

# Second-Party Opinion Coca-Cola FEMSA Sustainability-Linked Bond Framework



## Evaluation Summary

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework of Coca-Cola FEMSA aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators (KPIs)** Sustainability-Linked Bond Framework of Coca-Cola FEMSA includes one KPI: Water efficiency (see Table 1). Sustainalytics considers the KPI to be strong given that it addresses a material environmental issue with a very high scope of applicability while following a clear and consistent methodology. Sustainalytics further considers the KPI to directly measure performance on the material environmental issue of resource use while following an externally recognized definition.
- Calibration of Sustainability Performance Targets (SPTs)** Sustainalytics considers the SPTs to be aligned with the Issuer's sustainability strategy. Sustainalytics further considers the SPTs to be ambitious based on alignment with a beyond business-as-usual trajectory and a favorable comparison against the performance of industry peers.
- Bond Characteristics** Coca-Cola FEMSA will link the bond's financial/structural characteristics to the achievement of the SPTs, namely, a coupon rate step-up provision for failing to achieve the SPT. To avoid triggering the coupon rate step-up, the SPTs need to be achieved at the relevant target observation date along with the reporting and verification commitments.
- Reporting** Coca-Cola FEMSA commits to report on an annual basis on its performance on the KPI in its integrated annual report available on its website. The Company commits to disclose relevant information that affects the KPI performance, such as any re-assessments of the KPI, restatement of the SPTs, or adjustments of the baseline. The reporting commitments are aligned with the SLBP.
- Verification** Coca-Cola FEMSA commits to having limited external assurance conducted on its KPI performance by the communicated SPT deadline, aligned with market expectations.

<b>Evaluation Date</b>	September 13, 2021
<b>Issuer Location</b>	Mexico City, Mexico

The SPTs contribute to the following SDGs:



## Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).	1.49	Reduce water use ratio to 1.36 by 2024. Reduce water use ratio to 1.26 by 2026.	Strong	Ambitious

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## Scope of Work and Limitations

Coca-Cola FEMSA, S.A.B. de C.V. (“Coca-Cola FEMSA” or the “Company” or the “Issuer”) has engaged Sustainalytics to review the SLB Framework (“the Framework”) and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles (SLBP).<sup>1</sup>

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>2</sup> opinion on the alignment of the reviewed SLB Framework with the Sustainability-Linked Bond Principles 2020, as administered by the International Capital Markets Association (“ICMA”).

As part of this engagement, Sustainalytics exchanges information with various members of Coca-Cola FEMSA’s management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the SLB Framework. Coca-Cola FEMSA’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of Issuer to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics’ opinion of the Bond Framework and should be read in conjunction with the 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 SPTs of KPIs but does not measure the KPIs’ performance. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour 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 Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks<sup>3</sup> against which targets were set;
- (2) A material corporate action (such as material merger and acquisition or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.

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<sup>1</sup> The Sustainability-Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-100620.pdf>

<sup>2</sup> 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.

<sup>3</sup> Benchmarks refers to science based benchmarks

## Introduction

Coca-Cola FEMSA, headquartered in Mexico City (Mexico), is the largest franchise bottler of Coca-Cola trademark beverages across the world by sales volume. The Company is engaged in the production, distribution, and marketing of a wide portfolio of brands across multiple soft drink categories, including sparkling beverages (colas and flavoured beverages), water and bulk water, and still beverages (juice drinks, coffee, teas, milk, dairy and isotonic drinks). While Mexico and Brazil are Coca-Cola FEMSA’s most important markets, generating roughly 80% of its sales, the Company operates in other Central and South American countries, including Guatemala, Nicaragua, Costa Rica, Panama, Argentina, Colombia and Uruguay. At the end of 2020, the Company had over 80,000 employees, 1.9 million points of sale, operated 49 manufacturing plants and 268 distribution centers.

Coca-Cola FEMSA intends to issue Sustainability-Linked Bonds (SLB) where the coupon rate of the bond is tied to the achievement of the SPTs for the KPI, water use ratio (WUR) - as the water usage to a litre of beverage production (L/L), across all the production plants.

