RISK MANAGEMENT

Risk management

Arca Continental is a company that has significantly developed over the years due to its corporate practices, business ethics and social responsibility in the countries it has reached.

Our reputation and growing influence over the communities in which we participate make us important actors, committed with the implications of this responsibility.

Our reputation is the most valuable asset we must defend.

Like any other company with our reach and influence, we navigate through an environment that presents complex and changing situations that become latent threats and potential risks to our operation.

Our company is strongly based on the permanent identification of Social, Economic, Political, Environmental and Commercial situations that involve and affect each community in which we are present and act immediately to monitor the risk they represent.

For this reason, we have developed an Integral Risk Management Model, a tool that feeds on all threats and information that each of our employees identifies on a day-to-day basis.

Risk management is a fundamental part of our strategy and it helps us identify, assess and mitigate risks to which we are exposed, depending on the nature of our operation. Long-term protection and value creation are essential pillars of this model
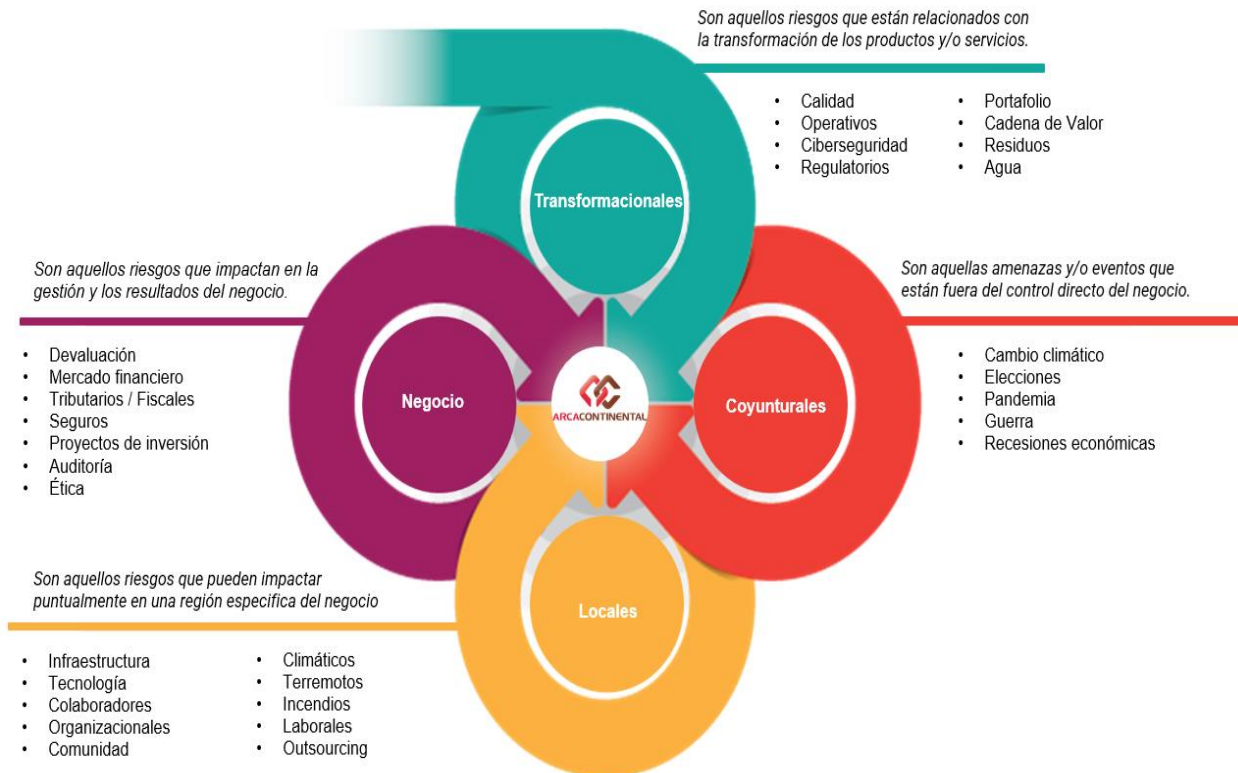
Integral Risk Management Model

Risk Taxonomy

In Arca Continental, we define risks depending on the threat it represents to people, material and financial assets, the company's reputation and the business in general.

