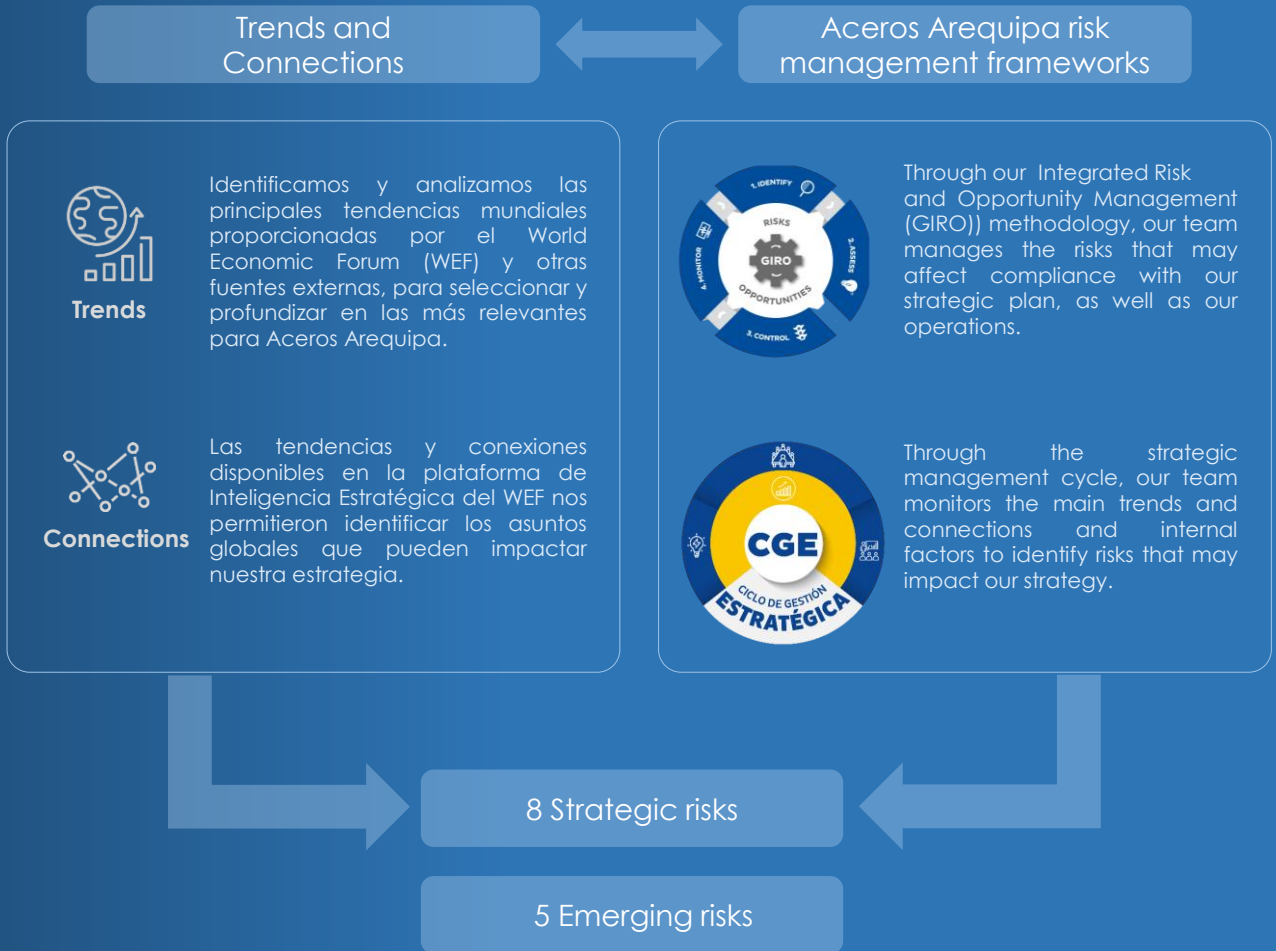




Corporate Risk Report
2022 - 2023

Content

To manage our business risks, we conduct an analysis of global trends and connections, as well as internal factors in our value chain, that may have an adverse impact on the fulfillment of our corporate strategy.



