

Export Management and Compliance Policy

I. PURPOSE

The purpose of this document is to define the Export Management and Compliance Policy for AZZ Inc. (“AZZ”) and its directors, officers, applicable employees, agents, consultants and representatives (each of whom is covered herein by the term “AZZ person”) with U.S. Government Export Control Laws and Regulations and other countries in which AZZ does or intends to do business. In support of national Security, U.S. and global efforts to fight against terrorism, and the legal responsibilities and business interests of this company, AZZ has implemented export control procedures that all company employees are required to follow.

It is the policy of AZZ that all of its employees, departments, divisions, domestic and foreign subsidiaries, and affiliates must comply with U.S. Government Export Control Laws and Regulations. No transactions are to be conducted by or on behalf of AZZ contrary to U.S. Export Control Laws and Regulations. AZZ employees with export related job responsibilities are required to have a working knowledge of export control laws and regulations, especially those governing their specific job functions, as well as a working knowledge of company export control policies and procedures. AZZ employees must apply due diligence to ensure they abide by all U.S. Export Control Laws and Regulations and comply with AZZ export control guidelines, policies and procedures.

AZZ supports U.S. efforts to prevent proliferation of weapons of mass destruction. Special care must be taken to prevent any transaction with entities involved in the proliferation of weapons of mass destruction and prohibited activities involving missile, nuclear, chemical and biological warfare.

AZZ reserves the right to amend, rescind or replace this policy at any time.

II. U.S. EXPORT OVERVIEW

The U.S. Export Control System generally requires export licensing for defense items, for items that have both commercial and military applications, and for exports to sanctioned persons and destinations. U.S. national security, economic interests and foreign policy shape the U.S. export control regime. The export laws and regulations aim at achieving various objectives, such as preventing the proliferation of weapons of mass destruction, advancing the U.S. economic interests at home and abroad, aiding regional stability, implementing antiterrorism and crime controls, and protecting human rights.

Exports are controlled by several government agencies. These controls generally restrict the export of products and services based on the type of product and the destination of the export. The type of commodity being exported determines the controlling agency.

Three principal agencies regulate exports from the United States:

- The U.S. Department of State Directorate of Defense Trade Controls (“DDTC”) administers export control of defense exports.
- The U.S. Department of Commerce Bureau of Industry and Security (“BIS”) administers export control of so-called "dual-use" technology exports.

- U.S. Department of the Treasury Office of Foreign Assets Control (“OFAC”) administers exports to embargoed countries and designated entities.

III. EXPORT COMPLIANCE

Each export order has five basic elements that define responsibility, demand review for risk, and determine needed actions. These elements must be known and reviewed.

1. U.S. Principal Party in Interest – The Terms of Delivery should be clearly defined and responsibilities for export compliance should be known and determined prior to executing any order actions, including order acknowledgement (*Primary Source – Code of Federal Regulations Section 15, FTSR Part 30, Subchapter 30.4 – EAR Section 758.3*)
2. Exporter of Record – What entity (Seller vs. Buyer) has possession or has taken possession of the goods offered for export and its responsibility to make declaration to U.S. Customs & Border Protection prior to loading. (*Primary Sources - EAR – Section 758.3 (a)(b), Responsibilities of Parties to the Transaction – Code of Federal Regulations Section 15, FTSR Part 30, Subchapter 30.4*)
3. What - The product being offered is not restricted and does not require an export license issued by the U.S. Government. What is the product commodity code or Schedule B Number? (*Primary Sources – U.S. Census Bureau, Foreign Trade Statistics Schedule B Numbers - EAR Section 774, Supplement No. 1 – Commerce Control List – Code of Federal Regulations Section 15, BIS Chapter VII (c)*)
4. Who - The “end user” is not part of any trade sanctions nor restricted in any way by the U.S. Government. The principals or officers of either a contractor or the “end user” is not part of any sanctions nor restricted in any way by the U.S. Government (*Primary Sources - EAR Section 744, Supplement No. 4 Control Policy – End User & End Use Based – Office of Foreign Assets Control, or, OFAC*)
5. Where / What Purpose - The foreign country / destination isn’t blocked by trade sanctions or embargoes imposed by the U.S. Government (*Primary Sources - EAR Section 738, & Section 738 Supplement No. 1 Commerce Country Chart – Office of Foreign Assets Control, or, OFAC*)

Based on the review of these elements, actions need to be executed to ensure the shipment is carried out as required by defining responsibilities. Part of this is issuing an order acknowledgement. This is important in that it accepts, or takes exception to, particular terms of an order. This assures that all AZZ divisions are in compliance with prescribed regulations and are working within the budgeted costs.

