the execution and compliance with the action plan.

Supplier not recommended

Removal from the list of providers will be made in the following cases:

- If after the performance evaluation the index is < 50 .
- If after the performance evaluation the index is between 50 and ≤ 70 in three consecutive or four non-consecutive periods.



Strategic Purchases

Score	Qualification
$90 \leq IP$	Outstanding Performance – Recommended Supplier
$70 \leq IP < 90$	Good performance – Acceptable supplier
$50 \leq IP < 70$	Performance media – Proveedor en observación
$IP < 50$	Low performance – Supplier not recommended

Providers who obtain a rating greater than or equal to 70 will remain in the provider registry. Removal from the list of providers will be made in the following cases:

- If after the performance evaluation the index is < 50 .
- If after the performance evaluation the index is between 50 and ≤ 70 in three consecutive or four non-consecutive periods.

If the situation warrants it, CAASA will define whether the suspension is temporary, permanent or regardless of the results, its permanence as a supplier will be maintained.

Corporate Purchases	Strategic Purchases
<p>In the bidding processes for corporate purchases, we visit service providers that pose a high risk to our collaborators or to business continuity.</p> <p>Since 2020 and due to the COVID-19 pandemic, physical visits to supplier facilities are not recommended. For this reason, it has been contemplated to have virtual visits where the supplier shows its facilities and explains its processes. These types of visits were applied to services that are critical and could affect business continuity.</p>	<p>As part of our control processes, virtual visits are made to our international scrap suppliers.</p> <p>In addition, as part of our control processes, we make unannounced visits to the premises of national scrap metal suppliers. During 2021 the visits were made virtually due to the pandemic.</p>



3. Monitoring and continuous improvement

How does Aceros Arequipa monitor and continuously improve?



- 1** First, **the evaluation of suppliers and contractors is carried out periodically according to the established procedure**, where a score is assigned for each of the segments (Service, Environmental Compliance, OHS Compliance, Commercial). The result allows us to establish action plans and corrective measures to improve your score.
- 2** Next, we establish **action plans** that we work on in annual periods, but that are reviewed throughout it.
- 3** The action plans are established with the purpose of **closing gaps in the evaluated segments** and also seek that these suppliers improve their ESG, legal and operational management.
- 4** Suppliers that manage to comply with their action plans are evaluated again to ensure that they meet the required score to be eligible for contracting with CAASA.