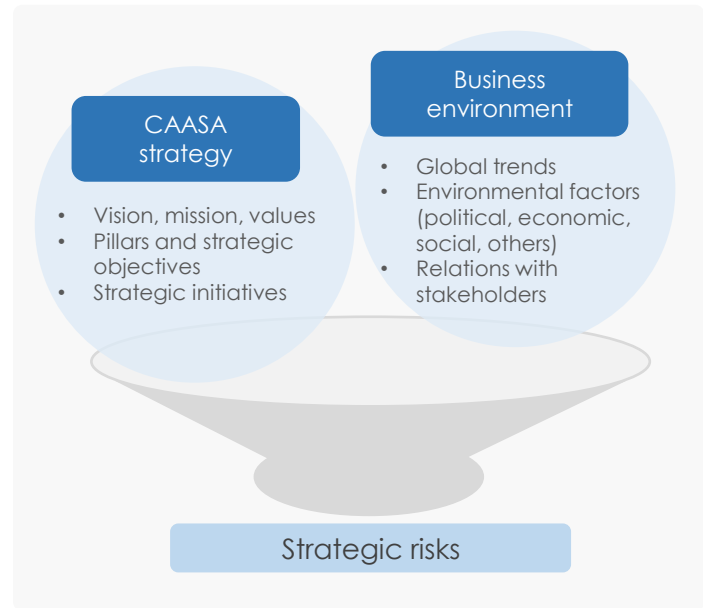
STRATEGIC RISK MANAGEMENT

Corporación Aceros Arequipa has an Integrated Risk and Opportunity Management (GIRO)) Policy and Methodology that is based on the principles and methodologies of COSO ERM, practices recommended by the Dow Jones Sustainability Index, Tasks Force on Climate-Related Finance Disclosures(TCFD), among others, to preserve and generate value for the business. Through this framework, our team systematically manages the company's risks, classified into the following levels:

- **Strategic Risks:** they can impact the achievement of our vision, mission and strategic objectives, and have a changing nature due to their close relation with world trends. These risks are managed through the Strategic Management Cycle.
- **Process Risks:** they impact the achievement of the processes objectives, and/or compliance of laws, internal regulations and codes of conduct, are inherent to the activities of the processes and have a known nature, they are managed through internal controls.

In this report, we focus our analysis on the strategic risks of Aceros Arequipa. To do this, we follow the steps of our GIRO framework:

- **Identify:** our team constantly monitors the environment, trends and connections (global and local) to identify risks that may impact the fulfillment of strategic objectives.
- **Evaluate and analyze:** we analyze the potential impact of these risks; considering the levels of impact and probability (Annex 1), risk appetite and tolerance, and carrying out scenario and sensitivity analyzes for the risks that require it.
- **Monitor and treat:** Our work teams define response strategies to reduce the adverse effect of risks, which may include initiatives, plans, among others.
- **Follow-up:** During the Strategic Management Cycle, we perform periodic reports to management and the Board of Directors. Likewise, the BALSC tool allows monitoring the status of risks and the main indicators that help measure their performance.







They are managed through:







TRENDS

We identify global and local trends that can have a significant impact on our operations and on the fulfillment of our corporate strategy. To do this, we analyze the information available on the Business Intelligence platform of the World Economic Forum, and the trends described in the Global Risk Report to select the relevant trends for Corporación Aceros Arequipa. The selected trends are:

 Failure of climate change mitigation	 Cost of living crisis
 Failure to adapt to climate change	 Macroeconomic VulnerabilityLatam
 Decarbonization of heavy industry	 Geoeconomic confrontation
 Biodiversity	 Erosion of social cohesion
 Energy transition	 Infrastructure gap in Peru
 Natural disasters	 Business integrity
 Collapse of a major supply chain	 Institutionalality in Peru
 Prolonged economic downturn	 Widespread cybercrime and cybersecurity

Categories:

 Environmental  Economic  Geopolitical  Social  Technology

MAIN STRATEGIC RISKS

We analyze global and local trends and connections and cross-reference them with internal factors to ensure a comprehensive analysis of risks that may impact the fulfillment of our corporate strategy. The main strategic risks identified are presented below.

Criticality



Risks



R1

Supply of recycled steel at the required cost and quality.



R2

Concentration of financial results in specific products and segments.



R3

Contingencies associated with normative and regulatory compliance.



R4

Affectation of the safety and health of our Collaborators and Contractors in our operations.