This review should be conducted at the bid/proposal stage. Should it not be done before order acceptance and export restrictions are found, the end result may be the inability to export the product. If AZZ cannot export, AZZ cannot ship. If AZZ cannot ship, AZZ cannot get paid.

Regardless of U.S. export controls, AZZ still has a contractual obligation and could be in breach of that contract.

Even if AZZ sells to a domestic company who takes possession of these goods and then exports them under their name, AZZ is still a USPPPI (as defined below) and must ensure AZZ is still export compliant.

The following sections explain the EAR as applied to AZZ Electrical products, what is expected of each party, and how each are represented. Each AZZ EPG division will need to make a determination as to the proper export classification of their products.

A. Export License Requirements (NLR) / Product Designations (ECCN / EAR99) – Do I need an Export License?

For export shipments leaving the United States, certain designations are assigned an Export Control Classification Number, or, **ECCN**. These are found on the Commerce Control List within the Export Administration Regulations or EAR and are sorted both alphabetically and numerically. These numbers alert an exporter to controls on a particular commodity that may require licensing and or denials of a particular product to a particular country, end-user, or location within a country. Based upon product application, a significant number of commodities exist that are not controlled and or may not require licenses. These commodities are identified as “**EAR99**”.

The “EAR99” designation does not always determine that an export license isn’t required. Constant changes to the EAR, denial lists, or trade embargoes warrant an exporter review the What (known), Who, Where, & What Purpose on a regular basis to ensure no changes have occurred that may require application for and approval of an export license.

Often, customers require an official letter from the Seller that makes declaration as to applicability of export licensing requirements. This letter should define product commodity classifications and code (Schedule B), product designations, and whether or not an export license is needed and available. If this is not requested at time of bid submittal, it is recommended to draft such a letter and include to any potential foreign customer.

B. Shipper’s Export Declaration (SED / AES / SLI) – What declaration is made to U.S. Customs & Border Protection?

Historically, the Exporter of Record (**EIR**) submits a declaration to the U.S. Customs and Border Protection in the form of the Shipper’s Export Declaration (**SED**), Customs Form No. 7525-V. This document was required for exports in excess of \$2,500.00 in value (except Canada unless licensed), or on any licensed export requirement regardless of value. This SED document has since been eliminated for use effective July 2, 2008. But, the same measures are used and still must be declared.

Today all export declarations are done by electronic means through the Automated Export System or, **AES**, a direct link into U.S. Customs and Border Protection. To use the AES, persons must be registered with U.S. Customs and Border Protection and have the appropriate software for entry. Registration can be cumbersome as you must file a Letter of Intent profiling the company, commit to strict adherence, etc. *AESDirect* is available and the process of registering has the same intent and information as submitting a Letter of Intent. In both cases, a CBP agent will contact you to discuss particulars and identify the software to interface.

By utilizing a Freight Forwarder, you need not register or update software as they are already registered and have the required software. They must have an Export Power of Attorney issued by the shipper (AZZ EPG divisions) to act on their behalf.

For each export shipment made requiring declaration, AZZ will file a Shipper's Letter of Instruction (**SLI**) with their Freight Forwarder. The SLI defines all the particulars of the shipment and provides details the Freight Forwarder requires to execute the AES, much the same as the SED provided.

The SLI can be interpreted as a singular Power of Attorney and is not to be considered as an Export Power of Attorney. It conveys authorization to the exporter's agent to declare their export shipment to CBP in compliance with the EAR. However, issuing an SLI to a foreign customer's agent, typically a freight forwarder represents a conflict of interest and suggests parties are related, when they are not (see below under USPPI).