Coca-Cola FEMSA has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the bond framework with the Sustainability-Linked Bond Principles (SLBP).

The KPI and SPTs used by Coca-Cola FEMSA are defined in Tables 1 and 2 below.

**Table 1: KPI Definitions**

KPI	Definition
Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).	<p>This KPI measures the total volume of water consumed across all bottling plants expressed per the total volume of beverages produced. For example, a WUR of 1.20 indicates that, for every litre of beverage produced, an additional 0.2 litres of water is used to produce it.</p> <p>The measured water is from any source, including municipal water, water wells, surface water or tank water. The description of water sources is aligned with the GRI Standard on reporting total water usage.<sup>4</sup></p>

**Table 2: SPTs and Past Performance**

KPI	2018	2019	2020 (baseline)	SPT 2024	SPT 2026
Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).	1.58	1.52	1.49	1.36	1.26

<sup>4</sup> GRI, “GRI standard 303: Water, (2018)”, at: <https://www.globalreporting.org/standards/media/1909/gri-303-water-and-effluents-2018.pdf>

<sup>5</sup> Historical data on the SPTs was provided by Coca-Cola FEMSA in the Framework

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Alignment of Coca-Cola FEMSA's Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework align with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP).



#### Selection of Key Performance Indicators (KPIs)

##### Relevance and Materiality of KPIs

Sustainalytics in its assessment of materiality and relevance considers i) whether an indicator speaks to a material impact of the Issuer's business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPI to be material and relevant given the heavy reliance of the soft-drinks industry on water as a raw material for the production of its beverages. In this context, Coca-Cola FEMSA has identified efficient water management as an essential sustainability issue to its business operations, considering the impact of industrial water usage on the Company's stakeholder relations and the planet. The Company has also reported on its performance on this metric since 2011 in its inaugural sustainability report and has kept data on the metric since 2004. Furthermore, the Beverage Industry Environmental Roundtable (BIER)<sup>6</sup>, highlights the significance of water management in the beverages production sector and provides industry-wide historical performance benchmarks on water efficiency among all major global bottling companies. In support of this view, Sustainalytics' ESG Risk Rating of Coca-Cola FEMSA<sup>7</sup> identified "Resource Use"<sup>8</sup> as a highly material ESG issue for the Company.

Regarding applicability, data provided to Sustainalytics by Coca-Cola FEMSA indicate that the KPI covers approximately 98.52% of the Company's total water consumption across all functional divisions, showing a very high scope of applicability.

Sustainalytics considers the KPI to be material and relevant because it addresses a material environmental issue for the soft-drinks subindustry with a high scope of applicability.

##### KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers i) whether a clear and consistent methodology is used, ii) whether the Issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the Issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.<sup>9</sup>

Sustainalytics considers Coca-Cola FEMSA's definition and methodology to calculate KPI performance to be clear and consistent with historical reporting, following an externally recognized definition that is widely used in the beverages production sector and aligned with the guidelines of GRI Standard 303 on water use.<sup>4</sup> Sustainalytics further considers the KPI to be a direct measure of performance on the material environmental issue of water

<sup>6</sup> BIER is a technical coalition of leading global beverage companies working together to advance environmental sustainability within the beverage sector: <https://www.bierroundtable.com/>

<sup>7</sup> Sustainalytics, ESG Risk Rating Report – Coca-Cola FEMSA, S.A.B. de C.V., accessed on September 02, 2021, at: <https://www.sustainalytics.com/esg-rating/coca-cola-femsa-s-a-b-de-c-v/1008206266>

<sup>8</sup> Resource Use" focuses on how efficiently and effectively a company uses its raw material inputs - primarily water, in production and how it manages related risks.

<sup>9</sup> External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

resources use while noting the lack of availability of external contextual benchmarks based on ecological system boundaries to benchmark future performance of the KPI.