We have established three levels of risk:
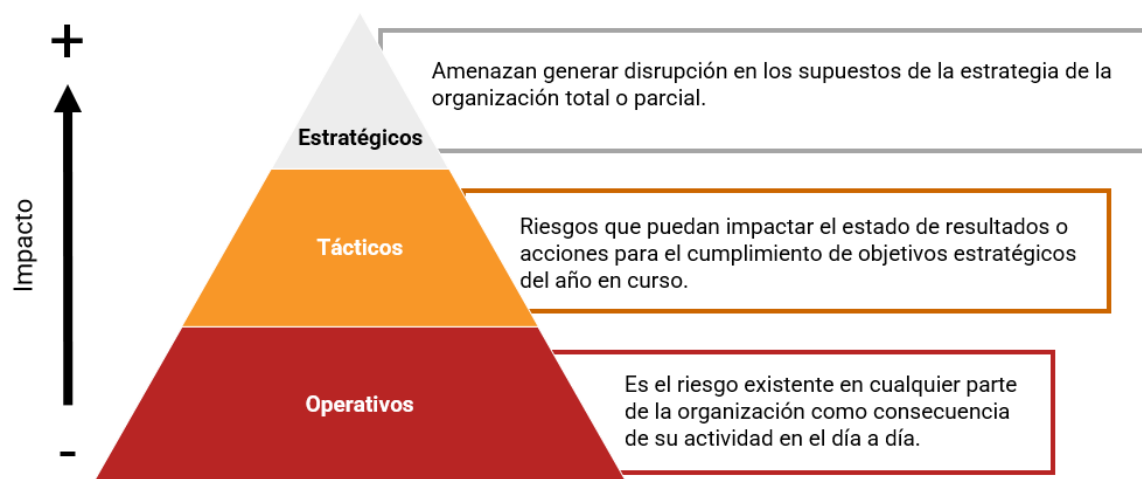
We have also developed a risk taxonomy model that provides an effective classification structure for the risk management process. It works as a starting point for carrying out risk prioritization and management, proposing a classification structure based on 4 main categories


Son aquellos riesgos que están relacionados con la transformación de los productos y/o servicios.

Transformacionales
- Calidad
- Operativos
- Ciberseguridad
- Regulatorios
- Portafolio
- Cadena de Valor
- Residuos
- Agua

Son aquellos riesgos que impactan en la gestión y los resultados del negocio.

Negocio
- Devaluación
- Mercado financiero
- Tributarios / Fiscales
- Seguros
- Proyectos de inversión
- Auditoría
- Ética

Son aquellas amenazas y/o eventos que están fuera del control directo del negocio.

Coyunturales
- Cambio climático
- Elecciones
- Pandemia
- Guerra
- Recesiones económicas

Son aquellos riesgos que pueden impactar puntualmente en una región especifica del negocio

Locales
- Infraestructura
- Tecnología
- Colaboradores
- Organizacionales
- Comunidad
- Climáticos
- Terremotos
- Incendios
- Laborales
- Outsourcing

Description of the risk management system

In Arca Continental, we manage risks under a three-line defense model, in which all operational, functional, and administrative areas take a direct or indirect role. These lines of defense have the following functions.

- **1st line of defense:** Measuring and controlling risks.
- **2nd line of defense:** Identifying new threats, analyzing, and defining controls.
- **3rd line of defense**: Auditing the control process compliance.
- **Government/ committees:** Establishing guidelines, resources, and standards for proper risk management.

