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Second Party Opinion

Coca-Cola FEMSA S.A.B. de C.V.'s Sustainable Bond Framework

Sep. 20, 2022

Headquartered in Mexico City, Coca-Cola FEMSA S.A.B. de C.V. (KOF) is the world's largest Coca-Cola bottler in terms of sales volumes, producing about 3.5 billion unit cases annually (about 11% of The Coca-Cola Company's global volume in 2021) across 50 bottling plants and operating 263 distribution centers. Operations cover Mexico and Central America (Mexico, Guatemala, Nicaragua, Costa Rica, and Panama) and South America (Brazil, Argentina, Colombia, and Uruguay). Products include carbonated and non-carbonated soft drinks, as well as water and other low- or no- sugar Coca-Cola beverages (35.5% of the brands in its total portfolio in 2021). KOF serves more than 266 million people annually through 2 million points of sale; a significant majority of its volume are sold through traditional channels (small family-owned stores) and the remaining via modern channels.

In our view, KOF's Sustainable Finance Framework, published in September 2022, is aligned with:

- ✓ Social Bond Principles (SBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Bond Principles (GBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines ICMA, 2021

Issuer's Sustainability Objectives

KOF has a value chain-wide vision to transform its business into a "sustainable commercial ecosystem". KOF's sustainability strategy and relevant targets are based on three pillars:

- "Our People": KOF is working toward the establishment of an inclusive, healthy and diverse working environment. To do so, the company aims to increase the representation of females in leadership positions to 40% by 2030 (managers and directors).
- "Our Community": KOF has several initiatives with micro, small or medium enterprise (MSME) owners that sell KOF's products. For example, included in its framework, KOF will set up a project that seeks to improve Latin American MSMEs' (small food and beverage store owners) access to commercial training, economic empowerment and financing.
- "Our Planet": KOF is one of the very few Latin American companies with a near-term well-below 2°C validated science-based target. In addition, KOF aims to decrease the amount of water used per liter of beverage produced (it achieved a 1.47 ratio in 2021 and expects to reach 1.26 by 2026). The company also plans to increase the use of recycled polyethylene

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terephthalate (rPET) resin in the manufacturing of new PET bottles (in 2021 it achieved a percentage of 31% of rPET in PET bottles), among several initiatives.

KOF developed its Sustainable Finance Framework to issue bonds that will finance and/or refinance projects that meet KOF's eligibility criteria and fit within its sustainability strategy.

Second Party Opinion Summary


Use of proceeds

Alignment  KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

Score Not aligned Aligned **Strong** Advanced

KOF commits to allocate an amount equal to the net proceeds of all financing issued under its framework to finance or refinance eligible green and social projects. The company provides a clear description of the eligible project categories, including the relevant sustainability objectives associated with each category, as well as example projects.


Process for project evaluation and selection

Alignment  KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

Score Not aligned **Aligned** Strong Advanced


KOF's framework clearly outlines its process to select and approve eligible green and social projects. An internal sustainability team will identify, evaluate, and select projects that fit the framework's eligibility criteria. The team will also follow KOF's guidelines regarding identification and management of direct environmental and social risks associated with any project.

Management of proceeds

Alignment  KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

The company's corporate resources and digital workflow management systems will track allocation of proceeds, while KOF's sustainability team is responsible for the oversight of such systems. In case any of the projects stops aligning with the framework's eligibility criteria, proceeds will be reallocated to projects that do so. Unallocated proceeds will be temporarily managed in line with KOF's investment policy.

Reporting

Alignment  KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

Score Not aligned Aligned **Strong** Advanced

KOF commits to publicly disclose, on an annual basis, allocation of funds to eligible projects, until full allocation. Where feasible, the disclosure will also include expected and actual environmental and social impacts of the financed projects.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

Commitment score

Not aligned

Aligned

Strong

Advanced

We consider KOF's overall use of proceeds commitments to be strong.

KOF has committed to use an amount equal to the net proceeds of any sustainable bond issued under the framework to exclusively finance or refinance eligible green and social projects. For refinancing, KOF commits to include eligible investments and expenditures within a look-back period of two years prior to issuances and will disclose the amount of net proceeds allocated to refinancing existing projects, which we consider to be a strong practice.

KOF's framework provides a clear description of eligible green projects under each category. Projects include financing electric vehicles, delivery trucks and EV infrastructure (clean transportation); development of on-site or off-site renewable energy sources through, for example, solar panel installation (renewable energy); energy efficiency equipment and systems for KOF's bottling and distribution centers yielding a potential improvement in energy efficiency. These projects aim to help KOF achieve its science-based GHG reduction targets. Moreover, other financed projects include water and wastewater treatment efficiency initiatives for KOF's bottling plants, in line with the company's goal of using 1.26 liters of water per liter of beverage produced by 2026 (sustainable water and wastewater management); expenses related to waste management in industrial facilities and post-consumption, such as the installation of recycling centers for PET, in line with the company's waste targets (pollution and prevention control); and expenses related to the acquisition of rPET fiber, in line with KOF's goal of using 50% of rPET in its PET bottles by 2030 (circular economy adapted products).