R5

Deviation in our financial results due to greater competition in the company's countries of influence.



R6

Deterioration of the relationship with stakeholders (collaborators, community, etc.)



R7

Macroeconomic vulnerability, political and social instability in the countries of influence.



R8

Interruptions in business continuity due to unexpected equipment failures or external factors (strikes, interruptions in the chain).

DETAIL OF MAIN RISKS

I: impact	High
Q: probability	Considerable
C: criticality	Moderate
	Low



R1

Supply of recycled steel at the required cost and quality.

I P C

● ● ●

Description: Recycled steel is the main input for the production in our steel mill, therefore the availability at a reasonable cost is important to maintain a competitive transformation cost. Likewise, better qualities of recycled steel allows better yield in production and require less energy and other inputs such as refractories. As our production volume grows, our need for recycled steel increases proportionally.

Therefore, price fluctuations and the availability of this input, which vary depending on external variables, have an impact on our financial results.



Impact

- Less availability of recycled steel.
- Increased supply costs.
- Reduced yield in production, increased use of energy and inputs.

Treatment actions

- Increase local capture of recycled steel at the best possible cost.
- Supply of international recycled steel at competitive prices.
- Development of new sources of supply.



R2

Concentration of financial results in specific products and segments

I P C

● ● ●

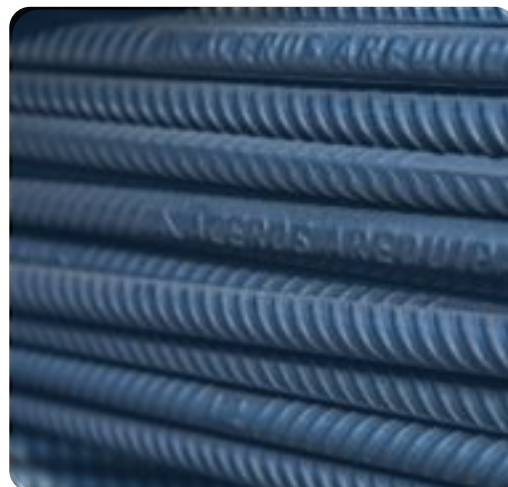
Description: The dependence of our sales on a specific market and family of products makes us more vulnerable to fluctuations in demand, changes in consumer preferences or unforeseen events in this market, such as changes in trade policies or economic crises.

Impact

- Drop in sales and impact on financial results.

Treatment actions

- Diversification of the product portfolio.
- Continue with our expansion to other markets.



DETAIL OF MAIN RISKS

I: impact	● High
Q: probability	● Considerable
C: criticality	● Moderate
	● Low



R3

Contingencies associated with normative and regulatory compliance

I P C

● ● ●

Description: Appearance of legal contingencies due to unforeseen changes in labor, tax, environmental or other laws and regulations that regulate our operations, as well as the lack of institutionality that affects the business integrity climate in Peru.

Impact

- Failure to comply with corporate guidelines and the legal basis.
- Affection of the company's reputation due to media exposure.
- Affection of the continuity of operations due to the sanction of regulatory bodies.
- Increased costs due to adjustments to regulatory changes.

Treatment actions

- Permanent monitoring of possible regulatory changes.
- Action plans and adaptation to regulatory changes.
- Review and strengthening of contractual controls.



R4

Affection of the safety and health of our Collaborators and Contractors in our operations

I P C

● ● ●

Description: Affection of the physical integrity and/or health of our collaborators and contractors due to accidents or unexpected events related to safety in our operations.

Impact

- Temporary and/or permanent injuries to our collaborators and contractors.
- Penalties and/or sanctions.
- Affection of the company's reputation.

Treatment actions

- CAASA SSO Strengthening Plan
- Focus on improving third-party SSO management
- Sensitivity analysis of critical equipment in the Steel Mill to identify limits in variables associated with physical properties that could generate safety risks.
- Automation of risky activities.
- Constant supervision of our operations.



