

Second-Party Opinion Coca-Cola FEMSA Green Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Coca-Cola FEMSA Green Bond Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 (“GBP”). This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Eco-efficient and/or circular economy adapted products, production technologies and processes, Clean and Mass Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, and Climate Change Adaptation – are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 6, 7, 9, 11, 12, 13 and 15.



PROJECT EVALUATION / SELECTION Coca-Cola FEMSA’s sustainability team is responsible for evaluating and selecting projects. Final approval for project eligibility will be jointly provided by its Chief Financial Officer, Supply Chain and Engineering Officer and Corporate Affairs Officer. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Coca-Cola FEMSA’s sustainability and finance team will be responsible for managing proceeds raised from the sale of its Green Bonds. Coca-Cola FEMSA plans to allocate proceeds on an on-going basis. Unallocated proceeds will be temporarily held in cash, cash equivalents or liquid securities in accordance with the Company’s investment policy. Coca-Cola FEMSA commits to replace projects that are no longer eligible with other eligible projects. This is in line with market practice.



REPORTING Coca-Cola FEMSA commits to report on allocation of proceeds on its website on an annual basis until full allocation or in case of any material changes. In addition, Coca-Cola FEMSA will report on relevant impact metrics, such as tons of waste recycled, tons of packaging material reused, acres reforested or preserved, reduction in GHG emission and renewable electricity use, where feasible. Sustainalytics views Coca-Cola FEMSA’s allocation and impact reporting as aligned with market practice.

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Issuer Location Mexico City, Mexico

Report Sections

Introduction.....	2
Sustainalytics’ Opinion.....	3
Appendices	10

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Introduction

Coca-Cola FEMSA, S.A.B. de C.V. (“Coca-Cola FEMSA”, the “Company”, or the “Issuer”) is a Mexican multinational beverage company. It is a subsidiary of Fomento Económico Mexicano, S.A.B. de C.V. (“FEMSA”), and the capital stock of the Company is owned by FEMSA, The Coca-Cola Company and the public in the proportion of 47.2%, 27.8%, and 25.0% respectively. Coca-Cola FEMSA has operations in several Latin American countries with Mexico and Brazil being the most important markets generating approximately 80% of its sales. Other markets include Guatemala, Nicaragua, Costa Rica, Panama, Colombia Argentina and Uruguay, and, in Venezuela, through its investment in KOF Venezuela. Headquartered in Mexico City, the Company employs over 80,000 employees.

Coca-Cola FEMSA has developed the Coca-Cola FEMSA Green Bond Framework (the “Framework”) under which it intends to issue one or multiple green bonds and use the proceeds to finance or refinance, in whole or in part, existing and future projects that will reduce its environmental footprint and conserve natural resources. The Framework defines eligibility criteria in eight areas:

1. Climate Change Adaptation
2. Clean and Mass Transportation
3. Energy Efficiency
4. Renewable Energy
5. Environmentally Sustainable Management of Living Natural Resources and Land Use
6. Sustainable Water and Wastewater Management
7. Pollution Prevention and Control
8. Eco-efficient and/or circular economy adapted products, production technologies and processes

Coca-Cola FEMSA engaged Sustainalytics to review the Coca-Cola FEMSA Green Bond Framework, dated August 2020, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (“GBP”).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the Issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Coca-Cola FEMSA’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Coca-Cola FEMSA’s representatives have confirmed (1) that they understand it is the sole responsibility of Coca-Cola FEMSA to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly

¹ The Green Bond Principles are administered by the International Capital Market Association (“ICMA”) and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

² The Coca-Cola FEMSA Green Bond Framework is available on Coca-Cola FEMSA’s website at: <https://coca-colafemsa.com/en/investor-relations/debt-holder-information/green-bond>.

