

SUSTAINABILITY REPORT 2019



COMPAÑÍA SIDERÚRGICA HUACHIPATO





CSH has contributed to the development of the metal-mechanic, construction and mining industry in Chile.

Chairman's vision

The future of the steel industry is highly challenging. On one hand, the global overcapacity that has caused unfair competition, as well as trade diversions as a result of several measures adopted by the major economies, which creates a complex business environment for the development of the Industry. And, on the other hand, the country's own challenges demand from companies greater social investment and investment in fixed assets, amounts that are often not in line with those required in indeed, the need for better environmental surroundings for society, the commitment to reduce CO2 emissions to avoid the acceleration of climate change, and the social demands to generate value not only for shareholders but also for the communities in which they develop, impose conditions that industry must take charge of for its long-term development.

In the particular case of Chile, these challenges must be understood in the context of a country strategy to add value to its own natural resources, and to the generation of a virtuous value chain in quality jobs, of constant innovation and technological adaptation according to the demand of increasingly challenging markets. Thus, since iron ore is extracted in the country, high quality steel products are generated, which are subsequently processed and used in large scale copper mining, serving as key supplies for its development. These products, developed by the steel company and its customers, also reach markets such as Mexico, Peru, Brazil and others, as a successful experience in creating value for the country.

The relevance of CSH in Chile has several areas of action. It starts by being a regional economic development pole and a training center for its own workers and highly qualified professionals, given its characteristics as a technological company and in permanent process innovation.

In the social field, it is closely linked to the surrounding communities where it operates, with an important commitment to responsible support for SMEs - obtaining the Propyme Seal - and with a great commitment to the development of its neighbors through institutions such as "Artistas del Acero" (Steel Artists) and "Club Deportivo Huachipato" (Huachipato Sports Club), both of which are open to the entire community.

The purpose of the organization is palpable in the development of the national metal-mechanic, construction and mining industry. Thus, the permanent innovation of products has allowed the national industry to participate in large infrastructure projects, such as the bridge over the Canal de Chacao, with solutions specially developed to meet the high demands of this work. In the same way, the permanent commitment with competitiveness and sustainability of copper mining has allowed a reliable and quality supply of grinding means, with permanent improvements and innovation together with its customers, as well as the development of specific solutions to support the new challenges of safety and productivity of underground mining.

Finally, it should be noted that, in a national and international scenario of so many uncertainties, the vocation and conviction to permanently support the development of the country, allows a local supply of quality and reliable, drives the competitiveness of national industry.

In the area of sustainability, the ethical principle of caring for people and the environment translates into permanent control and reduction of the risks of severe or fatal accidents of workers, as well as environmental impacts. The relation with the communities is, in turn, a fundamental pillar in the long-term development of the company, and therefore the close and permanent work with the neighbors, collecting and solving the concerns associated with the steelmaking operation, is part of the actions and commitments of the organization.

Finally, the permanent attention to the regulatory changes, as well as the smooth relation with the authority, is a necessary field of action to monitor the trends and discussions that are taking place in the country, in order to anticipate the managements and adjustments required to the organization.

The environment is complex and highly changeable, so the future is written day by day, requiring from each of the workers the capability of adaptation and innovation, in order to be able all together to build the next 70 years of Compañía Siderúrgica Huachipato.

Roberto de Andraca A.
Chairman of the Board of Directors

General Manager interview

What are the main challenges, and how is CSH preparing for them?

Without a doubt, the great challenge of the steel industry is to ensure its sustainability in the long term, and thus continue contributing to the development of the region and the country for the next 70 years, a challenge that is not only limited to the financial aspects of the business. The history of the steel industry in the region has been marked by a permanent commitment to its social and economic development, which is an indelible seal of its actions. However, this action cannot remain anchored in the forms that served in previous decades, since the very evolution of society brings with it new demands that force us to rethink our actions, both in environmental aspects and in the way we contribute to the development of the communities where our activities are carried out. In the same way, new global challenges, such as the reduction of CO2 emissions, migratory flows, or the need to incorporate more diversity in work teams, bring aspects that must be considered when defining future development strategies.

This long-term sustainability is greatly challenged by global steel overcapacity, which has led to unfair competition, and trade diversion as a result of the various measures taken by countries to develop their industry. This has generated, over the last decade, poor financial results at the global level. The global economic situation also generates uncertainties that blur the horizon for this industry. The low levels of activity, a product of the global Covid-19 pandemic, follow a year marked by the trade war between China and the United States, which will increase the excess available capacity, bringing with it a price war that will affect cash flows, and with it the ability to invest in the requirements for the development of the steel industry.

The way in which Huachipato has addressed these challenges is based on its people, the main value of any company nowadays. The commitment of the work teams, the knowledge of the processes, as well as the

permanent capacity to innovate and improve, allow having the flexibility to face these challenges and to adapt to a future that we only know changes every day.

What are the priorities that CSH has established?

The priorities we have established are determined by the same aspects that mark long-term sustainability, which are those over which we have particular control through our teams.

Safety as an ethical value. We cannot afford to accept that accidents are something that can happen. They are all avoidable and we must work on them tirelessly.