**Overall Assessment**

Sustainalytics overall considers the water efficiency KPI as strong given that: (i) it directly measures a material environmental issue, (ii) it has a very high scope of applicability, and (iii) it follows a clear and consistent methodology aligned with an externally recognized definition.

<b>Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).</b>	Not Aligned	Adequate	<b>Strong</b>	Very strong
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**Calibration of Sustainability Performance Targets (SPTs)**

**Alignment with Issuer’s Sustainability Strategy**

Coca-Cola FEMSA has set the following SPTs for its KPI:

- Reduce the water use ratio to 1.36 by 2024.
- Reduce the water use ratio to 1.26 by 2026.

Sustainalytics considers the SPTs to be aligned with Coca-Cola FEMSA’s sustainability strategy (please refer to Section 2 for analysis of the credibility of Coca-Cola FEMSA’s sustainability strategy).

Coca-Cola FEMSA has made commitments to ensure the efficient use of water as a strategic resource for the Company and the communities it serves. Consistent with this commitment, Coca-Cola FEMSA has established a water strategy, anchored on three pillars:<sup>10</sup> i) water efficiency in bottling plants where key measures include detection and elimination of leaks and water recovery systems ii) facilitating access to water and sanitation in the communities where the Company works in collaboration with the FEMSA Foundation in projects designed to provide communities with safe water, improved sanitation, and hygiene education and iii) replenishment and water funds where the Company has a commitment to return the water used in the processes by replenishing and conserving water basins to ensure water equilibrium in the communities where it operates.

**Strategy to Achieve the SPTs**

Coca-Cola FEMSA intends to achieve the SPTs through the following strategy:

- Water recycling: recover the water within the same process where the water discharge is generated
- Reuse of water: recover and use the water in a different process where the water discharge is generated.
- The targeted areas to recover water in the Company’s production facilities include: (i) recovery of backwash rejection water within water treatment system, (ii) recovery of discharge water from the last washing machine rinse to be used in additional rinsings, (iii) recovery of the last cleaning in place rinse (CIP) to be used in other CIP processes, (iv) recovery of water from bottle rinsing systems "one way" before entering the filler, (v) recovery of water from the industrial water equipment to be used in auxiliary services (refrigeration and boilers), and (vi) water recovery from the ozonation tower.
- Improvement in operative practices through implementation of internal procedures to increase water efficiency in bottling facilities such as constant measuring and analysis of water usage, as well as leak controls in plants. The Company targets to execute 100% of the water efficiency procedures by 2025. Targeted process improvements include the bottle-to-filler rinse with ionized air instead of water,

<sup>10</sup> Coca-Cola FEMSA, "Coca-Cola FEMSA and the world water day", accessed on 9 Sep 2021 at: <https://coca-colafemsa.com/en/noticias/dia-mundial-del-agua-2018/>

lubrication systems optimization for bottle conveyors, and training operations personnel to raise awareness in the efficient use of water.

**Ambitiousness, Baseline and Benchmarks**

To determine the ambitiousness of the SPTs, Sustainalytics considers whether the SPTs go beyond business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.<sup>11</sup>

Coca-Cola FEMSA has set the baseline for the SPT at 2020 as it represents the most recent year of disclosed data on its KPI for a full year.

Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance and peer performance.

Sustainalytics considers the SPTs to be aligned with historical performance as the implied annual improvements in WUR (L/L) up to the final SPT observation date (2026) represent a continued improvement in performance. For the period between 2018 and 2020, the Company achieved improvements in WUR (L/L) at an annual average of 2.8%. To achieve the SPT 2026, the required improvements in WUR (L/L) should accrue at an implied annual average of 2.5% from the baseline year 2020. Based on this, Sustainalytics notes that the rate of improvements in WUR (L/L) required to meet the SPT 2026 is aligned with the historical performance.

In addition, Sustainalytics analyzed a group of six direct subindustry peers and noted that Coca-Cola FEMSA targets exceed the targets set by its peers.<sup>12</sup> However, Sustainalytics also noted the absence of science-based benchmarks for benchmarking future performance.