DETAIL OF MAIN RISKS

I: impact	● High
Q: probability	● Considerable
C: criticality	● Moderate
	● Low



R5

Deviation in our financial results due to greater competition in the company's areas of influence

I P C

● ● ●

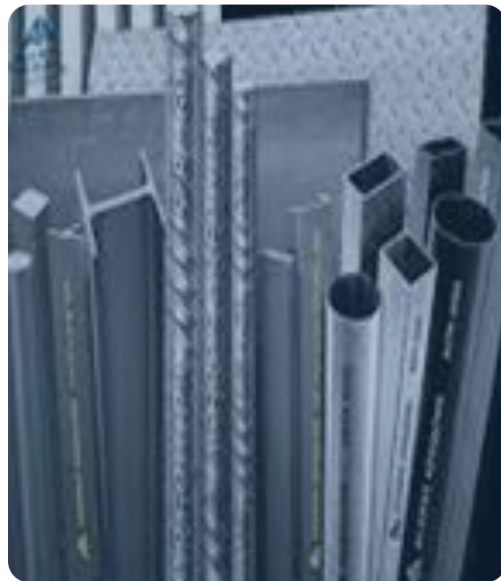
Description: Affectation of our financial results due to changes in the configuration of the main markets in which we compete, due to the entry of new participants, the appearance of substitute products and changes in trade tariffs or restrict entry barriers.

Impact

- Reduction in sales volumes and loss of market share.
- Failure to meet sales and financial projections.
- Increase in customs and logistics costs.

Treatment actions

- Reinforce commercial strategies to consolidate brand and ensure coverage.
- Expand product portfolio.
- Continue with our expansion to other markets.



R6

Deterioration of the relationship with interest groups (employees, community, etc.)

I P C

● ● ●

Description: Increased vulnerability of the company due to political-social instability caused by weak institutions and the general loss of trust in Peru, where our operations are located, which could affect our main interest groups such as collaborators, suppliers and communities of influence, generating strikes, lawsuits against the company, among others.

Impact

- Regulatory changes that affect the cost structure, competitiveness and business continuity.
- Interruption of works or activities due to social conflicts or strikes.
- Increase in legal claims against the Company.
- Increase in fines or sanctions by regulatory bodies.
- Premeditated involvement of officials or company personnel in irregular situations.

Treatment actions

- Strengthening of the regulatory compliance system.
- Permanent monitoring of possible regulatory changes.
- Due diligence in the relationship with public entities and critical interest groups.
- Review and strengthening of contractual controls.
- Strengthening of the relationship with the company's stakeholders.



DETAIL OF MAIN RISKS

I: impact	● High
Q: probability	● Considerable
C: criticality	● Moderate
	● Low



R7

Macroeconomic vulnerability, political and social instability in the countries of influence

I P C

● ● ●

Description: Inability to develop our growth plan, loss of sales and competitiveness in the market due to macroeconomic vulnerability, political and social instability in the countries of influence of the company (Peru, Colombia, Bolivia and Ecuador), which doesn't allow optimal conditions to fulfill our business plan and execute our long-term investment plan.

Impact

- Reduction of our sales due to economic crises in the countries of the region.
- Affectation of margins due to currency devaluation in the countries of influence.
- Increased costs due to restrictions on commercial operations, commissions and/or new laws and regulations.
- Paralysis of large infrastructure projects.
- Increase in informality.

Treatment actions

- Constant monitoring of the markets and review of our projections and investment plan.
- Continue expansion strategy to new markets.
- Diversify our product portfolio.
- Financial sensitivity analysis to measure variables that may impact our results, such as devaluation, increase in commissions for transfers, financial loans opportunity, among others.



R8

Interruptions in business continuity due to unexpected equipment failures or external factors (strikes, interruptions in the chain)

I P C

● ● ●

Description: Temporary interruption of our operations due to equipment failures during production processes, or external factors such as logistics infrastructure gaps, natural disasters, strikes, contingencies in the supply of raw materials and key imported supplies (73% of purchases in 2022), among others.

Impact

- Lack of key supplies such as electricity, gas.
- Paralysis of operations.
- Affectation of the company's assets.
- Economic losses.

Acciones de tratamiento

- Preventive controls on equipment and machinery.
- Preventive and corrective maintenance.
- Establishment of Contingency Plans.
- Sensitivity analysis: Permanent monitoring of variables that affect the operation of the machines and the quality of the product (temperature, tension, weight, thickness, etc.) to analyze the sensitivity through simulations and stress tests carried out with specialized equipment.