Reduce our environmental impacts day by day. In the first place, through the adequate control of the processes, as a starting point to ensure this objective. Secondly, to incorporate improvements and technology that allow us to exceed the standards with which the facilities were designed is a permanent work of the organization.

Innovating in processes and products. In this way we will be able to reach new markets with lower costs and with products and services that differ from the competition.

Thus, clearly our priority is the culture we expect from the organization, since with it we will be able to build the next 70 years of the Compañía Siderúrgica Huachipato. The future is not in the equipment or the technology, it is in what the human teams are capable of doing with them.

What were the main developments and events in these priorities during 2019?

We focused our efforts in reducing the environmental impact of some operations as a result of the start-up of the Blast Furnace 2, we made investments in maintenance and improvement of our coke plant and we carried out studies to continue reducing the impact of the operations in the long term.



Rodrigo Briceño
General Manager

Additionally, we have continued to work with the nearby community through the "Huachipato Buen Vecino" ("Huachipato Good Neighbor") program, the collaboration agreement with the Municipality of Hualpén for the construction of a communal park, and regular contributions to the institutions Artistas del Acero and Club Deportivo Huachipato, for their community development programs. As a result of the beginning of the social conflict in October 2019, we reinforced the work that was being developed to improve the working conditions of the contractor personnel, improving their habitability and making sure that these companies had adequate salaries for their functions.

CSH at a glance



Our Purpose:

To generate shared and sustainable value through the production and marketing of long steel products, their by-products and adjacent businesses, as well as the provision of logistics services.

About us and what we do?

We are the largest iron and steel complex in the country, located in Talcahuano, Biobío Region. We are located in a privileged position, with access to multiple loading ports and also to quality raw materials, which allows us to produce high purity steel. This condition makes it easier for us to reach demanding markets in the Southern Cone, adjusting the shipping method and delivery times to the needs of our customers. We supply mining, industry, metal mechanics and construction companies, among others, with long steel products.

Our company

What sets us apart?

We are the only integrated steel company in the country, which means that we produce steel from basic raw materials such as iron ore, coal and limestone, thus guaranteeing high-purity and quality-controlled products.

Our products

Currently our production is focused on long products, such as grinding rods, wire rods, concrete reinforcing bars and special steels, among others.

More information about our business, operations and markets can be found at www.capacero.cl.

714 thousand
metric tons of finished steel

860
own workers²³

1,502
contractors

US\$ 475.5
million in sales income

US\$ (78.8)
million in EBITDA

Ownership
99.9% CAP S.A.

²³ Total number of own employees as of 12/31/2019.

Our performance 2019



Corporate governance and ethics

100%

of the directors are independent²⁴.

6

complaints on the Integrity Channel.

100%

of the complaints were resolved during the period.



Own workers and contractors

6%

of our own workers are women.

0

fatalities.

0

own workers with occupational diseases.

5.4²⁵

Frequency Rate

100%

of own workers are under OHSAS 18001, ISO 9001 and ISO 14001.



Environment

202

hectares of protected areas.

96%

of the waste is recycled or reused.

2

incidents with environmental impact.



Community

477

local suppliers (**35% of total suppliers**) and **US\$ 98 million in local purchases**.

98%

of our own workers come from the Biobío Region.

1,347

suppliers make up the CSH value chain. **739 are SMEs and 100% of them are covered by the Propyme Seal (timely payment)**.

²⁴ "Independence" is defined according to the criteria used by the Dow Jones Sustainability Index (DJSI).

²⁵ Number of time lost accidents during the year per million hours worked. Includes own workers and contractors.

Our positive impact on society

We are a regional economic development pole and have contributed to the training of highly qualified workers and professionals for the country. In our 70 years of history we have accompanied the development and the steel that Chile needs.



Steel for the development of mining, metalworking, construction and infrastructure

We exist to support and sustain the development of the metal-mechanic, construction and mining industry in Chile. We understand our responsibility as a fundamental pillar to materialize the development of large infrastructure projects. One example is the Puente de Chacao, which requires steel solutions developed to meet the high safety and quality requirements of the works, in which our steel plays a central role. We have been a constant support in its competitiveness and sustainability in the mining industry, ensuring a reliable and quality supply with continuous improvements and innovation. In addition, we generate specific solutions of high demand to support the new challenges of safety and productivity of underground mining.



Reliability of supply

In such a troubled international scenario, the fact of having a local steel producer, with the vocation and conviction to support the development of the country, allows to reduce the impacts of the ups and downs that strongly affect the availability and competitiveness of the local industry and the development of the country.



Specialized Knowledge Generation Pole

The importance of CSH throughout its 70 years of existence goes beyond its contribution to the economic development of the Biobío Region. Since our origins, we have been a pole of knowledge generation in a high value-added industry - steel - as well as strategic for the development of the rest of the productive sectors. Thus, we have led the training of professionals and highly qualified technicians in the management of steel, innovating in new products and anticipating the requirements of the sectors we serve.



Development alongside communities

Another great positive impact has been our contribution to the development of the neighboring communities and the region for seven decades. This is how our workers come in their vast majority from our immediate surroundings, as do many of our suppliers. Our commitment, in particular to small and medium-sized companies, has been reflected in the numerous awards we have received in recent years, achieving the Propyme Seal for being one of the best paying companies. But our commitment goes beyond our productive chain, we are part of the life of the communities, who actively participate in the initiatives carried out by our related, Artistas del Acero and Club Deportivo Huachipato.