Coca-Cola FEMSA may restate the SPTs or adjust the baseline in case of developments with a substantial impact on the Company’s operations, such as acquisitions, divestitures, or changes in the regulatory environment. Any such readjustment will be communicated within the Coca-Cola FEMSA’s Sustainability-Linked Bond Report.

**Overall Assessment**

Sustainalytics considers the SPTs to align with Coca-Cola FEMSA’s sustainability strategy and considers the SPTs to be ambitious given that it is aligned with past performance with targets exceeding those of the subindustry peers.

<p><b>Reduce the water use ratio to 1.36 by 2024. Reduce the water use ratio to 1.26 by 2026.</b></p>	<p>Not Aligned</p>	<p>Moderately Ambitious</p>	<p><b>Ambitious</b></p>	<p>Highly Ambitious</p>
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**Bond Characteristics**

Coca-Cola FEMSA has disclosed that the Sustainability-Linked Bonds issued against the Framework will have their financial characteristics linked to the achievement of the SPTs through coupon rate step-up provisions in the bond indenture or any other applicable offering documents in terms of the governing law of the bonds. A failure to meet the SPTs at the target observation dates or to meet the annual reporting and verification commitments in the Framework, will result in a coupon rate step-up for the remaining life of the issued security. The specific quantum in basis points of the coupon rate step-up and the payment mechanism will be specified in the final terms of the securities offered. The proceeds from the bond issuance are for general corporate purposes. Sustainalytics notes positively that both SPTs need to be met to avoid an increase in the coupon rate but does not opine on the adequacy of the penalty for not achieving the SPTs. Coca-Cola FEMSA may reformulate the SPTs or adjust the KPI in case of certain acquisitions or sales of assets or changes in regulation that may materially impact the KPI calculation.

<sup>11</sup> We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.

<sup>12</sup> Sustainalytics analyzed peer’s reported current and future targets on water efficiency in the soft-drinks subindustry and notes that KOF’s targets are above peer’s targets. Most peers reported current efficiency levels with no future projections.



### Reporting

Coca-Cola FEMSA commits to report on an annual basis on its performance on the KPI and expects to include the relevant figures in the integrated annual reports available on the Company's website,<sup>13</sup> aligned with the SLB Principles. Coca-Cola FEMSA further commits to disclose relevant information enabling investors to monitor the level of ambition of the SPTs, including a verification assurance certificate outlining the performance of the KPI against the SPTs and, where feasible, an illustration of the sustainability impacts of the performance improvement or any re-assessments of KPI and/or restatement of the SPTs and/or pro-forma adjustments of baselines or KPI scope.



### Verification

Coca-Cola FEMSA commits to having an external verifier provide limited assurance annually or for any date/period relevant for assessing the trigger of the SPTs performance. The Company will seek independent and external verification of the performance level of the SPTs for the stated KPI by a qualified external reviewer with relevant expertise, which is aligned with the SLBP on verification.

## Section 2: Assessment of Coca-Cola FEMSA's Sustainability Strategy

### Credibility of Coca-Cola FEMSA Sustainability Strategy

In the context of ESG disclosure, Coca-Cola FEMSA's 2020 integrated report references the guidelines of the International Integrated Reporting Council (IIRC) and follows the GRI (Global Reporting Initiative) Standards, as well as material indicators of the Sustainability Accounting Standards (SASB) for the non-alcoholic beverage (soft-drinks) industry.<sup>14</sup> Coca-Cola FEMSA's board of directors is responsible for directing the corporate strategy and supervising the implementation. The Company's sustainability team oversees the integration of sustainability into all its business units through specific policies and processes and supervises sustainability performance and targets. The sustainability team is responsible for formulating, developing, implementing, and monitoring the sustainability policies and reporting overall performance.

