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Second Party Opinion

DRI-EAF Steelmaking Facility Pesquería, Mexico Green Financing Framework

Sept. 1, 2025

Location: Mexico **Sector:** Metals and mining

Alignment Summary

Aligned = ✓ Conceptually aligned = o Not aligned = ×

✓ Green Loan Principles, LMA/LSTA/APLMA, 2025

See Alignment Assessment for more detail.

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Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

Ternium México S.A. de C.V., the borrower, owns the DRI-EAF Steelmaking Facility Pesquería, Mexico. Its transition from purchasing slabs produced via Blast Furnace-Basic Oxygen Furnace (BF-BOF) to producing slabs via Direct Reduced Iron and Electric Arc Furnace in Pesquería will significantly lower greenhouse gas intensity compared to the sector's global average performance. Steelmakers' increased adoption of DRI and EAF could be key to decarbonization efforts, and it's integral to the sector's path to net-zero emissions.

The company is considering the most advanced decarbonization solutions available in the sector. It'll require different and combined solutions like energy efficiency, renewable energy, process change, the use of scrap, and carbon capture. But solutions capable of delivering more reductions in carbon emissions come with significant uncertainty, in terms of the technology and the cost.

Weaknesses

Ternium México operates in a sector where full decarbonization remains very challenging. High greenhouse gas emission processes still dominate steelmaking. The industry is responsible for roughly 8% of global greenhouse gas emissions, and its output continues to increase, driven by steel's role as a key input in many sectors, including building construction and infrastructure. The company can deliver near-term decarbonization, in our view, but full decarbonization will require further improvements.

Areas to watch

The DRI module tends to emit less because it replaces coal with natural gas, but it still has significant lock-in risks. The company included design features in the technology that allow for future conversion from natural gas to hydrogen when it's economically viable. But it's unclear if green hydrogen can be produced at an industrial scale. Its application is being tested in small-scale pilot projects.

For metals producers, it's a significant challenge to secure low-carbon power sources, especially in Mexico. More than 75% of the electric grid in the country relies on fossil fuels. Demand from other sectors and lengthy lead times for developing new energy supplies make this situation even tougher. The company plans to address this by transitioning 50% of the electricity required for the new DRI-EAF facility to renewable sources, combining own renewable energy generation and power purchase agreements.

Shades of Green Projects Assessment Summary

Over the two years following issuance of the financing, Ternium México S.A. de C.V. expects to allocate 100% of proceeds to its Direct Reduced Iron (DRI) and Electric Arc Furnace (EAF) steelmaking plant at the Pesquería Industrial Center in Mexico.

The borrower expects a small proportion of proceeds to be allocated to refinancing related to prior operating expenditures (limited to a lookback period of 12 months) and capital expenditures (limited to a lookback period of 24 months). This includes environmental permits for construction, earthworks, and industrial warehouse engineering. On the other hand, most capital and operating expenditures will occur during the next two years.

Based on the project category's Shades of Green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in DRI-EAF Steelmaking Facility Pesquería, Mexico's green financing framework, we assess the framework Medium green.

DRI-EAF	**Medium green**
Capital expenditures, operating expenditures, research and development, and other related investments toward the design, development, construction, operation, and maintenance of the DRI-EAF steelmaking plant at the Pesquería Industrial Center in Mexico	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the borrower's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Ternium México S.A. de C.V. is a Mexico-based steelmaker and subsidiary of Ternium S.A., a global steel company with operations throughout Latin America. Ternium México produces a range of flat and long steel products--including hot-rolled, cold-rolled, galvanized, and prepainted steel--serving sectors such as construction, automotive, and industrial manufacturing. The company operates several production facilities across the country and is involved in various stages of the steel production process, from raw materials processing to the distribution of finished products. Its operations support both domestic and international markets. Ternium México is the owner and operator of DRI-EAF Steelmaking Facility Pesquería, Mexico.

Material Sustainability Factors

Climate transition risk

The mining of minerals and processing of metals are both energy intensive, particularly primary metals versus recycled metals. Moreover, the energy intensity of mining is increasing in many cases as ore grades decline and generally require more processing. Steel production remains dominated by relatively high greenhouse gas emission processes, as well as other environmental risks such as air pollutants. The steel industry is responsible for around 8% of global greenhouse gas emissions, and output continues to increase, driven by its contributions as a key input across multiple sectors, including building construction and infrastructure. On the other hand, it will also play a key role in enabling the energy transition, where they will be major components in infrastructure such as wind turbines and transmission lines, as well as electric vehicles.