KOF's eligible social projects come under the access to essential services, employment generation and unemployment prevention, and socioeconomic advancement and empowerment categories. The company provides a clear description of the target population of each eligible social project, which include training capabilities for their value chain, including MSMEs, recycling centers and other commercial partners; investments in the protection and conservation of the watersheds and water network infrastructure to improve local access to freshwater for communities that live near KOF's operations; working with Fundación FEMSA on the deployment of actions and achievement of long-term benefits regarding early childhood development; and training schools (*escuelas de formación*) for minorities that want to either enter the formal labor market or learn professional skills. KOF commits to screen the eligible population for projects using socioeconomic indicators that follow standard market definitions, such as the Mexican Association of Market Research's (AMAI) socioeconomic class definitions. KOF follows IFC's MSMEs criteria and the framework provides extensive details about the targeted MSMEs. For example, KOF outlines the economic impact of the pandemic for Latin American MSMEs. We view such contextualization as a strong practice. We view KOF's MSME financing program particularly well placed, given the company's strong commercial and cultural presence in underserved communities in Latin America. KOF expects to offer loans to Mexican MSMEs at below-market interest rates.

In our view, all identified project categories are directly linked to the company's most material environmental and social challenges across its value chain, contributing with the execution of KOF's overarching sustainability strategy.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider KOF's overall process for project evaluation and selection commitments to be aligned.

KOF's framework clearly describes its process to evaluate and select eligible green and social projects. The company's sustainability team will review the eligibility of projects in accordance with the framework's eligibility criteria and KOF's existing internal environmental and social risk assessment guidelines. The final selection of projects will be done by KOF's ESG committee which is composed of members of the senior leadership team.

The framework details the company's robust guidelines to identify and manage any environmental and social risks associated with projects. This approach provides accountability and oversight over project selection for key sustainability priorities and ensures a comprehensive understanding of the overall impact of projects and expenditures before issuance. We view the company's water and social risk assessment practices unique among Latin American peers. However, given the numerous amounts of projects financed, the company does not require certain standards or certifications for all project categories.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

We consider KOF's management of proceeds to be aligned.

The company's sustainability and finance team will monitor the allocation of net proceeds for sustainable bonds issued under the framework to eligible projects until full allocation. The company has systems (corporate resources planning and digital workflow) in place that allows KOF to track funds allocated to eligible projects for the term of outstanding bonds, which is a common practice.

KOF expects to allocate funds for eligible projects as soon as practicable. Unallocated proceeds will be temporarily managed in line with KOF's normal investment policy; held in cash or invested in short-term market securities.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 KOF's Sustainable Bond Framework is aligned with this component of the referenced principles.

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Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider KOF's overall reporting practices to be strong.

KOF commits to publicly disclose a sustainable bond section inside its annual integrated report, one year after each bond is issued, and until net proceeds are fully allocated to eligible projects. The section will include the percentage of proceeds allocated to each eligible project category and the balance of unallocated proceeds. KOF also commits to having an independent auditor verify the allocation of proceeds for each eligible project.

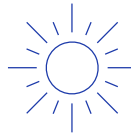

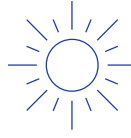

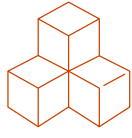

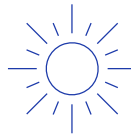






A strong feature of the framework, in our view, is the issuer's commitment to include, when feasible, the expected and achieved environmental and social key performance indicators (KPIs) related to the financed projects. These include, for example, the percentage of annual GHG emissions reduced, the percentage of rPET used in new PET bottles, among other KPIs. KOF discloses the methodology and key assumptions used to calculate each KPI in its framework, which we view as a strong practice. Social metrics are outputs, such as the number of businesses that will receive loans through KOF's MSMEs financing program or the total dollar amount of investments in training programs. KOF does not, however, commit to report on social outcomes by target population. Nevertheless, we currently do not view this as a limitation to KOF's strong reporting score, as social reporting standards are currently limited in the sustainable debt market, with many metrics calculated by simply counting rather than measuring social outcomes or impacts.

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

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

KOF's Sustainable Finance Framework intends to contribute to the following SDGs:

Use of proceeds/KPI	SDGs			
Clean Transportation	 7. Affordable and clean energy	 13. Climate action		
Energy Efficiency	 *7. Affordable and clean energy	 *8. Decent work and economic growth	 *9. Industry, innovation and infrastructure	 13. Climate action
Renewable Energy	 *7. Affordable and clean energy	 *8. Decent work and economic growth	 *11. Sustainable cities and communities	 13. Climate action
Sustainable water and wastewater management	 *6. Clean water and sanitation	 *11. Sustainable cities and communities	 *12. Responsible consumption and production	

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Pollution Prevention and Control



***12. Responsible consumption and production**

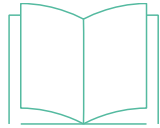
Circular Economy Adapted Products, Production Technologies, and Processes



***12. Responsible consumption and production**

13. Climate action

Access to essential services

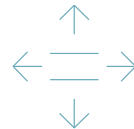


***4. Quality education**

***3. Good health and well-being**

5. Gender equality

Socioeconomic advancement and empowerment



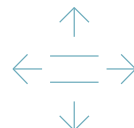
3. Good health and well-being

***5. Gender equality**

***10. Reduced inequalities**

***11. Sustainable cities and communities**

Employment Generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through potential effect of SME financing and microfinance



4. Quality education

8. Decent work and economic growth*

10. Reduced inequalities

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

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