In addition, Coca-Cola FEMSA is committed to contributing to the achievement of the United Nations (UN) Sustainable Development Goals (SDGs) through its sustainability strategy,<sup>15</sup> based on three main focus areas: people, community, and Planet,<sup>15</sup> which act as a guiding principle for the Company's business decisions with simultaneous generation of economic, social, and environmental value.<sup>15</sup> The Company's strategies, policies, and procedures across these focus areas aim to address the following priority issues: packaging circular economy, greenhouse gas (GHG) emission reductions, WASH (Water, Access, Sanitation and Hygiene), water efficiency, human and labour rights, inclusion and diversity, health and safety, and corporate ethics.<sup>14</sup> The Company conducts a comprehensive materiality analysis to identify material topics, sustainability priorities, risks and opportunities relevant to its business, business partners, and the communities in which the Company operates.<sup>14</sup> The Company published its first sustainability report in 2011<sup>16</sup> and established 2020 sustainability goals for each focus area of its sustainability strategy in 2015.<sup>16</sup>

The Company used 1.49 litres of water per litre of beverage produced, meeting their 2020 goal and achieving a 24% improvement in WUR (L/L) in comparison to the 2010 baseline year.<sup>14</sup> The Company currently treats 100% of the wastewater discharged from its manufacturing and operating facilities. The Company is aligned with The Coca-Cola Company's "World Without Waste" global initiative.<sup>17</sup> In 2020, the Company created packaging with an average of 29% recycled content in PET packaging, exceeding its 2020 goal of 25%. The Company also achieved its 2020 goal of recycling at least 90% of the waste generated at each of its plants.<sup>14</sup> The Company seeks to create packaging that includes at least 50% recycled material by 2030, make all consumer packaging 100% recyclable by 2025 and collect an equivalent of 100% of its primary packaging by 2030.<sup>14</sup>

<sup>13</sup> Coca-Cola FEMSA will publish annually on its website (<https://coca-colafemsa.com/en/investor-relations/reports-and-results/>)

<sup>14</sup> Coca-Cola FEMSA, "Integrated Report 2020", (2020), at : [https://coca-colafemsa.com/wp-content/uploads/2021/03/KOF\\_2020\\_Eng.pdf](https://coca-colafemsa.com/wp-content/uploads/2021/03/KOF_2020_Eng.pdf)

<sup>15</sup> Coca-Cola FEMSA, "Our Sustainability Strategy", accessed on September 01, 2021, at : <https://coca-colafemsa.com/en/sustainability/our-sustainability-strategy/>

<sup>16</sup> Coca-Cola FEMSA, "Green Bond Report 2020", (2020), at : <https://coca-colafemsa.com/wp-content/uploads/2021/06/Green-Bond-Report.pdf>

<sup>17</sup> The Coca-Cola Company, "What is world without waste", accessed on September 01, 2021, at : <https://www.coca-colacompany.com/faqs/what-is-world-without-waste>



The Company also works with its suppliers to reduce the environmental impacts generated through sustainable mobility and sourcing and thus improve the conditions of its supply chain.<sup>14</sup>

Concerning climate change mitigation, the GHG emissions reduction targets established by the Company for its operations (Scopes 1 and 2) are in line with the goals of the Paris Agreement to limit global warming to well-below 2°C. At the same time, Coca-Cola FEMSA's target for emissions from its value chain (Scope 3) meets the "Science Based Target Initiatives"<sup>18</sup> criteria for ambitious value chain goals, meaning they are in line with current best practice. During 2019, Coca-Cola FEMSA worked in collaboration with its value chain to develop a robust GHG emissions inventory and has defined the following goals to be met by 2030 (compared with 2015 baseline):<sup>19</sup>

- Reduce absolute GHG emissions from its operations (scopes 1 and 2) by 50%
- Reduce absolute GHG emissions from the value chain (covering purchased goods and services and upstream transportation and distribution) by 20%
- Achieve 100% renewable electricity in its operations

In 2020, the Company sourced 80% of electricity requirements for its manufacturing facilities from renewable sources and is on track to make its operations less carbon-intensive by procuring 100% of its electric energy needs from renewable sources by 2030.<sup>14</sup>

Based on this, Sustainalytics considers Coca-Cola FEMSA to have a strong sustainability strategy. Additionally, considering Coca-Cola FEMSA's long history of sustainability practices and setting quantitative targets, Sustainalytics believes that the SLBs will further support Coca-Cola FEMSA to advance its sustainability strategy.