This document (SLI) is critical as false representations; inaccurate statements or entries are punishable offenses carrying civil and criminal penalties including fines and, if knowingly negligent, prison. Only authorized officers, persons, or agent of the company are to execute this primary export document. An "agent" is usually a Freight Forwarder engaged by an Export Power of Attorney to act on AZZ's behalf. You still are responsible for providing the correct details confirming export compliance to its Freight Forwarder.

An element of this declaration that is critical is the commodity classification code, or **Schedule B Number** used for exports. This is often incorrectly referred to as the **HTS Number** used for imports. Do not accept your foreign customer's commodity description for export classification as they are not governed by the EAR. It is incumbent upon each AZZ division to know these and correctly assign the classification.

Please note, any Export Power of Attorney must be forwarded to and executed by designated AZZ corporate officer(s) and divisional manager(s) only.

C. U.S. Principal Party in Interest (USPPI) – Do I need to comply with the EAR? Do I need to execute the export declaration?

For export transactions, the USPPI is defined as the person or company within the United States that receives the primary benefit and consideration for the transaction. The following persons can be the USPPI:

- The U.S. Seller, can be acting as a Wholesaler or Distributor
- The U.S. Manufacturer knowingly selling for export
- The U.S. Tendering Agent or Order Party who has brokered the transaction between the U.S. Seller or Manufacturer and the foreign Buyer
- A Foreign entity if located in the U.S. at time of purchase and has taken possession (known as a Foreign USPPI)

To note, a freight forwarder or freight consolidator located in the U.S. cannot act as a USPPI. Requests made from foreign customers to accept freight collect terms will often ask their freight forwarder to arrange for shipment. In turn, they often ask the U.S. Seller to execute certain documents such as the **SLI**, or even request registration and enter the **AES**.

This must be avoided as it presents a conflict of interest and will be treated as a Routed Export Transaction by CBP. In situations such as these, all orders should revert to ‘C’ Terms Named Foreign Point Destination. Or, more correctly, the Buyer issues a letter of authorization to its freight forwarder to execute the **AES**.

If the Buyer issues this letter of authorization, it is a viable Routed Export transaction. **AZZ** need only supply the Pro Forma Invoice to the agent of the Foreign USPPI (see EIR below).

D. Exporter of Record (EIR) – Am I the Exporter of Record?

The claim to this title in any transaction is open to interpretation. The USPPI can be the **EIR**, but not always. What is practiced is the EIR issues the declaration in the form of an SLI or AES entry. The party engaged in contract of carriage has ultimate control and timing for the point of export from the U.S. and thus AES entry details.

Incoterms do not determine the EIR; they only define a primary set of rules and obligations. Regardless, any Seller (USPPI) must ensure export compliance but need not be the EIR.

The EAR defines the Exporter as the USPPI, excepting in Routed Export Transaction, EAR Section 758.3(a) (b) (c). The FTSR always identifies the USPPI as the Exporter but for statistical purposes only.

Any project or order that uses Exworks, FCA, FAS, or even FOB should exclude claim to the EIR title. In such cases, the Buyer is the EIR, not the Seller. At time of shipment, the Seller (**AZZ**) need only provide a Proforma Invoice that includes the following:

- The product’s Schedule B Number, it’s description as outlined, along with a technical description of the goods for each item listed on the form (See link under References & Sources)
- **AZZ**’s Exporter Identification Number (EIN) – Usually the division’s Federal Tax Identification Number
- The Destination Control Statement including the No License Required (NLR) designation and commodity identifier “EAR99”

Doing so provides the Buyer the necessary details to inform their agent to which they then execute necessary export declarations. A general practice would be to provide a Proforma Invoice including the same detail to the customer in advance along with the Order Acknowledgement.

Any project or order that uses the “C” or “D” terms assumes the EIR, even if indirectly. Again, these terms don’t define this responsibility; they only provide a reasonable assumption as to who actually is. The Incoterms being issued by the International Chamber of Commerce leave this open and does not define this role. Reason being these rules do not govern the import or export compliance laws of a foreign country such as the U.S. Export Administration Regulations.

E. Terms & Conditions / Pricing / Incoterms – What does the customer expect of me? Have I included the required costs? Whose Terms & Conditions apply?

It is important to acknowledge orders in specific terms. This includes knowing what price has been provided and what terms of delivery (Incoterms) would normally apply. Doing so will define a set of Actions to be carried out by both parties in conjunction with their assigned responsibilities.