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Coca-Cola FEMSA Green Bond Framework

disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Coca-Cola FEMSA.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Coca-Cola FEMSA has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Coca-Cola FEMSA Green Bond Framework

Sustainalytics is of the opinion that the Coca-Cola FEMSA Green Bond Framework is credible and impactful and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of Coca-Cola FEMSA's Green Bond Framework:

- **Use of Proceeds:**
 - The eight eligible categories – Climate Change Adaptation, Clean and Mass Transportation, Energy Efficiency, Renewable Energy, Environmentally Sustainable Management of Living Natural Resources and Land Use, Sustainable Water and Wastewater Management, Pollution Prevention and Control, and Eco-efficient and/or Circular Economy Adapted products, production technologies and processes, , and– are aligned with those recognized by the GBP.
 - Under the Energy Efficiency category, Coca-Cola FEMSA will finance equipment as well as operational improvements and maintenance to reduce energy consumption and GHG emissions of its facilities. Coca-Cola FEMSA estimates that expenditures to improve and maintain energy-efficiency facilities including heating, ventilation and air conditioning (HVAC) upgrades, energy efficient LED lighting upgrades, variable-speed drives and motion detector conveyor systems will result in an increase in energy efficiency of 45% and a reduction in GHG emission of approximately 14%.⁴
 - As per the Pollution Prevention and Control category, Coca-Cola FEMSA will invest in collection and recycling facilities as well as sorting centers. This investment will help the Company to achieve its 2030 goal to collect 100% of its primary packaging. Sustainalytics notes that the recycling facilities, sorting centers and equipment will process post-consumption plastic materials, such as Polyethylene terephthalate (PET), and other primary packaging materials (not including virgin recyclable material or virgin glass/PET material).
 - Under its Eco-efficient and/or circular economy products, production technologies and processes category, Coca-Cola FEMSA will invest in the procurement of recycled PET resin (rPET) for its PET packaging.
 - Sustainalytics recognizes that the use of recycled inputs in the manufacturing of plastic packaging plays an essential role in enabling the food and beverage industry to increase its resource efficiency and contribute to a circular economy, especially by keeping materials within

⁴ Coca-Cola FEMSA confirmed with Sustainalytics that it seeks to achieve the goal of 45% energy efficiency and 14% reduction in GHG emission, through implementation of energy efficiency measures, by 2030.

- a closed loop in order to retain the embodied energy in such materials, as well as by reducing the use of fossil fuels and/or virgin plastics in new packaging to the greatest extent possible. Sustainalytics notes that investment in procurement of rPET is important for the Company to achieve its 2030 goal of 50% of recycled resin in its PET packaging.
- Sustainalytics also notes that the extent of recycling of single-use plastics is very low, with an estimated 9% of total global plastic waste having been recycled between 1950 and 2015,⁵ and further recognizes that improved recycling rates alone, even if attainable, will not fully address the major environmental issues associated with plastics, especially single-use plastics.⁶ In order to achieve full circularity, the industry needs to take substantial measures, including an increased use of low-carbon substitute materials that can be recycled indefinitely without a loss of quality. Sustainalytics is of the opinion that Coca-Cola FEMSA's effort to limit the use of virgin resources in its products through reusing/recycling materials in the supply chain will reduce negative environmental impact and contribute to a shift toward a circular economy.
 - Coca-Cola FEMSA plans to invest in preservation and reforestation projects under its Environmentally Sustainable Management of Living Natural Resources and Land Use category. The Company has a goal to replenish 100% of the water it uses to produce its beverages and aims to do so by increasing reforestation and forest preservation, which helps to recharge surface and ground aquifers. Coca-Cola FEMSA will therefore use the proceeds to expand and maintain its reforestation and forest preservation areas.
 - Under the Renewable Energy category, Coca-Cola FEMSA may finance the construction, development, acquisition, maintenance, and operation of solar, wind, geothermal and hydropower (≤ 25 MW) facilities. Specifically, Coca-Cola FEMSA will also finance or refinance onsite renewable electricity, such as solar rooftop panels, in its manufacturing and distribution centers as well as enter into Power Purchase Agreements (PPAs) for energy supply. Sustainalytics notes that if Coca-Cola FEMSA invest in (i) financing geothermal facilities that have direct emissions of less than 100 gCO₂/kWh, and (ii) purchasing long-term (>5 year), project-tied PPAs, Sustainalytics considers to be in line with market expectations.
- **Project Evaluation and Selection:**
 - Coca-Cola FEMSA's sustainability team is responsible for evaluating and selecting projects based on the criteria listed in the Framework. Coca-Cola FEMSA's Chief Financial Officer, Supply Chain and Engineering Officer, and Corporate Affairs Officer are jointly responsible for providing final approval. Sustainalytics considers this process to be in line with market practice.
 - **Management of Proceeds:**
 - Coca-Cola FEMSA's sustainability and finance teams will track proceeds of the bond. Unallocated proceeds will be temporarily held in cash, cash equivalents or liquid securities in accordance with the Company's investment policy. The Company has committed to a two-year look-back period for refinancing, which is considered market practice.
 - Coca-Cola FEMSA has stated that the Company will allocate the net proceeds from the issuance as soon as practicable. Though Coca-Cola FEMSA does not commit to a time-period for allocation of proceeds, Sustainalytics considers Coca-Cola FEMSA's process to manage proceeds to be in line with market practice as investments will be made on a portfolio basis.
 - **Reporting:**
 - Coca-Cola FEMSA has committed to annually disclosing its allocation of proceeds and its progress on the environmental commitments in its Integrated Annual Report, until all proceeds have been allocated or in case of material developments. This report will be available on its website.⁷
 - The Integrated Annual Report will contain information pertaining to the amount of net proceeds allocated to each eligible project category, a selection of brief project descriptions, the outstanding amount of net proceeds to be allocated to projects at the end of the reporting period