Our transformation roadmap

In a future full of uncertainties, what is constant is change, and at CSH we have been prepared for this.

Challenges and our responses

The global context

Market conditions have been particularly complex and challenging in 2019. The adverse circumstances for the company have been prolonged again, generating further losses. As it has been the trend in recent years, the outlook for the steel production business remains uncertain, due to excess production capacity, particularly in China, the trade war and increasing global distortions to steel trade, among others.

The national and regional context

We face a wide range of challenges. First, the urgency of competing on a level playing field and free from trade distortions with foreign production, which is not the case. Second, the Gran Concepción decontamination plan and the green taxes that increase the pressure on an already complicated financial situation of our company. Third, the generalized climate of uncertainty and the economic brake that the country has experienced as a result of the social outburst and the Coronavirus pandemic. Fourth, the social sentiment and the demand for greater responsibility on the part of companies towards their surrounding environment and the communities that host them.

Our internal context

In July 2019 we had an accidental spill of about 40 m³ of diesel in our operation located in the bay of Isla Guarelo, Magallanes Region. We activated the established protocols, including control and mitigation measures, and informed the maritime authority immediately. The incident highlighted shortcomings in controls and technology appropriate for a particularly sensitive environment, and also showed the courage to take charge quickly and act transparently, as we did. We learned from that experience, and we are taking measures to prevent this from happening in the future ([see page 61](#)).

Our response

The capitalization of learning, as well as the adequate control of the risks inherent to the operation of an industry of these characteristics, are key aspects to face the future. We must develop our activity in a context in which the system is being questioned; moreover, a new social pact is being discussed in a highly polarized national environment. All this, in the midst of a global environment that is highly affected by the excesses of capacity and intervention of governments in the economy.

For this reason, and in addition to moving forward with the optimization of our operation, we continued to look for opportunities on the Latin American Pacific coast, which is why 30% of our sales were exports. In addition, we continue to evaluate other activities that will supplement the company's revenues to make them sustainable.

That is how during 2019 we advanced in the development of a small-scale natural gas project, which seeks to satisfy the industrial, commercial and residential demand of the Biobío Region and other areas of southern Chile. In February 2020, the corresponding Environmental Impact Statement was entered.



Our commitment

As a company, we face an enormously challenging future with high degrees of uncertainty, as the market conditions in which we operate have been particularly complex and challenging in 2019. This has prolonged a long period of adverse conditions for our company, which has again generated losses.

Reversing these results is a task that will require all the effort and commitment of the teams involved. But, fundamentally, it will demand changes in the structural conditions in the global steel business and the neutralization of unfair competition, in order to generate the conditions to compete in a level playing field.

Despite the external conditions that have been adverse to us, we remain firmly committed to the well-being and development of our workers and the neighboring communities.

Additionally, we want to contribute to the decarbonization of the economy. That is why we are participating in the study led by the Ministry of Energy of the most vulnerable and gravitating industrial sectors in terms of emissions. The first phase is to identify technological opportunities that allow for the mitigation of emissions, and then to identify sources of financing for the required investments.

New products and solutions

Process innovation and the permanent development of new products is a central aspect in building a successful future for our company. The adoption of new technology and the adaptation of knowledge, become in this way necessary tools to consolidate the designed strategy. The latter focuses our operation on long products, with a strong emphasis on risk diversification through the development of new products and better value markets.

At the product level we have advanced in the development of new manufactures for grinding means, as well as in rebar for the construction of high resistance for works like the Puente de Chacao or the Puente de Concepción. Through our products we are contributing to the future development of underground mining in our country.

At the process level, the extrusion plant - the second in the world - has allowed progress in circular economy by converting waste, such as coal and iron dust, into raw materials.

In addition, we are deepening the production of special steels for the Latin American market. This challenge leads us to continuously increase the production and control standards of our operations, and to strengthen the technical training of our workers. In 2019 we extended the Lean-Kaizen continuous improvement tool to the steel and continuous casting units. We had already implemented it in our bar rolling mills. This initiative has allowed us to involve all workers in operational control, emphasizing concern for safety, costs and the environment.

Innovation, both in commercial and productive aspects, has been a central pillar of our strategy. Therefore, since 2018 we have had the Innovation and Development management to give it a formal organizational structure, consolidating it as a permanent discipline in all areas of our business.

We have had concrete results and successes in the initiatives and programs implemented, confirming the path initiated in investing in the human teams as a fundamental pillar of the development of the strategy, as well as strengthening their capacity for innovation and for adding value to the challenges posed.

Awards and recognitions 2019

- **First place in the ranking Most Innovative Companies Chile 2019**
Prepared annually by the ESE Business School in partnership with La Tercera, in 2019 we were recognized as the most advanced company in heavy industry in terms of innovation.
- **Innovation Award 2019**
Awarded by Cidere Biobío to our company for its advances in technology development and product innovation.
- **Leading Company 2019**
Awarded by Asimet Biobío to our company for its contribution to the region and Chile.

In addition, we obtained the Gold Seal in energy efficiency awarded by the Ministry of Energy.