EMERGING RISKS

Emerging risks respond to multiple trends that may affect the company's strategy in the future, but may also create opportunities to increase the value we offer to our customers and society. For Corporación Aceros Arequipa, in line with the S&P Global methodology, emerging risks are those that comply with the following aspects:

- The risk is new, emerging, or of increasing importance.
- The potential impact of the risk is long-term.
- The potential impact of the risk is significant.
- The source of risk must be an external variable.
- The risk and its impact on the company are specific.

The main emerging risks are presented below:

Emerging risks



R1

Interruption of our supply of critical supplies and/or impact on our financial results due to disruptive events in global supply chains caused by geopolitical and economic tensions between countries.



R2

The global trend in the steel industry to use of less polluting production technologies such as electric arc furnaces (EAF) would increase competition for the capture of recycled steel and its costs.



R3

Inability to develop our growth plan, loss of sales and market competitiveness due to the infrastructure gap, institutional weakness, and political - social instability in the country that prevents us from having the optimal conditions to develop our long-term investment plan.



R4

Failures in information systems and/or affectation of information security due to cyber attacks.



R5

Abrupt changes in policies, legislation, technology and the market for the mitigation of climate change that affect our operations or business continuity.

DETAIL OF EMERGING RISKS



R1

Interruption of our supply of critical supplies and/or impact on our financial results due to disruptive events in global supply chains caused by geopolitical and economic tensions between countries.

Description:

According to the Global Risk Report of the World Economic Forum 2023, geoeconomic tensions, the ineffectiveness of international cooperation measures and conflicts between countries are some of the most important risks worldwide. The world's major economies are seeking to consolidate their influence, rolling out monetary measures, investment controls, sanctions, and trade controls on energy, minerals, and technology.

In the face of vulnerabilities highlighted by the pandemic and the aftermath of the Russia-Ukraine war, economic policy, particularly in advanced economies, is increasingly directed toward geopolitical goals. Countries are trying to build self-sufficiency and sovereignty from rival powers in key inputs such as energy, minerals, food, among others; through reduced supply chains that shorten dependence on rival countries.

In this context, Aceros Arequipa would be affected due to the high dependence of our operations on imported products. During 2022, 73% of our purchases were imported. Therefore, the interruption of any of our supply chains would increase our logistics costs and/or the continuity of our operations in the absence of critical supplies. Likewise, it could restrict the trade of our products in those destinations that are affected.

Impact

- Impact on business continuity due to lack of key inputs for operations.
- Increased supply costs for supplies and critical inputs such as recycled ferrous steel, spare parts, among others.
- Affection of our growth in sales due to regulatory restrictions on the commercialization of our products in countries of interest.

Treatment actions

- Diversification of geographic supply sources.
- Have generic spare parts and supplies options to reduce dependence on certain suppliers.
- Continuous monitoring of the environment and global trends.
- Diversification of destination markets in accordance with our expansion strategy.



R2

The global trend in the steel industry to use of less polluting production technologies such as electric arc furnaces (EAF) would increase competition for the capture of recycled steel and its costs.

Description:

According to the OECD Steel Production Overcapacity Forum, it is estimated that due to climate change the trend will be a greater migration towards electric arc furnace technology, which uses recycled steel as the main raw material, and may reach 76% of production under this technology in 2050. Likewise, in the period 2023 -2025, steel production capacity expansion projects will use EAF technology throughout the world with the exception of Asia and Latam, in total 53.0 MM Tn would be put into operation with EAF technology.

This situation could generate an increase in competition for the uptake of recycled steel at a global level, being able to implement laws that regulate the trade of recycled products in various areas of the world to ensure the local supply of this supply. Also, an increase in the cost of recycled steel as its use extends.

Given that our production process at the Steelworks uses electric arc furnace technology and our main raw material is recycled steel, this risk would have a high impact on our costs and on the continuity of our supply.

Impact

- Greater global demand increases competition and reduces the availability of recycled steel.
- Increased costs of recycled steel.
- Impact on the continuity of our supply of recycled steel.

Treatment actions

- Continuous monitoring of the environment.
- Stay close to local suppliers of recycled steel to ensure national supply at the best possible cost.
- Develop new sources of supply of raw materials.

DETAIL OF EMERGING RISKS



R3

Inability to develop our growth plan, loss of sales and market competitiveness due to the infrastructure gap, institutional weakness, and political - social instability in the country that prevents us from having the optimal conditions to develop our long-term investment plan.