Pollution waste and recycling

Mining of minerals and processing of metals release toxic elements into the air, water, or soil. Many substances used to process ores and metals are hazardous, so that emissions, effluents, and residual waste can harm human health through land or water contamination. The management of waste and pollution is embedded within the operating plans for any assets in the industry, albeit with varying degrees of quality management, scrutiny, and risk around the world. The industry also results in considerable waste in the form of large volumes of untreated rock and processing residues. Metals producers increasingly rely on scrap materials, when their collection is economical, potentially advancing circular economy principles.

Biodiversity and resource use

The metals and mining value chain often implies the transformation of large areas of land at all phases of a mine’s life, from planning and optimizing its footprint to closure and land restoration. Specifically, mining involves the removal of vegetation and soil, the movement of considerable volumes of rock, the conversion of land plots into waste disposal sites, and sometimes the diversion of watercourses. Waste from mining and processing can also have further impacts on biodiversity if it's not managed effectively.

Physical climate risk

The sector typically relies on extensive infrastructure to extract and process resources. Such large and widespread fixed assets are highly exposed to acute physical climate risks, especially since extreme weather events, including heat waves and storms, are becoming more frequent and severe. Over time, both acute and chronic risks--such as changing temperature and precipitation patterns and increasing water stress--may shorten the useful life of vehicles and infrastructure. Disruption can be both on direct

operations and throughout the value chain, since mining involves, for instance, extensive logistics, from fuels and equipment transportation to the mining site, to the shipment of resources for further processing or to their end consumers.

Social factors

The sector's impact on communities is typically pronounced, as its plans often incorporate sizable investments in infrastructure that can affect local living conditions. Metals production may also be dangerous because plants operate large machinery and processes at high temperatures. The impact on stakeholders may be extensive because safety incidents can involve significant operational disruptions, lengthy remediation, or human casualties, potentially creating community friction or regulatory penalties. This is especially true for low-probability events like mine collapses, large equipment failures, or fugitive emissions.

Issuer And Context Analysis

The financing and framework apply exclusively to the construction of a steelmaking facility at the existing Industrial Center in Pesquería, based on Direct Reduced Iron (DRI) and Electric Arc Furnace (EAF) technology, both of which address climate transition risk. This facility will significantly reduce carbon emissions intensity relative to current rolled products in the region, since it will replace slabs sourced from Ternium S.A.'s subsidiary in Brazil and third parties. Most of these slabs are produced using blast furnace technology, whose main energy source is coal.

Ternium S.A. has established a climate change strategy to reduce its short-term greenhouse gas emissions, although substantial long-term reductions come with significant uncertainty due to technological, regulatory, and financial risks. Key initiatives include a 15% reduction in the emission intensity rate per ton of hot-rolled steel between the 2023 baseline and 2030--an initiative that considers scope 1, 2, and 3 (category 1 and 10) emissions under the Greenhouse Gas Protocol methodology.

The company expects to hit its target with a combination of solutions that entails:

- Process change (increased deployment of DRI-EAF to replace the purchase of slabs produced by BF-BOF);
- Increased use of renewable energy (through own renewable energy generation and power purchase agreements);
- Expanded capacity for carbon capture and usage;
- Energy efficiency, mainly related to energy recovery, off-gas recycling, and better controls; and
- Increased use of scrap as raw material for the existing methods.

In our view, the company is considering the most advanced decarbonization solutions for its sector, although their feasibility and impact will vary and dictate longer-term decarbonization ambitions (see "Decarbonizing Metals Part One: A Pressing Issue With Uncertain Fixes," June 3, 2024).

Ternium México faces significant environmental challenges beyond transition, including issues related to pollution, waste management, and recycling. These challenges are addressed through the adoption of international environmental management standards. The company focuses on waste reduction and material efficiency, and it implements strategies to minimize waste and optimize the use of co-products. In 2023, Ternium México recycled 1.7 million tons of steel scrap to produce new steel. Moreover, the dust and slag generated by the company's EAFs are transformed into mixed materials that are sold to the cement industry as co-products (141,000 tons in 2024). Additionally, Ternium México has implemented closed water systems for its greenfield projects and prioritized the use of treated sewage water in water-stressed regions, which is particularly relevant in northern Mexico.