High resistance steel to connect Chiloé to the mainland

The construction of the bridge over the Canal de Chacao is perhaps the most important work in the last 10 years in Chile, and will demand a total of 34 thousand tons of steel. CSH has developed a series of innovations for the benefit of this mega work, such as products of superior resistance, new diameters, new lengths and other specific logistic solutions for this great work.

High-end steels

CSH is an integrated steel company that uses iron ore in its processes, which allows it to manufacture special steels that have a chemical composition with alloying elements. Thanks to a metallurgical treatment, these steels acquire properties that common steels do not have, such as greater mechanical and corrosion resistance.

In our 70 years of history we have delivered high quality products to very demanding markets such as mining and cable and spring manufacturing in Chile. That experience, knowledge and capacity of our human teams has allowed us to expand our frontiers, developing and delivering new products and solutions to markets of equal or greater demand. For example, the automotive market, bolts, screws and mechanical parts and components throughout Latin America.

Corporate governance, risk management and ethics

Corporate governance

Board of Directors and committees

Our Board of Directors is made up of five people who are in office for three years and can be re-elected. This body is responsible for leading the strategy, including the definition of the objectives, the annual business plan, as well as the medium and long term ones. In addition, it defines the fundamental principles, mission, values, policies, strategies and priorities; monitors the creation of value and the efficient use of resources; and oversees performance, risks and management control systems, including those of sustainability.

Strengthening governance

During 2019, external directors (without executive positions in CAP S.A.) were incorporated, who have strengthened the control of the company's management, especially in matters of safety. Additionally, we trained the directors in free competition. In 2020 we will advance in our transformation process, including governance.

Sustainability governance

Every month the Board of Directors reviews the relevant facts on safety matters, issuing guidelines when it deems it appropriate.

We have established instances and mechanisms of coordination and follow-up in the different matters related to sustainability. At a strategic level, the general manager of CSH participates in the Corporate Sustainability Committee of the CAP Group, together with the Chairman of the Board of Directors of CAP S.A., its General Manager, as well as corporate managers and those of the other operating companies. This committee, in 2019, met every three months to monitor the implementation of the strategy, approve the resources, plans and corporate standards and follow up on the indicators.

At the tactical level, we also participate in the Sustainability Group of CAP S.A. which meets every two months to coordinate the implementation of the plans.

CSH Board Composition (as of December 31, 2019)

Gender		Independence ²⁶		With executive positions at CSH	
Man	Woman	Independent	Non- independent	Executive	Non- Executive
5	0	5	0	0	5

Risk management

Our Board of Directors is ultimately responsible for the company's risk management and sees to it that an appropriate environment, structure, culture, plans and resource allocation are in place. It also meets quarterly with the unit in charge of this matter. Our risk management methodology is based on the international standards ISO 31000, COSO ERM and ISO 22301.

In 2019 we moved towards a new risk management culture based on the analysis of processes to identify them and establish those responsible for their management. This is how we identify our critical risks and establish the controls to prevent or mitigate them. Among our critical risks are the occurrence of severe or fatal accidents, operational incidents with environmental consequences, failure of critical equipment, natural disasters, socio-environmental conflicts with communities, collapse of critical structures or assets, and the volatility of the raw materials market. The risk of regulatory or political changes, whether in tax, labor or environmental matters, has also become more important, as well as those that impact our company as a result of a new constitution.

More information on our risk management can be found in the 2019 Annual Report available at www.capacero.cl



²⁶ According to the criteria used by the Dow Jones Sustainability Index (DJSI) to define "Independence".

Ethics and compliance

Compliance Model

At the CAP Group level, in 2019 we created the Compliance area and identified the risks in this matter. We are working on the definition of critical processes, controls and their respective responsible persons. In the first stage, we focused on the areas of contracts, procurement, communities and assets.

During 2020 we will develop specific training and communications plans, online applications and e-learning, as well as workshops for our own workers most exposed to risks. In addition, we will implement the role of Compliance Ambassador, a recognizable point of contact, whose job is to help build and maintain an ethical culture through communication, training and other initiatives related to integrity and compliance.

Code of Integrity and Crime Prevention Model

As part of this initiative, in December 2019 we launched the new Code of Integrity at CAP Group level, which contains the principles and foundations for good relations with our different stakeholders, in addition to acting as a guide in situations that require it.

In addition, in 2019 we updated, also at the Group level, our Crime Prevention Model in accordance with the changes that Law 20,393 has had in the last 18 months. It was disseminated through training and the preparation of educational material to facilitate its understanding. In addition, we developed the Compliance Program for the Legislation on Free Competition and prepared "Short Guides", which establish the main guidelines to be followed in terms of due diligence, relations with public officials, influential people or people who represent others, and management of conflicts of interest.

Our Integrity Channel, which was also reformulated in 2019, allows our own employees, customers, suppliers, consultants, contractors and shareholders to make inquiries or report violations and transgressions of any national law or regulation and/or the principles established in the Group's internal regulations. It operates in a safe, anonymous and confidential manner and is available on the CAP Integridad portal and the corporate website.



Code of Integrity

6 complaints

- 3 internal y 3 external
- 1 complaint of workplace harassment
- 0 complaint of discrimination
- 0 complaints for unfair competition or corruption

Responsible procurement

At the contractor level, we monitor compliance with labor, and of our safety and environmental regulations. In 2019 we implemented a Centralized System for the Prevention of Occupational Safety Risks, so that those contractor companies with fewer personnel can adopt better standards in this area.