### **Coca-Cola FEMSA's Environmental and Social Risk Management**

Sustainalytics recognizes that while Coca-Cola FEMSA's defined targets are impactful, achieving the SPTs bears environmental and social risks primarily related to the overall environmental and social impact of products and services, labour rights, human rights within its supply chain, water stress risk, waste and effluents.

In the following section, Sustainalytics comments on Coca-Cola FEMSA's ability to mitigate such potential risks.

- The Company's strategy includes a Comprehensive Risk Management process through which it identifies, measures, assesses potential impacts and takes key mitigation actions.<sup>14</sup> Coca-Cola FEMSA's Corporate Environmental Policy<sup>20</sup> addresses and mitigates the associated risks to the environmental impact of the use of energy, water and waste management throughout the chain value of the Company's operations.
- Coca-Cola FEMSA's Code of Ethics includes principles relating to human rights, inclusion and diversity, discrimination, violence and harassment, conflicts of interests, misuse of information and anti-corruption.<sup>14</sup> Suppliers have to ensure compliance with TCCC's Supplier Guiding Principles.<sup>21</sup>
- Coca-Cola FEMSA tries to mitigate its water demand and reduce waste generation through its initiatives, programs and awareness campaigns. To mitigate water shortage, the Company will develop a Water Risk Index, including four issues that need to be assessed: community and public perception risks, scarcity of water and other inputs, regulatory risks, and legal risks for each of our bottling plants.<sup>14</sup> The Company also employs a water risk assessment tool for each of its bottling plants. In 2020, 49 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.<sup>14</sup>

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<sup>18</sup> The Science Based Targets Initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). SBTi aims that the private sector commits to do its part to comply with the Paris Agreement: to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.

<sup>19</sup> The Science Based Targets Initiative's Steering Committee Letter provided to Sustainalytics by Coca-Cola FEMSA

<sup>20</sup> Coca-Cola FEMSA, "Corporate Environmental Policy", accessed on September 01, 2021, at : <https://coca-colafemsa.com/wp-content/uploads/2020/08/Environment1.pdf>

<sup>21</sup> Supplier Guiding Principles focus on strategic input categories and include areas such as Human Rights Policies, Environmental Protection, and Labour Rights. Through audits that ensure compliance with these standards, TCCC authorizes its bottlers to work with approved suppliers

Overall, Sustainalytics’ ESG Risk Rating of Coca-Cola FEMSA indicates that its overall management of material ESG issues (MEIs) is strong, with established management programs and policies to mitigate the ESG risks that are material to the Company’s sub-industry.

### Section 3: Impact of the SPTs Chosen

Water is intrinsic for doing business in the beverage industry, and clean, high-quality water is a key raw material input for the industry’s production operations. According to the Beverage Industry Environmental Roundtable (BIER)<sup>22</sup>, the bottling plants involve water-intensive operations that invariably lead to stress on the world’s freshwater sources. Demand for beverages is expected to increase along with the projected world’s population growth (8.5 billion by 2030 and 9.7 billion by 2050<sup>23</sup>), and competition for freshwater resources is expected to intensify. In Latin America, over-extraction of groundwater for agricultural and industrial processes coupled with the lack of water infrastructure, makes water scarcity severely acute in some countries.<sup>24</sup> In this context, sustainable management of water resources is a strategic imperative for the beverage industry in the region.