Description:

Institutional weakness and political and social instability is a risk that has been present over the years in Peru. According to the 2022 Competitiveness Ranking carried out by Centrum PUCP and the Institute for Management Development (IMD), which evaluates economic performance, government efficiency, business efficiency, and infrastructure in 63 countries, Peru advanced 4 positions in 2022, ranking 54th and occupying second place in Latin America. However, this advance is only given by the good Economic Performance of the country, since significant falls were registered in the other pillars, infrastructure being the weakest pillar. Also, the World Economic Forum places Peru's infrastructure gap as one of the main problems limiting the country's development, with transportation and energy being responsible for half of that gap.

In this context, Corporación Aceros Arequipa would be directly affected due to the uncertainty regarding the execution of power expansion projects in the Pisco Node Electrical Network, which would prevent us from executing projects to expand our productive capacity in our main plant located in the city of Pisco, in compliance with our long-term growth plan, since we would not have sufficient future electrical power for its operation. Added to this, the lack of adequate public infrastructure to respond to natural disasters such as river floods and landslides increases our vulnerability to these events.

Impact

- Impossibility of executing projects to expand our productive capacity in the Pisco Plant since we would not have enough power in the electrical supply for its operation.
- Loss of sales opportunity, breach of our strategy and long-term growth plan.
- Increase in costs due to the greater requirement of imported products to meet the demand.
- Greater risk of business continuity in the event of natural disasters (huaicos, others) that affect access roads due to a lack of government prevention measures.

Treatment actions

- Diversify our investments in other countries or regions of Peru, so as not to depend solely on the Electrical Network of the Pisco Node.
- Evaluate growth in other markets with production plants to reduce local manufacturing dependence on the Pisco Node.
- Develop trade union strategies to promote and commit the government to investments in infrastructure required for the competitive development of businesses in Peru.



R4

Failures in information systems and/or affectation of information security due to cyber attacks.

Description:

According to the Global Risk Report of the World Economic Forum 2023, Widespread Cybercrime and Cyber Insecurity is one of the 10 most severe risks that will affect the world in the next 10 years. Likewise, according to the Cybersecurity Perspectives Report prepared by LatamCISO and DukeUniversity, Peru registered a 30% increase in cyberattacks (3.5 billion attacks) and in Latam Cyberattacks increased by 25% (62 billion) during 2022 compared to 2021.

Although this risk has been latent for some years, the increasing level of digitization of our processes, added to the sophistication of cybercriminal techniques and the increase in their attacks globally, could generate an increase in our vulnerability to this risk. This vulnerability increases with the Company's strategy to strengthen digital transformation and the use of new technologies such as spa, Cloud Computing, Machinelearning, IoT, among others, both in our computer networks and in our industrial networks due to the use of industry 4.0 tools.

Impact

- The materialization of cybersecurity risks can impact the achievement of business objectives and the continuity of our critical processes (commercial, productive, logistical and financial).
- Interruption of operations due to failure of information systems.
- Fraud, theft or alteration of sensitive and confidential information.
- Damage to the reputation and image of the company.
- events ofransomwarethat includes key business information or affects a critical process.
- Loss of critical information or intellectual property.

Treatment actions

- Development of a culture of cybersecurity through the dissemination and awareness of risks.
- Information security policies and procedures.
- Controls and technological architectures for operational, information and malware security.
- cybersoc: Attention desk for the attention of incidents of cybersecurity.
- Implementation of MFA (Authenticationmultifactor) to protect the login of our collaborators.
- Specialized monitoring of cyber events and management of EDR security incidents (end point detectionand response) with AI technology.
- Periodic vulnerability monitoring and assessment actions to implement timely corrective measures (eg:ethicalhacking in IT and OT).
- We count and test our DRP (disaster recoveryplan) on a semi-annual basis.
- DLP process and monitoring (dataloss prevention).
- Monitoring of anomalous events in the network.

DETAIL OF EMERGING RISKS



R5

Abrupt changes in policies, legislation, technology and the market for the mitigation of climate change that affect our operations or business continuity.