In addition, both suppliers and contractors must comply with the guidelines of our Crime Prevention Model.

Contractors: Social outburst and Coronavirus

We permanently monitor any problems that may arise or affect our contractors and suppliers.

After the social outburst, we carry out conversations with our own workers and contractors to listen to their concerns, especially in terms of occupational safety. In addition, we strengthen the living conditions of the contractor companies' workplaces in our plant to ensure a decent environment. Contractors have long enjoyed the same standard of food and transportation as our employees.

With regard to the Covid-19 pandemic, we began early - at the end of January 2020 - prevention work with our contractors, establishing a protocol for action in conjunction with the respective workers' compensation associations. Once Phase Three was initiated by the government, we started the regular sanitation of buses, companies' cafeterias and common areas used by contractors. Alcohol gel was regularly distributed as a supplementary measure to water and soap. We promoted teleworking, where the nature of the work allowed it, and adapted the shifts to reduce movements.



Our people: workers and contractors

Occupational health and safety

We took a new approach to occupational safety, now this issue has been added to every process. This means that all those responsible for them must assess the impact on people, assets and other processes, and so incorporate it into the overall planning and daily task planning. At CSH we have identified the twelve risks with the greatest accident potential represented by rolling machinery (heavy vehicles, railway equipment, cranes), suspended loads, work at height, contact with power sources, trapping points, confined spaces and dangerous atmospheres, chemical agents, work at low levels (excavations), hot work, molten metals, falling objects (from height) and suitable personnel selection processes.

Cultural Change. Understanding that safety must be rooted throughout the organization and its workers, in 2019 we carried out a cultural diagnosis of safety in three levels: managers, unit heads and workers. We also evaluated the present

subcultures in order to define action plans to achieve total involvement. Based on the results, change agents were deployed with a preventive approach: "Asesores en Seguridad" (Safety Advisors) work in teams of five risk preventionists with an active role in each operating unit, as well as in the contractor companies. We also prepared the leadership for this new Prevention Model, starting in 2019 with its detection and moving forward to 2020 in its development. In addition, and as a consequence of the fatal accidents experienced in 2018 in the Group's companies, a reflective day was held, stopping the operation completely in order to generate a space for the importance of prevention to be installed in each of us who work at CSH. To support the cultural change, we implemented an online platform for incident reporting, which records the deviations from normal processes, which are subsequently analyzed and used to improve and prevent future accidents. This allowed us to record better indicators in 2019, with

a Frequency Rate of 5.4, a Severity Rate of 141, zero severe accidents (2018 = 8.5; 167 and 0 respectively), and maintaining the zero fatalities of the last seven years.

Occupational health. During the end of 2019 we formed the Occupational Health area, which carried out a survey of the main aspects of our operation, including the contractors. Likewise, we executed the seven Minsal's protocols that apply to us. These are Manual Handling of Load, Silica, Noise, UV Radiation, Repetitive Work, Psychosocial Factors and Asbestos. Improvements were also made in infrastructure and equipment for workers and contractors, in feeding spaces and worksite facilities, which are inspected in the field and included in safety walks and visits by the joint committee. No occupational diseases have occurred in the last four years.

Safety

0 fatalities in the last seven years

	Frequency Rate (collaborators and contractors)	Severity Rate	Fatalities
2017	4.9	130	0
2018	8.5	167	0
2019	5.4	141	0



²⁷ Number of time lost accidents during the year per million hours worked Includes own workers and contractors.

²⁸ Days lost per million hours worked.

Employment

Workers



Relations and work environment

Over time, we have developed trusting and collaborative working relations with the three unions, to which 99% of our workers are affiliated. This facilitates the construction of agreements on matters of productivity, work environment and operational continuity. During the year 2019 an election was held to renew the board of directors of Union 1, with five directors being elected, who will remain in their positions for three years. The collective agreements agreed with Union 1 and 2 are in force until April 30, 2021. In addition, it should be noted that 28 years have passed without a strike. In 2019, the Corporate Climate survey, developed by ESG Compass, was applied, the results of which will be included in the plans to improve the working environment.

Employment quality

We are focused on excellence talent management and on promoting human capital formation. To this end, in 2020 we will continue with issues such as capacity building, working conditions, equity and integrity, among others.

Capacity building. One of the programs highlighted in 2019 was Lean Manufacturing carried out in partnership with Asimet Asesorías (Asimet Consulting). We implemented it in different production units to optimize processes and continuous improvement. We also continued with the diploma courses, taught in higher education institutions and aimed at improving the competencies of the assistant staff. In order to improve the accessibility to the workers we created a digital platform, which will allow the worker to have access to the most important information and certificates in human resources issues, even from his own smartphone.

Diversity. We strongly believe that diversity improves the performance of our teams. While there are few female graduates in the operational careers that we require at CSH, we have made an effort to include positions such as shift leaders and the like in order to have greater diversity in the steel plant. By 2019, 6% of the workers were women. As a result of the national contingency, and in the midst of the social outburst of October 2019, we took measures to protect the physical integrity of each worker, improving working conditions for all without distinction. In addition, we reviewed the living conditions for our workers at the site, and made an exhaustive review of the conditions of our contractors and subcontractors ([see page 59](#)).