To advance towards a more sustainable future, the beverage industry is implementing water management practices that improve water efficiency, reduce water waste, and lower water footprint. Water stress management, particularly operational improvements relating to water efficiency, can reduce vulnerability to climate change and drought and provide a competitive advantage to global beverages industry players.<sup>25</sup> Wastewater management, in particular, has had many benefits, including minimized depletion of the water resource base, protection and promotion of human health and minimized environmental degradation.<sup>26</sup> Further effort is required to achieve long-term business and environmental sustainability in all watersheds and communities through accounting for every drop of water by adopting initiatives such as the 3Rs – Reduction, Reuse, Recycling – as standard practice across operational locations.<sup>27</sup>

Based on the above context, Sustainalytics notes that Coca-Cola FEMSA’s efforts to improve water efficiency across all its bottling plants will enable the Company to reduce its water footprint, contributing to water conservation, and supporting the UN SDGs.

#### 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 sustainability-linked bond advances the following SDG goal and targets:

KPI	SDG	SDG Target
Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).	6. Clean Water and Sanitation	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
	12. Responsible Consumption and Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources

<sup>22</sup> BIER, “2018 Benchmarking Study Trends & Observations”, (2019), at: <http://www.bierroundtable.com/wp-content/uploads/2018-Water-and-Energy-Use-Benchmarking-Study.pdf>

<sup>23</sup> United Nations, Sustainable Development Goals, “UN projects world population to reach 8.5 billion by 2030, driven by growth in developing countries”, accessed on September 01, 2021, 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/>

<sup>24</sup> Smart Water Magazine, “Water challenges and opportunities in Latin America”, accessed on September 01, 2021, at: <https://smartwatermagazine.com/news/almar-water-solutions/water-challenges-and-opportunities-latin-america>

<sup>25</sup> Nevelling.D, (2020), “The Value of Water”, Lazard Asset Management, accessed on September 01, 2021, at: <https://www.lazardassetmanagement.com/research-insights/lazard-insights/the-value-of-water#!>

<sup>26</sup> UNEP, “Sanitation, wastewater management and sustainability”, ( page 10), (2020), at: <https://cdn.sei.org/wp-content/uploads/2021/03/sanitation-wastewater-management-and-sustainability-by-sei-and-unep.pdf>

<sup>27</sup> Beverage Industry Environmental Roundtable (BIER), “Context-Based Decision Guide for Water Reuse and Recycling”, (2020), at: <https://www.bierroundtable.com/wp-content/uploads/Context-Based-Decision-Guide-for-Water-Reuse-and-Recycling.pdf>

## Conclusion

Coca-Cola FEMSA intends to issue Sustainability-Linked Bonds that will tie the coupon rate to the achievements of the following SPTs:

- Reduce the water use ratio to 1.36 by 2024
- Reduce the water use ratio to 1.26 by 2026.

Sustainalytics considers the KPI chosen - water use ratio (WUR) as the water usage to a litre of beverage production (L/L), to be strong based on a clear and consistent methodology on a material environmental issue while having a high scope of applicability. The SPTs are also considered to be ambitious based on a favorable comparison against targets set by peers while aligned with historical performance and offering a continued improvement on the Company's water efficiency strategy.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Coca-Cola FEMSA's SLB Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective of achievement of the SPTs to be impactful.

## Appendix 1: Sustainability-Linked Bonds - External Review Form

### Section 1. Basic Information

**Issuer name:** Coca-Cola FEMSA, S.A.B. de C.V.

**Sustainability-Linked Bond ISIN:** not known at the time of publication

**Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3):** Sustainalytics

**Completion date of second party opinion pre-issuance:** September 13, 2021

**Independent External Review provider's name for post-issuance verification (section 4):** not known at the time of publication

**Completion date of post issuance verification:** not known at the time of publication

At the launch of the bond, the structure is:

- a step-up structure  a variable redemption structure

### Section 2. Pre-Issuance Review

#### 2-1 SCOPE OF REVIEW

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

The review:

- assessed all the following elements (complete review)  only some of them (partial review):
- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs)           | <input checked="" type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting                                |
| <input checked="" type="checkbox"/> Verification   |  |
- and confirmed their alignment with the SLBP.