Orders are often executed without each party knowing the full extent of each other's responsibilities. This usually occurs when a price is offered as Exworks but the freight is Prepaid & Add or shipped on a Collect Basis. Export Orders must be specific in price and terms of delivery / shipment and never be on a Collect Basis. They must match.

Incoterms can be modified with contract language that changes the intent of a particular term. This contract language applies to any document submitted as part of the order including an offer, an acceptance of the offer, an order acknowledgement, etc.

The Incoterms outline each party's responsibilities, including export compliance, to assign title, transfer of risk & liability, and final delivery. Both parties must know this at time of order execution.

IV. ANTI-BOYCOTT RESTRICTIONS

The laws prevent U.S. persons from doing business under terms that would restrict that person's ability to do business with other countries under a boycott not recognized by the U.S. Anti-boycott restrictions are most likely to appear in dealings with entities in certain Arab League countries who continue to impose boycott restrictions on Israel and companies that do business with Israel.

A. JURISDICTION

These laws generally apply to any person or entity in the U.S., and to U.S. persons or entities abroad. As examples, the laws apply to:

- A foreign company's affiliate or permanent office in the U.S.
- A U.S. company's foreign affiliate's transaction with a third-party if that affiliate is controlled by the U.S. company and involves shipment of goods to or from the U.S.

B. RED FLAGS

The Commerce Department has set forth the following red-flags to look for as signs of anti-boycott restrictions:

- Agreements to refuse or actual refusals to do business with Israel or with blacklisted companies.
- Agreements to discriminate or actual discrimination against other persons based on race, religion, sex, national origin, or nationality.
- Furnishing information about business relationships with Israel or with blacklisted companies.

- Furnishing information about the race, religion, sex, or national origin of another person.
- Paying or otherwise implementing letters of credit that include requirements to take boycott-related actions prohibited by the anti-boycott regulations.

These restrictions may appear on pre-printed portions of agreements.

C. EXCEPTION

A major exception to the anti-boycott rules is the provision that permits compliance with the import requirements of a boycotting country. This exception permits firms to comply with import restrictions that prohibit imports from Israel or Israeli firms. The exception does not permit compliance with a boycott of blacklisted firms outside of Israel, nor does it allow for the issuance of a negative certificate-of-origin of any type.

D. REPORTING

Any U.S. person or entity who is asked to enter into an agreement or provide information that would violate anti-boycott laws must report this to BIS. In addition, the U.S. Internal Revenue Service (IRS) requires U.S. taxpayers to report operations in or relating to boycotting countries and nationals and request to cooperate with boycott activities.

<http://www.bis.doc.gov/index.php/enforcement>

These reporting requirements apply even where the U.S. person or entity refuses to participate. Crossing out the boycott language in a proposed contract does not end the matter. The duty to report remains even where the requesting foreign entity accepts the redaction of the boycott language.

V. PENALTIES FOR EXPORT VIOLATIONS

A. GENERAL OVERVIEW

Any person or entity that brokers, exports, or attempts to export a controlled item without prior authorization, or in violation of the terms of a license, is subject to penalties. Violators may incur both criminal and civil penalties. Although there is a maximum amount for a civil or criminal penalty, the actual penalty imposed is often multiplied. Each shipment might be considered a separate violation. A series of violations occurring over a period of time may result in hundreds of thousand or even millions of dollars of penalties.

All AZZ employees should be aware that Penalties for violations of U.S. Export Control Laws and Regulations may be imposed by law may include substantial fines and or imprisonment as follows:

Administrative Penalties: Each violation of the export control regulations can result in the imposition of civil penalties amounting to the greater of \$250,000, or twice the value of each transaction.

Denial of Export Privileges: Violations of the U.S. Export Control Laws and regulations of the conditions of an export license may result in the denial of export privileges. This denial can restrict the ability of the company to engage in export or re-export transactions or restrict access to items subject to U.S. Export Control Laws and Regulations.

Criminal Penalties: Violators can be fined \$1,000,000 and /or up to 20 years in prison.

Voluntary Self-Disclosures: The Bureau of Industry and Security generally grants a reduction of at least 50% of the calculated penalty.