⁵ It is estimated that approx. 6300 million metric tons (Mt) of plastic waste had been generated between 1950 and 2015. Additionally, approx. 9% of which was recycled, 12% was incinerated, and 79% accumulated in landfills or the natural environment. Science Advances, Production, use, and fate of all plastics ever made: <https://advances.sciencemag.org/content/3/7/e1700782>

⁶ Unlike steel, glass, and aluminum, plastics can only be recycled a finite number of times before being disposed of. In addition, recycled and bio-based plastics face end-of-life management issues similar to conventional (fossil-fuel) plastics.

⁷ Coca-Cola FEMSA's Integrated Annual Report available at: <https://coca-colafemsa.com/en/investor-relations/reports-and-results/>

Coca-Cola FEMSA Green Bond Framework

as well as expected impact metrics such as tons of waste recycled, tons of packaging material reused, acres reforested or preserved, reduction in GHG emission and electricity use.

- Sustainalytics considers the reporting process to be in line with market practice based on Coca-Cola FEMSA's commitment to make annual allocation publicly available and where feasible to report on impact metrics.

Alignment with Green Bond Principles 2018

Sustainalytics has determined that the Coca-Cola FEMSA Green Bond Framework aligns to the four core components of the GBP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of Coca-Cola FEMSA

Contribution of framework to Coca-Cola FEMSA 's sustainability strategy

Coca-Cola FEMSA demonstrates a strong commitment to sustainability. Coca-Cola FEMSA's sustainability strategy is underpinned by several environmental and social targets set under three overarching pillars - people, planet, and the community in which it operates. Some of the Company's environmental targets and its progress so far include:⁸

- *Reducing carbon footprint across its value chain:* Coca-Cola FEMSA's 2030 emission reduction goal entails reducing its absolute scope 1 and scope 2 emissions⁹ by 50% as well as reducing its scope 3 emissions¹⁰ by 20% as compared to 2015. From 2015 to 2019, the Company reduced its manufacturing operation's CO₂ emissions by 12.6%.
- *Increasing the share of renewables in its electricity mix:* Coca-Cola FEMSA in 2019 sourced 70.7% of electricity requirements for its manufacturing facilities from renewable sources. The Company proposes that by 2030, 100% of its electric energy needs will be procured from renewable sources.¹¹
- *Reducing packaging waste:* Coca-Cola FEMSA is aligned with The Coca-Cola Company's "World Without Waste" global initiative.¹² The Company seeks to collect an equivalent of 100% of its primary packaging by 2030; to create packaging that includes at least 50% recycled material by 2030; [and to make all consumer packaging 100% recyclable by 2025]. In 2019, the Company created packaging that consisted of 23.7% recycled content. In addition, in 2019 Coca-Cola FEMSA utilized a total of 63,631 tons of recycled materials in its plants in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Brazil and Argentina. The Company owns two recycling networks - SustentaPET in Brazil and IMER in Mexico and works with 14 recycled food-grade resin suppliers across its operations network. Through its IMER facility in Mexico City, which started operations in 2006, Coca-Cola FEMSA has recycled over 219,000 tons of PET. Coca-Cola FEMSA works with waste pickers through its collection and sorting centers in Brazil and Mexico to help include them in the formal economy.
- *Reducing plant waste:* In 2019, the Company surpassed its 2020 target of recycling at least 90% of the waste generated in its bottling plants, by recycling 95.7% of its manufactured waste. All of its bottling plants in Mexico have earned the Zero Waste to landfill certification.¹³
- *Improving water efficiency:* In 2019, Coca-Cola FEMSA used 1.52 liters of water per liter of beverage produced, on track to achieve its 2020 water efficiency goal of using 1.5 liters of water per liter of beverage produced. The Company currently treats 100% of the wastewater discharged from its manufacturing and operating facilities and decreased its absolute water consumption by 27.8% between 2010 to 2019. Coca-Cola FEMSA is on track to achieve its goal of 100% water replenishment in several of the territories in which it operates through its reforestation and forest management