Fundamental rights workshops

In 2019, two workshops were held for managers and chiefs with a focus on labor relations and gender equity. The first was the “Taller de Relaciones Laborales Modernas” (dignidad del trabajador, derechos fundamentales, género e inclusión) (“Modern Labor Relations Workshop” (dignity of the worker, fundamental rights, gender and inclusion). The second was called “Enfoque de Género en las Relaciones Laborales” (Gender Focus in Labor Relations), and was held in conjunction with the National Service for Women and Gender Equity.

Contractors

They are essential to us as they perform key business tasks. In 2019 we had 1,502 contractors and subcontractors, belonging to 83 contracting companies. In 2019 one of the sensitive issues that arose from the social outburst was the levels of workers' remuneration in Chile. Therefore, we carried out an exhaustive check of the income levels and working conditions of this group. We also reviewed and leveled the standards of the facilities used by them, improving restrooms and dressing rooms, and providing transfer buses and parking for all contractors who require them. We reviewed the salaries of external personnel from different companies in terms of size, areas and staffing, and as a result nearly 5% pay less than \$500,000 to their workers. These cases were companies employing staff who are pensioners or whose labor qualifications are lower. In any case, we continue to work with them so that they can improve these conditions. In addition, we initiated a process of reviewing the tender administrative terms and conditions in order to systemically regulate the base salaries of the workers of the contracting companies. During the year 2020 we will have the challenge of continuing to monitor this segment in terms of labor compliance, conditions and labor rights.



Héctor Medina A.
President Union N°1

We are responsible for what we do and also for what we fail to do. That is why, as workers, we emphasize that the company acted as it should have in relation to the event at Isla Guarello; with transparency, concern; and far from evading its own responsibilities, it took charge by applying the existing protocol at CSH to avoid a greater risk to the environment. Quickly, the solution mechanisms were sought and the workers made themselves available in case of emergency. In adversity, company and workers are one.



Juan Carlos Mora R.
President Union N°2

Faced with the social outburst, CSH took measures to protect the physical integrity of each worker, thus providing the necessary conditions to give them and their families peace of mind. With the contractor companies, it made concrete improvements for their benefit, such as the use of buses, and established commitments with the companies by establishing a basic salary floor of no less than \$301,000. On the other hand, and very much to the contrary of the market, contracts for external workers were reactivated, thus providing stability in times of crisis.



Environmental responsibility

Emissions and air quality

Air Quality. At the end of 2019, the Plan for Prevention and Decontamination of Concepción Metropolitano²⁹ was published, which establishes measures to improve air quality in the PM10 and PM2.5 pollutants. Although the concentration of PM10 has decreased in recent years, PM 2.5 - highly harmful to health - has increased mainly in winter due to the use of firewood in homes. Since we are located in an industrial area, we actively participate in meetings with other companies of the sector and the corresponding authority, reviewing the actions to be implemented and highlighting the Management of Critical Episodes as a relevant point. The Decontamination Plan contemplates several measures for industries, including a 30% reduction in authorized PM emissions, within a maximum period of five years from December 2019. During 2020 we will make the necessary studies to achieve this goal. As part of our commitment and environmental responsibility, we have also developed actions of abatement and reduction of emissions of coarse particulate matter, which were also applied in 2019. Examples of these are the spraying system for coal stockpiling, wetting of coke stockpiling and unpaved roads, and sweeping of paved roads inside. We also kept the atmospheric environmental control equipment operational, and privileged the use of natural gas over other fuels.

Water and energy

- **Energy efficiency.** Having established an energy system in 2016 - certified since 2018 under ISO 50001:2011, and having energy performance indicators, were key to improving our energy efficiency. As a result, we achieved the GOLD Seal in energy efficiency from the Ministry of Energy. In order to apply for this category, it was necessary to be certified under an Energy Management standard, in addition to presenting and demonstrating improvements in energy performance. The measures presented were the reduction of the steam matrix that allowed us to reduce the internal production of steam contributing to a lower overall energy consumption, thanks to which we reduced by 50% the steam consumed since 2014 (60 ton/h in 2014 to 30 ton/h in 2019). The second was the reduction in power consumption at the metallurgical adjustment station thanks to operational adjustments. Thus, in 2019 we achieved an energy efficiency index of 6.35 Gcal/ton of liquid steel, one of the lowest in the last five years. Our total energy consumption in 2019 was 17,611,007 GJoules, 93% of which was coal, the remaining 7% being electrical power.
- **Climate change.** We have been estimating our greenhouse gas (GHG) emissions for years, reporting to the World Steel Association. Our footprint is mainly associated with the energy consumption used in production processes. We have action plans to mitigate emissions, such as energy efficiency programs. In 2019 our scope 1, 2 and 3 footprint was 1,733,202 Ton CO₂ equivalent, unchanged from 2018.