Description:

The transition to a carbon-neutral economy involves the State implementing the Nationally Determined Contributions (NDC), which are the response to the commitments adopted by the international community to face climate change. Peru has established the year 2030 as the deadline to implement the NDCs, and as time passes, the probability of abrupt measures being implemented that discourage GHG generation could increase; such as the carbon price, taxes on the use of electrical energy from non-renewable sources, taxes on vehicle fuel. This situation would impact the Company in the sudden increase in production costs, loss of competitiveness and market share, among others.

Impact

- Increase in production costs due to the implementation of the carbon price.
- Lost market share for not meeting customer expectations for low carbon products.
- Increases in production costs due to policies that seek to discourage the consumption of materials or supplies that emit GHG.
- Reputational impacts due to breaches of voluntary commitments.

Treatment actions

- Continue with electric oven technology vs. built-in.
- Implementation of an energy efficiency management system based on the ISO 50001 standard.
- Have a supply of electricity from a certified renewable source.
- Optimize the consumption of materials that release GHG in the production of liquid steel (pig iron, ferroalloys and electrodes).
- Implementation of initiatives that allow us to be more circular in our raw materials and industrial by-products generated towards the "zero residue" certification.
- Continue developing the biodiversity care program in the perimeter living fence of the steel complex with the support of technical experts.
- Evaluate category 3 GHG reduction from multimodal transport logistics activities (maritime, land) through third parties.
- Implementation of operational improvement projects that generate less CO2 emissions
- Optimize the hot load to generate efficiencies and reduce CO2 emissions.

ANNEX 1: Risk appetite – evaluation criteria

Impact	Low	Moderate	Considerable	High
Economic (Operating Ut. > 50 MM) Applicable if Average Operating Income of the last 3 years is greater than 50 million soles	Less than 0.25% of the average Operating Profit of the last 3 years.	Between 0.25% and 0.5% of the average Operating Profit of the last 3 years.	Between 0.5% and 1% of the average Operating Profit of the last 3 years.	Greater than 1% of the average Operating Profit of the last 3 years.
Economic (Oper. Ut. < 50 MM) Applicable if Average Operating Income of the last 3 years is less than 50 million soles	Less than 250 thousand soles.	Between 250 thousand and 500 thousand soles.	Between 500 thousand and 1 million soles.	Greater than 1 million soles.
Impact on operations and information systems (qualitative)	Interruption of operations less than 1 hour. The integrity and/or timeliness of the information is not affected.	Interruption of operations between 1 and 8 hours. The integrity and/or timeliness of critical information is affected	Interruption of operations between 8 and 24 hours. Loss of non-critical CAASA or third party information that cannot be recovered	Interruption of operations greater than 24 hours. Loss of critical CAASA or third party information that cannot be recovered
Impact on reputation and image (qualitative)	Minimal public knowledge and little or no responsibility of the company.	Moderate public knowledge. There may be liability.	Wide media coverage. Perception of company responsibility.	Massive public knowledge and wide frequency or permanence in the media. Receive political interest. Perception of company responsibility.
Regulatory and legal impact (qualitative)	It could generate non-compliance with internal or legal, sectoral, labor or tax regulations.	Causes non-compliance with internal or legal, sectoral, labor or tax regulations, but does not generate payment of penalties.	Failure to comply with legal, sectoral, labor or tax regulations, determines the payment of penalties. Ethical offenses that do not comply with internal regulations, do not incur a crime.	Severe non-compliance with legal, sectoral, labor or tax regulations, determines the payment of penalties, could generate criminal sanctions for the entity or representative, and/or the intervention of the regulator. Ethical misconduct in a systematic way that fails to comply with internal regulations and/or commits a crime.
Environmental impact (Nature of the event/affect)	The scope of the impact is at the activity level. Affectation of environments and infrastructure of the company that is on pavement.	The scope of the impact involves the entire process. Affectation of 1 environmental factor (Air, Soil, Water, Flora and Fauna)	The scope of the impact involves other processes. Affectation of 2 or more environmental factors (Air, Soil, Water, Flora and Fauna)	The scope of the impact extends beyond the limits of the company. Affectation of the sensitive natural environment or population (nature reserves)
Occupational Health and Safety (Nature of the incident and damage)	Very minor injuries, may cause discomfort or discomfort	Minor injuries, without sick leave, without disability, may require first aid.	Temporary disability. Reversible damage to health.	Permanent total or partial disability Irreversible/fatal damage



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