⁸ Coca-Cola FEMSA, 2019 Integrated Annual Report, at: <https://coca-colafemsa.com/wp-content/uploads/2020/04/Coca-Cola-FEMSA-Integrated-Report-2019.pdf>

⁹ Scope 1 emissions refers to direct emissions from owned or controlled sources such as Coca-Cola FEMSA's manufacturing plants and its own transportation fleet. Scope 2 emissions are indirect emissions from purchased energy for its manufacturing plants, distribution center and offices.

¹⁰ Scope 3 emissions pertain to upstream and downstream transportation and distribution infrastructure as well as emissions from purchase of raw materials and services from suppliers.

¹¹ Coca-Cola FEMSA, 2030 Carbon Footprint Reduction Plan, Document provided to Sustainalytics by Coca-Cola FEMSA.

¹² The Coca-Cola Company, What is world without waste, accessed on August 2020, at: <https://www.coca-colacompany.com/faqs/what-is-world-without-waste>

¹³ Coca-Cola's FEMSA has a Guide for the implementation of its Zero-Waste Program under which it aims to recycle 100% of solid waste generated within its facilities. This Guide systematically lists the stages of project implementation under its zero-waste program. Once a facility manages to recycle 100% of its solid waste continuously for 3 months, evaluations are carried out by its Mexican Business Unit to determine compliance with the Zero-Waste program. If no deficiencies are found and all the required documents have been filed, the facility will receive its Zero-Waste certification. This certification is valid for 3 years and the facility must notify its Mexican Business Unit if a new type of waste has been generated or when a supplier change has been made.

Coca-Cola FEMSA Green Bond Framework

initiatives. In 2019, with the exception for Uruguay and Venezuela¹⁴, the Company has reached the 100% water replenishment goal in all its other territories, namely, Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Brazil and Argentina.

Sustainalytics is of the opinion that the Coca-Cola FEMSA Green Bond Framework is aligned with its overall sustainability strategy and initiatives and the Company's actions on its key environmental priorities.

Well positioned to address common environmental and social risks associated with the projects

While the eligible categories are recognized as impactful by the GBP 2018, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some common risks include those related to occupational health and safety, water stress risks, community related risks, risks arising from its supply chain as well as health related risks.

Sustainalytics is of the opinion that Coca-Cola FEMSA has sufficient policies, standards, assessments, and initiatives in place to help mitigate potential environmental and social risks, some of these measures include:

- Coca-Cola FEMSA's corporate policy on human and labor rights ensures that the Company complies with international labor standards, labor and social security legislation as well as with individual and collective contracts, agreements, conventions or labor covenants in the countries where it operates.¹⁵
- Coca-Cola FEMSA's Code of Ethics applies to the Company's Board of Directors, its employees as well as individuals acting on behalf of Coca-Cola FEMSA and its subsidiaries. This Code establishes the fundamental principles and standards that act as guidelines to implement the Company's corporate governance system.¹⁶ The Company also has an 'Anti-corruption corporate policy', under which Coca-Cola FEMSA lists its commitment and expectations of its employees and associates to comply with local, regional and international laws.¹⁷
- Coca-Cola FEMSA has a Quality, Safety & Environment (QSE) Committee that defines its QSE strategy. Through its Safety Strategy and Vision 2020 – 2022, the Company plans to achieve a 15% annual reduction in incident rates until the Company achieves a zero incident rate. Coca-Cola FEMSA has conducted more than 350 QSE leadership workshops, connecting more than 10,000 employees and 100 work centers and has invested 1.25 million training hours in Occupational Health and Safety.
- Coca-Cola FEMSA assesses its suppliers through its online Sustainable Sourcing System on four areas - social/labor rights, environment, ethics and values, and community. A third party verifies the information provided and ensures transparency of the process. Suppliers with low scores are encouraged to implement improvement plans in their facilities and Coca-Cola FEMSA periodically evaluates these suppliers to ensure they improve. In the year 2019, Coca-Cola FEMSA evaluated 426 suppliers. Coca-Cola FEMSA also encourages for its suppliers to have similar assessments for their suppliers so that supply chain risks are mitigated along the value chain.
- Coca-Cola FEMSA's 'Model for Addressing Risks and Relations with the Community', is a management model that helps the Company maintain and grow relationship with the communities in which it operates. Based on this model, the Company's various work centers design community engagement plans to implement measures such as – mitigation of the Company's operational footprint as well as designing community programs that align with local needs and risks.
- Coca-Cola FEMSA tries to mitigate its demand for water and reduce its plastic waste generation through its initiatives, programs and awareness campaigns. To ensure efficient use of water resources, Coca-Cola FEMSA employs a water risk assessment tool, as well as conducts plant self-assessments.¹⁸ In 2019, 22 of Coca-Cola FEMSA's bottling plants obtained the Zero Waste to landfill certification, 18 of its plants in Mexico obtained the Clean Industry certification from the Federal Environmental Protection Agency, 36 of its distribution centers in Mexico received air quality certifications from the Federal Environmental Protection Agency, the state of Mexico's Environmental Agency, and Mexico City's Ministry of Environment.

¹⁴ Implementing the goal of 100% water replenishment includes undertaking training and awareness programs with local communities and hence requires extensive stakeholder engagement. Therefore, although Coca-Cola FEMSA operates in Venezuela, due to the current socio-political and economic instability of the country, Coca-Cola FEMSA excludes Venezuela from its 100% water replenishment goal.

¹⁵ Coca-Cola FEMSA, Human and Labor Rights – FEMSA Corporate Policy, Document provided to Sustainalytics by Coca-Cola FEMSA.

¹⁶ Coca-Cola FEMSA, Human and Labor Rights – FEMSA Corporate Policy, Document provided to Sustainalytics by Coca-Cola FEMSA.

¹⁷ Coca-Cola FEMSA, Code of Ethics, May 2020, Document provided to Sustainalytics by Coca-Cola FEMSA.

¹⁸ Coca-Cola FEMSA, 2019 Integrated Annual Report, at: <https://coca-colafemsa.com/wp-content/uploads/2020/04/Coca-Cola-FEMSA-Integrated-Report-2019.pdf>

Based on these policies, standards, assessments, and initiatives, Sustainalytics is of the opinion that Coca-Cola FEMSA has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Importance of creating a circular economy for plastic packaging

Plastic bottles produced and sold by beverage companies are a major source of land and water pollution. It takes approximately 450 years for a plastic bottle to completely degrade.¹⁹ One study estimates that of all the plastic waste generated between the 1950s to 2015, only about 9% has been recycled and 12% incinerated.²⁰ Therefore, an estimated 79% of plastic waste ever produced still exists in landfills or other natural environments like oceans and lakes.²¹ Besides having a high GHG emission footprint throughout its lifecycle, plastic products cause devastation to marine life. It is estimated that about 8 million tons of plastics enter oceans every year, degrading fragile marine ecosystems and killing millions of marine animals.²²

Sustainalytics is of the opinion that Coca-Cola FEMSA's commitment to collect 100% of its primary packaging and to use at least 50% recycled material in its packaging by 2030, will meaningfully contribute to reducing plastic waste.²³ The Company has also signed the Ellen MacArthur Foundation's New Plastics Economy Global Commitment to eradicate plastic waste at source and establish a circular economy for the material.²⁴

Importance of efficient water management for beverage companies

In the last few decades, the pressure on global freshwater resources has been increasing at an exponential rate. About 44 countries, which are home to one third of the world's population, face high levels of water stress.²⁵ With the world's population projected to grow to 8.5 billion by 2030 and to 9.7 billion by 2050²⁶, water stress around the world will likely intensify.