- **Product life cycle.** In 2019 we updated the life cycle analysis of rebar for construction, so the Environmental Declaration (EPD) will be available to participate in sustainable construction projects under the certifications.
- **Green taxes.** This is an important challenge, since the application of green taxes of fiscal modernization in Chile - which could tax CO₂ emissions whose source is the use of fossil fuels - and that in our case such supplies are used as raw materials without the existence of substitutes, could put us in a complex situation. For that reason, we contribute to the discussion of the authority, making visible this reality that, in the international scenario, frees from the tax this type of cases.
- **Care for water.** We have intensive water consumption, but we are located in an area where water scarcity is not a significant problem. Even so, our operation takes care not to affect the surrounding water resources. We have a water-efficient design with water recirculation plants. However, in 2019, and as a consequence of the beginning of the operation of the Blast Furnace No. 2, there was a reduction in the flow of recirculated water and an increase in the consumption of fresh water. In addition, and given that we have a submarine emissary, we have implemented a Monitoring Program for the Bahía de San Vicente, where we are located, years ago. We monitor water quality and marine biodiversity in the dock area and in the areas where effluents are discharged. No changes have been detected that indicate any effect on the environment.

Steel industry's carbon neutrality plan

In 2019 we participated in the "Estudio de desarrollo bajo en carbono para la industria chilena de la siderurgia" ("Study of low carbon development for the Chilean steel industry"), sponsored by the German Agency for International Cooperation (GIZ) and the Chilean Ministry of Energy. Its purpose is to identify and prioritize technology, existing barriers and facilitating frameworks needed for the transition to a national low emission industry, in the context of the public policies and regulatory instruments that are being developed worldwide in this matter.

²⁹ Published in December 2019 in the Official Gazette under Decree No. 6.

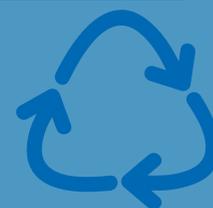
Waste generated and recycled

Waste generated
(tons)

2017	396,446
2018	368,704
2019	330,997

Recycled waste
(percentage)

2017	97%
2018	98%
2019	96%



Responsible waste management

We recycle 96% of our waste, a high performance that challenges us a lot to improve, so we defined that in 2020 we will complement our Zero Waste Plan with a Circular Economy Project. With it we will seek to process between 100 and 150 tons of non-hazardous waste per month, transforming them into infrastructure projects with a triple impact (economic, social and environmental). In addition, we will optimize costs in the payment of final destination, and integrate key players in the social field into the process, such as grassroots recyclers, corporate and involvement communities. We will also generate projects made on the basis of 100% recycled material and that are 100% recyclable, locally manufactured, so it has a low carbon footprint.

Currently, the main waste or by-products recycled or reused are: steel mill slag (83,452 tons) and blast furnace slag (83,452 tons), which we send to a local cement company and a company that recovers the metal content to then produce steel mill aggregate, used as a road stabilizer. On the other hand, the waste we sold in 2019 were limestone and lime fines (1,140 tons), coke (29,818 tons), and scale (1,094 tons). A large portion is sent to a transition zone within our facilities - ZOMARE - where they await a recycling or sales destination. During 2019, 72,277 tons of waste entered this area. Likewise, the first plant in Latin America for the Extrusion of Steel Waste continued in operation, which is capable of processing diverse waste into an agglomerated pellet, which constitutes raw material for our blast furnaces. In the same plant it is possible to recondition industrial oils after use and thus be used as agents for adjusting the density of coal. During 2019, 89 tons of this waste were recycled.

Biodiversity and natural heritage

For us, respect for the environment includes caring for the flora and fauna found in our surroundings and in our facilities. We especially care for the wetlands within CSH, which extend over 200 hectares. They correspond to unique ecosystems, in which we apply a Wetlands Monitoring and Management Program to control water quality, sediments, biodiversity and avifauna. Likewise, we have operations on Isla Guarello, which is located near an area with the potential to be declared a Natural Heritage of Humanity because of its biological, geological and cultural resources, in the Region of Magallanes. In 2019, we regretted the occurrence of an operational incident there ([see highlighted note](#)). Finally, a reforestation plan with native trees and radiata pine was carried out on the company's land. A 10% of the total to be replanted will be based on native trees (13,500 trees), a topic that arose from the dialogues with the community. In 2018, this 60-hectare plot was cut down, always in compliance with the corresponding authorizations.

Accident on Isla Guarello

In July 2019 there was a spill of approximately 40 thousand liters of diesel on Isla Guarello, where the limestone used as raw material in the production of steel is extracted. When the operational incident was detected, the hydrocarbon spill emergency protocol was applied. Normal production and shipment of limestone were suspended in order to carry out containment and clean-up work on the seashore. We installed the best devices available for this type of situation. We immediately communicated the incident to the Port Authority of Puerto Edén, which must alert the Chilean Navy, activating its protocols and supporting the cleanup work in the pristine place. We arranged for a specialized company to carry out the clean-up operations, which lasted approximately 30 days. The nature of the spilled diesel and the environmental conditions of the sector favored that the environmental impact of the event was very limited and not permanent in the environment, as demonstrated by the different studies that were carried out during 2019. Having an adequate Contingency Plan - widely known by the site personnel - allowed early action to control the potential impact. Thanks to this lesson learned, we began a review of all those facilities where spills of any kind could occur, and identified the mechanisms needed to control them for preventive purposes.