#### 2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification  |
| <input type="checkbox"/> Verification                    | <input type="checkbox"/> Scoring/Rating |

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

#### 2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Coca-Cola FEMSA intends to issue Sustainability-Linked Bonds that will tie the coupon rate to the achievements of the following SPTs:

- Reduce the water use ratio to 1.36 by 2024, then further to 1.26 by 2026.

Sustainalytics considers the KPI chosen - water use ratio (WUR) as the water usage to a litre of beverage production (L/L), to be strong based on a clear and consistent methodology on a material environmental issue while having a high scope of applicability and the SPTs to be ambitious based on a favorable comparison against targets set by peers while aligned with historical performance and offering a continued improvement on the Company's water efficiency strategy.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Coca-Cola FEMSA's SLB Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective of achievement of the SPTs to be impactful.

### Section 3. Detailed pre-issuance 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.

### 3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

**Overall comment on the section (if applicable):** Sustainalytics overall considers the water efficiency KPI as strong given that: (i) it directly measures a material environmental issue, (ii) it has a very high scope of applicability, and (iii) it follows a clear and consistent methodology aligned with an externally recognized definition.

**List of selected KPIs:**

- Water use ratio (WUR) as the water usage to a litre of beverage production (L/L).

**Definition, Scope, and parameters**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify):                           |   |

**Relevance, robustness, and reliability of the selected KPIs**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the Issuer’s sustainability and business strategy. | <input checked="" type="checkbox"/> Evidence that the KPIs are externally verifiable |
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis                            | <input checked="" type="checkbox"/> Evidence that the KPIs can be benchmarked        |
| <input type="checkbox"/> Other (please specify):   |  |

### 3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

**Overall comment on the section (if applicable):** Sustainalytics considers the SPTs to align with Coca-Cola FEMSA’s sustainability strategy and considers the SPTs to be ambitious given that it is aligned with past performance with targets exceeding those of the subindustry peers.

**Rationale and level of ambition**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Evidence that the SPTs represent a material improvement                                  | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the Issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline                 |
| <input type="checkbox"/> Other (please specify):   |   |

**Benchmarking approach**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input type="checkbox"/> reference to the science          | <input type="checkbox"/> Other (please specify):   |

**Additional disclosure**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description                       | <input checked="" type="checkbox"/> issuer's strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify):                             |

### 3-3 BOND CHARACTERISTICS

**Overall comment on the section (if applicable):** Coca-Cola FEMSA will link the bond's financial/ structural characteristics to the achievement of the SPTs, namely, a coupon rate step-up provision for failing to achieve the SPT. To avoid triggering the coupon rate step-up, the SPTs needs to be achieved at the relevant target observation date along with the reporting and verification commitments.

**Financial impact:**

- variation of the coupon
- ...
- Other (please specify):

**Structural characteristic:**

- ...
- ...
- Other (please specify):

### 3-4 REPORTING

**Overall comment on the section (if applicable):** Coca-Cola FEMSA commits to report on an annual basis on its performance on the KPI in its integrated annual report available on its website. The Company commits to disclose relevant information that affects the KPI performance, such as any re-assessments of KPI, restatement of the SPTs, or adjustments of the baseline. The reporting commitments are aligned with the SLBP.

**Information reported:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
| <input checked="" type="checkbox"/> level of ambition of the SPTs    | <input type="checkbox"/> Other (please specify):                  |

**Frequency:**

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

**Means of Disclosure**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents            | <input type="checkbox"/> 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.

**Level of Assurance on Reporting**

- limited assurance
- reasonable assurance
- Other *(please specify):*

**USEFUL LINKS (e.g. to review provider methodology or credentials, to Issuer’s documentation, etc.)**

**Section 4. Post-issuance verification**

**Overall comment on the section (if applicable):**

**Information reported:**

- limited assurance
- reasonable assurance
- Other *(please specify):*

**Frequency:**

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

**Material change:**

- Perimeter
- KPI methodology
- SPTs calibration



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