As pressures from urbanization, industrialization and climate change further harm water-use efficiency, diminish water resources and consequently create competition for water supply and agriculture, the sustainable management of water has become a key priority for players in the food and beverage industry whose business models and production of resources depend on it. Although Latin America has an abundant supply of fresh water, this resource is not equally distributed across all regions. In addition, over extraction of ground water for agricultural and industrial process coupled with the lack of water infrastructure makes the problem of water scarcity severely acute in many Latin American countries.²⁷ Sustainalytics is of the opinion that Coca-Cola FEMSA has strong water management policies and that through its water efficiency targets, its 20 Water Saving Initiatives²⁸ as well as through the Latin American Water Funds Alliance,²⁹ Coca-Cola

¹⁹ National Geographic, How the plastic bottle went from miracle container to hated garbage, August 2019, at:

<https://www.nationalgeographic.com/environment/2019/08/plastic-bottles/>

²⁰Geyer et al., Production, use, and fate of all plastics ever made, 2017, at:

https://advances.sciencemag.org/content/advances/3/7/e1700782.full.pdf?fbclid=IwAR1W32uMhKIVO4MMhpgX9XJZniVMqilzFDwGYQVNE-bV06kB7yte_I9PeYc

²¹Geyer et al., Production, use, and fate of all plastics ever made, 2017, at:

https://advances.sciencemag.org/content/advances/3/7/e1700782.full.pdf?fbclid=IwAR1W32uMhKIVO4MMhpgX9XJZniVMqilzFDwGYQVNE-bV06kB7yte_I9PeYc

²² National Geographic, We depend on plastic. Now we're drowning in it, June 2018, at: <https://www.nationalgeographic.com/magazine/2018/06/plastic-planet-waste-pollution-trash-crisis/>

²³ Coca-Cola FEMSA, 2019 Integrated Annual Report, at: <https://coca-colafemsa.com/wp-content/uploads/2020/04/Coca-Cola-FEMSA-Integrated-Report-2019.pdf>

²⁴ Coca-Cola FEMSA, Coca-Cola FEMSA joined the Global Commitment, "A line in the Sand", to eradicate plastic waste and pollution at source, accessed in August 2020, at: <https://coca-colafemsa.social/coca-cola-femsa-joined-the-global-commitment-a-line-in-the-sand-to-eradicate-plastic-waste-and-pollution-at-source/>

²⁵ WRI, 17 Countries, Home to One-Quarter of the World's Population, Face Extremely High Water Stress, August 2019, at: <https://www.wri.org/blog/2019/08/17-countries-home-one-quarter-world-population-face-extremely-high-water-stress>

²⁶ United Nations, UN projects world population to reach 8.5 billion by 2030, driven by growth in developing countries, July 2015, at: <https://www.un.org/sustainabledevelopment/blog/2015/07/un-projects-world-population-to-reach-8-5-billion-by-2030-driven-by-growth-in-developing-countries/#:~:text=The%20world's%20population%20is%20projected,around%2035%20years%20from%20now%2C>

²⁷ Smart Water Magazine, Water challenges and opportunities in Latin America, February 2019, at: <https://smartwatermagazine.com/news/almar-water-solutions/water-challenges-and-opportunities-latin-america>

²⁸ Coca-Cola FEMSA, 2019 Integrated Annual Report, at: <https://coca-colafemsa.com/wp-content/uploads/2020/04/Coca-Cola-FEMSA-Informe-Integrado-2019.pdf>

²⁹ Coca-Cola FEMSA, Coca-Cola FEMSA and the world water day, accessed on August 2020, at: <https://coca-colafemsa.com/en/dia-mundial-del-agua-2018/>

