

Responsible value chain

Society increasingly expects business to be more involved in pressing issues—like corruption prevention, respect for human rights, water stewardship, and climate change mitigation—and to extend these concerns to their value chain. Industrias Peñoles is aware of this expectation and has taken action to increase

the visibility of its value chain in order to minimize risks and identify opportunities. The [Third-Party Code of Conduct](#) and due diligence process (see section *Third-party due diligence*) set down the performance criteria in our value chain.



Raw materials shippers

At Industrias Peñoles, we apply best practices in the metals value chain to which we add value in our metallurgical complex. We hold responsible sourcing certification from the London Bullion Market Association (LBMA) –based on the OECD Due Diligence Guidance—which enable us to demonstrate to clients and investors that the precious metals value chain is conflict-free. 90% of the material received at our facilities comes from domestic shippers, and the certification includes annual audits of our shippers and refinery. Our precious metal (Fresnillo plc) and base metal mines that supply raw materials to the metallurgical complex are audited by a third party to avoid the risk of conflicts of interest.

During 2023, we resumed visits to our shippers to assess their sustainability practices and level of risk using our due diligence process—which is based on the Gold and Silver Responsible Sourcing Guidelines. Also, as part of our commitment to building strategic relationships and working together sustainably, we provided training on the [Third-Party Code of Conduct](#), which sets our expectations for responsible business conduct.

Supply Chain

Critical suppliers are those that provide Industrias Peñoles with goods and services that i) have the greatest impact on operating costs, ii) their quality could affect our processes, iii) are scarce or the supplier is the only source, and iv) their purchase and/or import is restricted. For these critical suppliers, we have a monitoring and evaluation program in place that covers their business management, as well as sustainability issues such as climate change, water management, human rights, community relations, and diversity, equity, and inclusion. From these assessments, we identify risks, their sustainability maturity, as well as strengths and areas of opportunity in their organizational structure, and select suppliers to participate in skill-building programs.

The internal and external audits include interviews to understand the measures taken to protect the human rights of indigenous peoples, the management of impacts on communities and the environment, the management of ethics and integrity programs to combat money laundering and prevent terrorism financing, as well as other labor practice issues such as health, safety, and labor relations.



Raw materials shippers

- Mining companies that supply complex ore concentrates and other materials to the metallurgical business for processing and production of refined metals



Supply chain (suppliers)

- Companies that supply equipment and services to our mining, metallurgical, and chemical businesses



Contractors

- Companies that supply specialized services and work outside of Peñoles' main activity for its mining, metallurgical, and chemical businesses



Clients

- Companies that purchase the products of our metallurgical and chemical businesses

Local suppliers

We try to incorporate local service companies in order to strengthen our social license in the regions where we operate and to reduce costs. We create initiatives such as the Capela unit's Local Entrepreneur Development Program, which now has entrepreneurs capable of offering services with the required quality and with less need for assistance from the company. The metallurgical complex also has a Supplier Development Program to support the growth of local companies, so they can provide better service with more qualified personnel (see case study).

Contractors

Before beginning activities in any operational area, all new contractor personnel receive five days of safety training and participate in specific courses such as rock mechanics, firefighting, search and rescue, first aid, and emergency response. We hold annual meetings in which we recognize our contractors' safety performance, and we encourage them to develop their own safety recognition mechanisms for their employees. We require them to provide their people with adequate working conditions, accommodation, food, services, and recreation.

Clients

Our business operations are conducted in accordance with the highest **ethical standards**; we abide by applicable laws and avoid doing business with countries and third parties that do not meet these standards. All of Peñoles' clients are treated fairly and honestly, and we work hard to provide them with top-quality, on-time products and services that meet their needs. We have built up a strong presence in the U.S., European, Central and South American markets, and we remain the top choice for our domestic clients.

We are aware of the trends and expectations of those around us, including markets and clients, and their heightened interest in knowing the carbon footprint of our products, our decarbonization plans, and sustainability practices in general. We are proud to mention that Química del Rey won the silver medal in the EcoVadis Sustainability Ranking (see case study). We will continue working in close partnership with our clients to meet their sustainability goals.

We conducted satisfaction surveys of our clients and followed procedures based on ISO 9001:2015 standard. In 2023, we applied 269 satisfaction surveys to clients in the Metals Division and 158 in the Chemicals Division, obtaining scores of 4.0 and 4.5, respectively, on the Likert scale.

Case study - Contractor and Supplier Evaluation and Development Program

Our Metals Division has a formal program for the evaluation and development of its suppliers and contractors; the purpose of which is to support their growth and guarantee that the services they provide are competitive. The program consists of four phases and is based on a scheme of continuous improvement.

- 1. Selection.** We select suppliers that are relevant to our operations, currently divided into four categories by level of development: competitive, visionary, productive, and under development.
- 2. Evaluation.** We conduct a diagnostic based on documentation and site visits to identify how reliable the supplier is in its ethics and leadership, service, and business management, and to recognize suppliers' risks and opportunities at the technical, administrative, and human level.
- 3. Execution.** We ensure that the recommendations made during the evaluation phase are followed and the proposed action plans are in place.
- 4. Recognition.** We create incentives for participation and strengthen their commitment through recognitions like the annual meeting of service suppliers, special "supplier of the year" recognition, public recognition of their achievements (internal magazine and local news media), and giving them priority in project and service bids, in contractor results meeting, and in training and consultancy on safety, health, and compliance.

FaFaci, a company from Torreón, Coahuila, exemplifies the success of this program. Engaged in the machine metal business since 1999, this family-owned business started out with two people and today employs more than 150. Through this time, it has enjoyed the firm support of Industrias Peñoles. It rose in the ranking from "under development" to "competitive," and it has held Socially Responsible Company distinction for more than 10 years. It is currently in the process of obtaining ISO 14001, 45001, and 90001 certifications with a comprehensive system. It is one of the companies most recognized by Peñoles for its ethical work, local employment, and its commitment to the community and support for associations involved in infant and elderly care. Its success can be attributed to its hard work and forward-looking vision, based on excellent resource administration.

Case study - Química del Rey participates in the EcoVadis Sustainability Ranking

EcoVadis Platinum, Gold, Silver, and Copper medals and badges recognize companies that have completed the evaluation process, demonstrating a solid management system in sustainability criteria. This ranking allows procurement executives to monitor the sustainability performance of their business partners, as well as their continuous improvement actions. Química del Rey has been participating in this process since 2019. In 2023, it obtained the Silver medal for its sustainable performance in these categories:

- **Environment:** Advanced
- **Labor practices in human rights:** Advanced
- **Ethics:** Good
- **Sustainable procurement:** Good
- **Carbon emissions:** Intermediate