Ternium México has measures in place to protect local biodiversity. The company conducts fieldwork to identify ecological connectivity areas and implement conservation measures in its steel and mining operations. It carries out continuous monitoring and control programs, including wildlife rescue and the installation of habitat-connecting gates for reptiles, amphibians, and small mammals. The company has also undertaken reforestation projects in Mexico, and it has put flora and fauna preservation measures into place around its operations. Its steelmaking facility in Pesquería includes an ecological reserve of over 80 hectares, preserving 15,000 plants and relocating 67 wildlife individuals.

Ternium S.A. has also conducted a physical risk assessment, using the Representative Concentration Pathways (RCP) scenarios (which follows the industry's best practices). The assessment included the most significant climate hazards for its assets, such as pluvial flooding, tropical cyclones, landslides, forest fires, and droughts. The Intergovernmental Panel on Climate Change's RCP 4.5 and 8.5 scenarios were applied to two distinct time horizons: 2020-2039 and 2040-2059. Each of the operational units within the company assesses weather-related risks for its operations, and each one conducts climate scenario analyses.

Ternium has introduced measures to address safety risks and community impacts. The company integrates health, safety, and community development into its operations through structured programs and policies. It conducts regular hazard and risk reviews, and it aims to reduce its injury frequency rate and lost-time injuries frequency rate by 50% between 2023 and 2025. It has established a five-year process safety program, obtained ISO 45001 certification for its main facilities, and implemented both planned and random inspections to enhance safety measures. The company also has a crisis committee that monitors and coordinates responses and conducts accident investigations and risk management using defined protocols.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Loan principles.

Alignment Summary

Aligned = ✓ Conceptually aligned = o Not aligned = ×

✓ Green Loan Principles, LMA/LSTA/APLMA, 2025

✓ Use of proceeds

The framework's green project category is shaded green and is therefore considered aligned. The borrower commits to allocating the net proceeds issued under the transaction exclusively to the sole eligible green project. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

Ternium Mexico will utilize an amount equivalent to the net proceeds from the financing to finance and/or refinance the DRI-EAF Steelmaking Plant at the Pesquería Industrial Center in Mexico. The funds will also be exclusively allocated towards capital expenditures, operating expenses, and research and development (R&D) costs related to the project's design, development, and maintenance. The look-back period for this financing is 12 months for operating expenses and 24 months for capital expenditures, and the company expects to fully allocate proceeds in the next two years.

✓ Process for project evaluation and selection

Ternium México has an internal process in place in which the treasury and the sustainability teams will be responsible for the allocation of an amount equivalent to the net proceeds to the eligible project. They will meet at least annually to screen and approve the allocation of proceeds. The company also has processes and policies to identify and manage environmental and social risks related to eligible project, which are described in the framework. Moreover, it includes an exclusion list, covering topics such as exploration and production of fossil fuels, defense, gambling, tobacco, and cannabis activities.

✓ Management of proceeds

Ternium México will track its net proceeds through its internal accounting system, and the proceeds will be managed by the treasury and sustainability teams. The borrower commits to maintaining a notional allocation to the eligible green project, equal to the total net proceeds from the loan agreement under this framework, until its maturity. The framework is exclusively established to finance the DRI-EAF steelmaking plant at the Pesquería Industrial Center in Mexico. If construction ceases, if the project is replaced, or if it no longer meets the eligibility criteria, the loan agreement will lose its green designation.

✓ Reporting

Ternium México commits to providing an annual report on the allocation of funds and the environmental impact on its operation until full allocation. The first report will be published within the first 180 days of next year. Furthermore, the agreement specifies some environmental performance metrics that Ternium México will report on, which will be disclosed once the project has completed one full year of operations. In our opinion, key impact metrics such as greenhouse gas emissions intensity, the volume of CO_2 captured and sold, average scrap content, and the proportion of renewable energy utilized are key environmental considerations for the project.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments".

Overall Shades of Green assessment

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in DRI-EAF Steelmaking Facility Pesquería, Mexico's green financing, we assess the framework Medium green.

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green project categories

DRI-EAF

Assessment	Description
Medium green	Capital expenditures, operating expenditures, research and development, and other related investments toward the design, development, construction, operation, and maintenance of the DRI-EAF steelmaking plant at the Pesquería Industrial Center in Mexico.