AZZ is committed to the adherence of the policies and procedures outlined by the U.S. Export Control Laws and Regulations and requires all employees to support that commitment. Accordingly, AZZ will view the failure of any employee to comply with this policy statement as a serious violation of company policy and the employee will be subject to disciplinary action. Disciplinary action may include warning, reprimand, probation, suspension, reduction in salary, demotion, or termination. Violations will be dealt with severely.

B. JUDGMENT FACTORS DETERMINING VIOLATIONS

In assessing penalties, DDTC, BIS, and OFAC will consider a number of factors, both aggravating and mitigating. Mitigating factors include

- (1) whether the disclosure was made voluntarily;
- (2) whether this was a first offense;
- (3) whether the company had compliance procedures;
- (4) whether steps were taken to improve compliance after discovery of violations; and
- (5) whether the incident was due to inadvertence, mistake of fact, or good faith misapplication of the laws.

Aggravating factors include:

- (1) willful or intentional violations;
- (2) failure to take remedial action after discovery;
- (3) lack of a compliance program; and
- (4) deliberate efforts to hide or conceal a violation.

VI. POSSIBLE INDICATIONS OF POTENTIAL VIOLATIONS OF EXPORT CONTROL LAWS AND REGULATIONS

Listed below are some of the possible indicators of an illegal export or diversion:

- The customer is willing to pay cash for a high value order rather than use a standard method of payment, which usually involves a letter of credit.
- The customer is willing to pay well in excess of market value for the commodities.
- The purchaser is reluctant to provide information on the end-use, or end-user, of the product.
- The end-use information provided is incompatible with the customary purpose for which the product is designed.
- The final consignee is a trading company, freight forwarder, export company, or other entity with no apparent connection to the purchaser.
- The customer appears unfamiliar with the product, its application, support equipment, or performance.
- The packaging requirements are inconsistent with the shipping mode or destination.
- The customer orders products or options that do not correspond with their line of business.
- The customer has little or no business background.
- The order is placed by firms or individuals from foreign countries other than the country of the stated end-user.
- The order is being shipped via circuitous or economically illogical routing, such as through Canada to a non-Canadian end-user.
- The customer declines the normal service, training, or installation contracts.
- The product is inappropriately or unprofessionally packaged (e.g., odd sized/re-taped boxes, hand lettering in lieu of printing, altered labels, or labels that cover old ones).
- The size or weight of the package does not fit the product described.
- “Fragile” or other special markings on the package are inconsistent with the commodity described.

VII. RECORD KEEPING, INTERNAL REVIEWS AND NOTIFICATION

All employees should keep detailed record information of each sale. All basic information, such as, the description of the product, quantity, amount sold for, customers name and the use of the product for its final use should be noted. These records should be kept along with the record of each sales order file. Each of these records should be kept for a period of 5 years.

Internal Auditors will periodically review the detailed records, which each AZZ employee keeps, after a sale, to check whether the internal export controls are functioning. Strict action will be taken on those associates who do not comply with the above-mentioned requirements.

The Chief Legal Officer will notify AZZ Employees of any change in the political and export policies as and when they happen.

VIII. WHERE TO DIRECT QUESTIONS

Any *AZZ* employee having reason to suspect legitimacy of a transaction or concern that a violation of U.S. Export Control Laws and Regulations has occurred or is about to occur is required to report their concern to your Supervisor, General Manager, Human Resource Department or the Chief Legal Officer.

Any questions concerning legitimacy of any transaction, violation, or potential violation of U.S. Export Control Laws and Regulations should be immediately referred to the Chief Legal Officer.

Who Do I Contact

If you ever have a question or a concern about an ethical or policy–related matter, you are expected to raise the issue to the appropriate resource within AZZ.

To report a violation, contact:

- Your Supervisor
- The Chief Legal Officer – Tara D. Mackey
- The Human Resources Department
- Any Officer of the Company
- The AZZ Compliance Hotline: (855) 268-6428
- The AZZ Compliance Alertline website: <https://www.azz.alertline.com>

Calls to the AZZ Compliance Hotline and reports made on the Alertline may be made anonymously, if you wish. AZZ prohibits retaliation against anyone who raises a concern in good faith.