Working together with communities

Dialogue and relation with the community

We have a long history of commitment and contribution to the Biobío Region, promoting projects that have contributed to improving the quality of life of its inhabitants from the beginning. Ensuring a joint work with the communities for mutual success in the long term, is part of our vision and is at the base of our actions.

Spaces for dialogue and cooperation

Communication, dialogue and cooperation have been part of our community management for many years.

1. Tripartite Commission

We have been part of this dialogue and cooperation entity for 17 years. It is made up of five Neighborhood Councils, two Environmental Committees, ten companies in the area and municipal authorities, as well as representatives of educational units in the area. Every year, many projects are developed to improve the quality of life of the community and solutions are sought for issues of green areas, particulate matter and environmental contingencies, among other aspects of interest to the different stakeholders.

2. Business Table

It is a joint working space to solve the challenges of the industrial sector. It is made up of six companies: ASIPES, Blumar, INCHALAM, Cementos BioBio, Pacific Blue and CSH. During 2019 an agreement was reached with Fundación Trascender for the awarding of social and environmental projects. These favored thirteen social organizations in the Comunidad Libertad and Gaete - neighboring our facilities - including neighborhood councils, environmental committees, educational units, Senior Citizen organizations and a sports club, thus directly benefiting 2,500 people.

Prompt payment to SMES
Having been chosen as the third best company paying SMEs is a recognition that fills us with pride, especially in the complex and challenging times we live in.

3. Communication and claims

We are developing a formal claims and inquiries system for the entire CAP Group. In 2019, claims at CSH were received via phone calls, email and on the Twitter account @capacero. We designed a community relations and communication policy that coordinates the environment, safety and community units to maintain accurate and timely information regarding operational issues, contingencies and other deviations that may occur.

In 2019, we received no claims from the community for noise, odors or other related issues. During the period, the authority issued two sanitary summaries for allegedly annoying emissions, which did not generate fines or sanctions. We are strengthening our protocols to respond each time in a faster and more efficient way to the inquiries from the neighbors, whatever the means of communication used (formal or social networks), using for this purpose the dialogue spaces of the Tripartite Commission and the Business Table, when we have to face concerns that go beyond our operation. Thus, in 2019 there were no fines for these aspects.



Contribution to the community

Employment and local purchases

Our productive and economic activity linked to business generates direct opportunities in the Biobío Region through employment, purchases and development of local suppliers. In 2019, 98% of our workers came from the region where we operate, while 35% of suppliers are local and 18% of purchases (from 477 companies) were made in our region.

Payment to SMEs

We obtained the third place in the ranking of the best payers to the SMEs, reaching 89 points in the measurement elaborated by the Chilean Commodities Exchange (BPC) and the Chilean Association of Entrepreneurs (Asech). This not only measures payment terms to suppliers, but also monitors aspects such as the time it takes to send checks or transfers, how easy it is to confirm invoices and other variables that help and favor the supplier payment process. In 2019 we were first in the industrial sector, an area that averaged 65 points in the global ranking.

Social contribution

Although our commitment and presence in Chile has been a constant over the past 69 years, we have carried out multiple initiatives that we have brought together under the “Programa CAP Acero Buen Vecino” (CAP Acero Buen Vecino Program) [\(see highlighted note\)](#). In 2019 we provided US\$ 560,000 in cash contributions to the community. The company founded and supports the Huachipato Sports Club and the Estadio CAP in Talcahuano. Through these, it develops different sports and recreational activities. It also created the “Corporación Cultural Artistas del Acero” (Steel Artists Cultural Corporation), recognized for its leadership in the regional art scene, an entity that is currently autonomous. More information about the Club Deportivo Huachipato at www.cdh.cl, and the Corporación Cultural Artistas del Acero at www.artistasdelacero.cl.

CAP Acero good neighbor

Social investment program that develops activities aimed at supporting the neighboring community in areas highly valued by the community such as training, sports, recreation, culture and promotion of environmental care.



1. Training

90 neighbors were trained in different topics of labor insertion, which are highly valued by the community given the social instability experienced in 2019. The training focuses on topics that promote employability, for example, driving, certified arc welding, baking and cooking, cutting and making industrial clothing and food handling.



2. Promotion and environmental care

This line of action supports the community and the Municipality of Talcahuano in environmental education and care initiatives.



3. Sports, recreation and culture

In order to encourage a healthy life, which promotes well-being in our neighboring communities, we organize different activities. The swimming course for children, permanent physical activities and the afternoons of “futbolito” for children were examples of initiatives carried out in the facilities of the Huachipato Sports Club. Of particular note was the participation of 250 children in the Steel Artists program called “Crear Audiencia” (Creating an Audience).

CAP competition for architecture students

For 33 years we have been generating challenges for architecture students in Chile, inviting them to innovate and create new models with steel. The winning team in 2019 represented Chile in the international version of this competition, organized by the Latin American Steel Association, ALACERO (for its acronym in Spanish).

Designing a center for the development of ideas, innovation and research, which welcomes researchers, entrepreneurs, academics and representatives of the productive sector was the challenge proposed for 2019.

After an exhaustive review process of the 36 competing projects, a jury awarded students from the Universidad Central with the Biomass and Seeds project designed by the students Diego Lacazette and Hugo Valenzuela, who were guided by professors Álvaro Herrera and Ricardo Atanacio.

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