Analytical considerations

- Many industrial processes, including conventional iron and steel production, are not aligned with a low-carbon, climate-resilient future due to their high dependence on fossil fuels as an input. However, parts of these production processes can be decarbonized through electrification or alternative technologies that reduce reliance on fossil fuels or abate carbon emissions. Lowering the carbon footprint of such industrial processes is important for the transition to a low-carbon economy, and it will require different and combined solutions such as energy efficiency, clean power, process change, use of scrap, and carbon capture. Moreover, circular economy, air pollution, and water management are other key environmental risks associated with steel manufacturing industrial sites.
- Our Shades of Green assessment (Medium green) is based on the significant steps that we see the company taking to avoid lock-in risks, given that part of the process is replaced by electric furnace and more scrap content usage compared with what's typical. Moreover, DRI-EAF is recognized as the long-term low-carbon solution for the sector, according to the International Energy Agency. However, full decarbonization will require further improvements, since the DRI and EAF processes still rely on fossil fuels. This does replace the reliance on coal, but it still has lock-in risks.
- Steel made from iron ore using BF-BOF technology continues to dominate globally, and it requires coal. That coal is used both for heat in the furnace and to produce coke--a key component in the chemical transformation of iron ore into steel. Steelmakers' increased deployment of DRI and EAF could be a key contributor to decarbonization if they replace carbon-intensive BF-BOF production, and it's part of the net-zero transition pathway for the sector, according to the International Energy Agency. Ternium México's DRI-EAF steelmaking plant expects to replace slabs sourced from Ternium S.A.'s subsidiary in Brazil and from third parties--most of which are produced using blast furnace technology. The investment includes a DRI module with an annual capacity of 2.1 million tons as well as an EAF with an annual capacity of 2.6 million tons.
- The company's process change is expected to decrease current production greenhouse gas intensity by 54%. This is well below the global average for BF-BOF production (2.3 tons of CO_2 per ton of crude steel), according to research findings from the World Steel Assn. Steel produced from scrap using an EAF is typically at the lower end of the emissions range. Ternium

México expects to increase scrap content at Pesquería from 10% of scrap content in slabs produced by BF-BOF. While the company's initiative contributes to the projected reduction in greenhouse gas emissions, there are limits to the additional reductions it can achieve in the long term. Product specifications and quality requirements may impose maximum limits on scrap content, which could hinder additional emissions reductions.

- Moreover, steel produced using EAF is typically less carbon intensive, with much of the greenhouse gases that are indirectly produced emanating from the power source. Securing low-carbon power sources is a significant challenge for metals producers--and especially in Mexico, where 75% of the electric grid relies on fossil fuels. Demand from other sectors and lengthy lead times for developing new energy supplies make the situation even more difficult. Ternium México plans to address this issue by transitioning 50% of the electricity required for the new DRI-EAF facility to renewable sources, combining own renewable energy generation and power purchase agreements. This shift is expected to result in an additional 15% reduction in greenhouse gas intensity.
- The DRI module tends to emit less because it replaces coal with natural gas, but it still faces significant lock-in risks. On the other hand, Ternium México included design features in the technology that allow for future conversion from natural gas to hydrogen when it's economically viable, which mitigates the risk of the asset becoming stranded. The company is also collaborating with various partners, including Tenova and Tecpetrol, to stay at the forefront of hydrogen-based burner technology and the development of green hydrogen infrastructure. Green hydrogen-based steel production could deliver nearly carbon-neutral steel, but we believe mainstream adoption is still far off.
- The DRI module is also equipped with carbon capture capabilities, which could further support the decarbonization of steelmaking if technological, cost, regulatory, and storage limitations can be overcome. Ternium México currently captures and sells over 280,000 tons of CO_2 in its Mexican facilities.
- The project incorporates various environmental considerations into its design and operation, including aspects of the circular economy, air pollution, and water management, which we view positively. Additionally, the iron ore storage area is designed to minimize diffuse emissions by using domes and enclosed material handling systems to prevent airborne dust. The steelmaking facility is also set up to operate using treated sewage water from the municipality of Pesquería, which reduces the need for fresh groundwater extraction.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

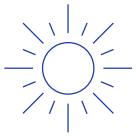
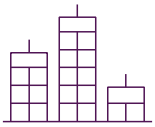
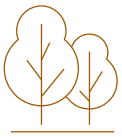
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
DRI-EAF	 **6. Clean water and sanitation**  **7. Affordable and clean energy**  **11. Sustainable cities and communities**  **12. Responsible consumption and production**  **13. Climate action**  **15. Life on land**

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions, March 6, 2025
- FAQ: Applying Our Integrated Analytical Approach For Second Party Opinions, March 6, 2025
- Analytical Approach: Shades Of Green Assessments, July 27, 2023

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