Coca-Cola FEMSA Green Bond Framework

FEMSA seeks to foster efficient use of water resources in its operational processes, among its employees and in the community in which it operates, as well as to support conservation and enhancement of watersheds of the region.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Climate Change Adaptation	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
	13. Climate action	13.2 Integrate climate change measures into national policies, strategies and planning
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, having the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
		6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Pollution Prevention and Control	9. Industry, innovation, and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
		12. Responsible Consumption and Production
Eco-efficient and/or circular economy adapted products, production technologies and processes	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
		12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
Clean and Mass Transportation	11. Sustainable Cities and Communities	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
		11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in

Coca-Cola FEMSA Green Bond Framework

		vulnerable situations, women, children, persons with disabilities and older persons.
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

Coca-Cola FEMSA has developed the Coca-Cola FEMSA Green Bond Framework under which it will issue green bonds and the use of proceeds to finance or refinance projects and assets under eight categories. Sustainalytics considers that the projects funded by the green bond proceeds will provide positive environmental impact by reducing the Company's operational and product footprint and by conserving natural resources.

The Coca-Cola FEMSA Green Bond Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Coca-Cola FEMSA Green Bond Framework is aligned with the overall sustainability strategy of the Company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 6, 7, 9, 11, 12, 13 and 15. Additionally, Sustainalytics is of the opinion that Coca-Cola FEMSA has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Coca-Cola FEMSA is well-positioned to issue green bonds and that the Coca-Cola FEMSA Green Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018.

Appendices

Appendix 1: Green Bond / Green Bond Programme – External Review Form

Section 1. Basic Information

Issuer name:	Coca-Cola FEMSA, S.A.B. de C.V.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Coca-Cola FEMSA Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	August 17 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarize the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

Coca-Cola FEMSA Green Bond Framework

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Pollution Prevention and Control, Eco-efficient and/or circular economy adapted products, production technologies and processes, Clean and Mass Transportation, Environmentally Sustainable Management of Living Natural Resources and Land Use, and Climate Change Adaptation, are aligned with those recognized by the Green Bond Principles 2018. Sustainalytics considers that the eligible categories will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 6, 7, 9, 11, 12, 13 and 15.

Use of proceeds categories as per GBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input checked="" type="checkbox"/> Climate change adaptation |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

Coca-Cola FEMSA's sustainability team to be responsible for evaluating and selecting projects. Final approval for project eligibility will be jointly provided by its Chief Financial Officer, Supply Chain and Engineering Officer, and Corporate Affairs Officer. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other <i>(please specify)</i> : |

Coca-Cola FEMSA Green Bond Framework

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Coca-Cola FEMSA's sustainability and finance team will be responsible for managing proceeds raised from the sale of its Green Bonds. Coca-Cola FEMSA plans to allocate proceeds on an on-going basis. Unallocated proceeds will be temporarily held in cash, cash equivalents or liquid securities in accordance with the Company's investment policy. Coca-Cola FEMSA commits to replace projects that are no longer eligible with other eligible projects. This is in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Coca-Cola FEMSA commits to report on allocation of proceeds on its website on an annual basis until full allocation or in case of any material changes. In addition, Coca-Cola FEMSA will report on relevant impact metrics, such as tons of waste recycled, tons of packaging material reused, acres reforested or preserved, reduction in GHG emission and electricity use, where feasible. Sustainalytics views Coca-Cola FEMSA's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Coca-Cola FEMSA Green Bond Framework

Information reported:

- Allocated amounts
 Green Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
 Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
- Decrease in water use
 Other ESG indicators (please specify): Percentage of recycled PET included in PET bottles, Tons of recycled PET purchased, Tons of waste recycled, Tons of packaging material re-used, percentage of post-consumption primary packages collected as a result of waste management initiatives, water replenished (m3), area reforested / preserved

Frequency

- Annual
 Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
- Information published in ad hoc documents
 Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Coca-Cola FEMSA's Green Bond Report to be available at: <https://coca-colafemsa.com/en/investor-relations/reports-and-results/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE
Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):
Date of publication:
ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. Second Party Opinion: An institution with environmental expertise, that is independent from the Issuer may issue a Second Party Opinion. The institution should be independent from the Issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An Issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the Issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an Issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An Issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognized external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An Issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialized research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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