Our strategic resilience model is based on ISO 310002, which seeks to ensure business continuity through better risk and crisis management plans, adopting a more predictive and less reactive perspective. Through this model, we transform business threats into opportunities in order to create shared value and competitive advantages. Arca Continental's risk management model is based on three main dimensions that help us deal with internal and external events, threats, and risks.
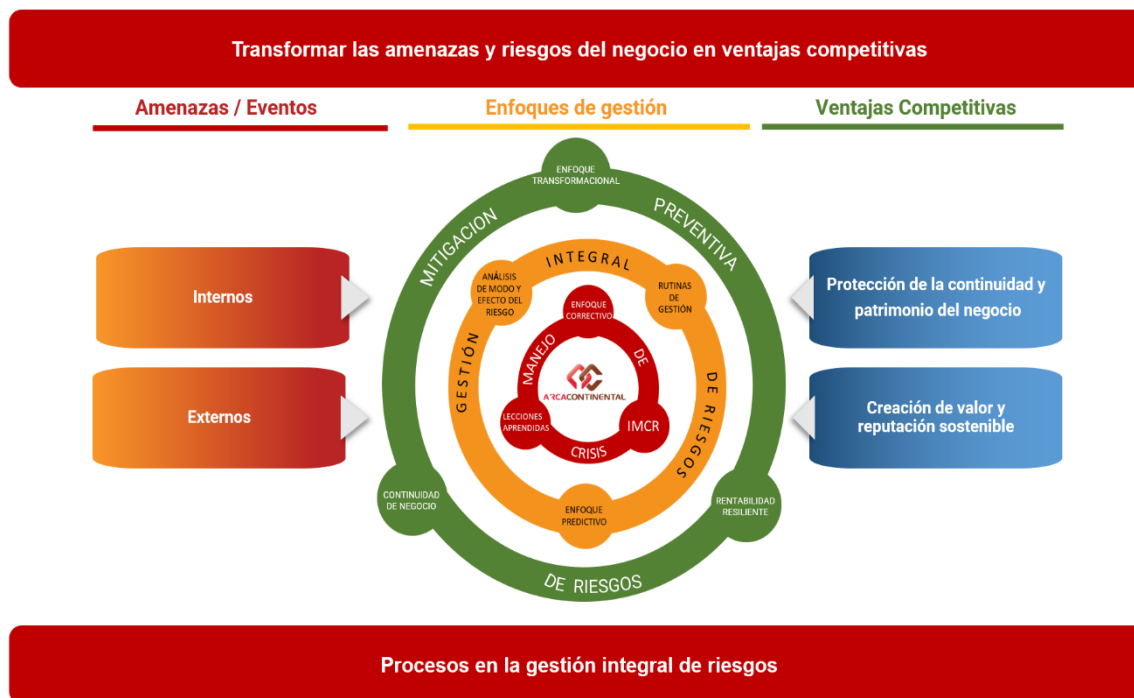
The Model´s transversal approach comprises the methodology and management tools in collaboration with the Public Affairs, Communication and Sustainability team, essential for transforming the regulatory and reputational business threats into opportunities.

- **Early risk mitigation:** Methodology and management of materialized incidents or risks, in order to minimize the reputational impact on our business units and the financial/operational impact.
- **Comprehensive risk management:** Based on a predictive approach, this transformation line seeks to present the risk taxonomy to each of the business ecosystems, map the possibilities in which these risks can materialize and prioritize them.
- **Crisis management:** As the name suggests, this line of transformation seeks to preventively mitigate the mapped and prioritized risks, based on their probability and financial/reputational impact.

With this model we elevate the importance of preventive risk management, the reputation strengthening, and the promotion of sustainable performance, which together allows us to proactively meet the expectations of stakeholders.

Risk Governance

To integrate the risk management processes, corporate participation is necessary, where the Executive, Functional and Risk Management Directions are involved. Active participation of Country, Public Affairs, Process Leaders, and Auditing Directors is needed as well.

The following image shows the areas involved in Arca Continental´s identification, evaluation, management and mitigation processes.

The process of comprehensive risk management considers the integral collaboration between departments and business units. It considers roles and responsibilities in each level and uses standardized methodologies for the identification and prioritization of risks, focused on the preventive mitigation and business continuity.
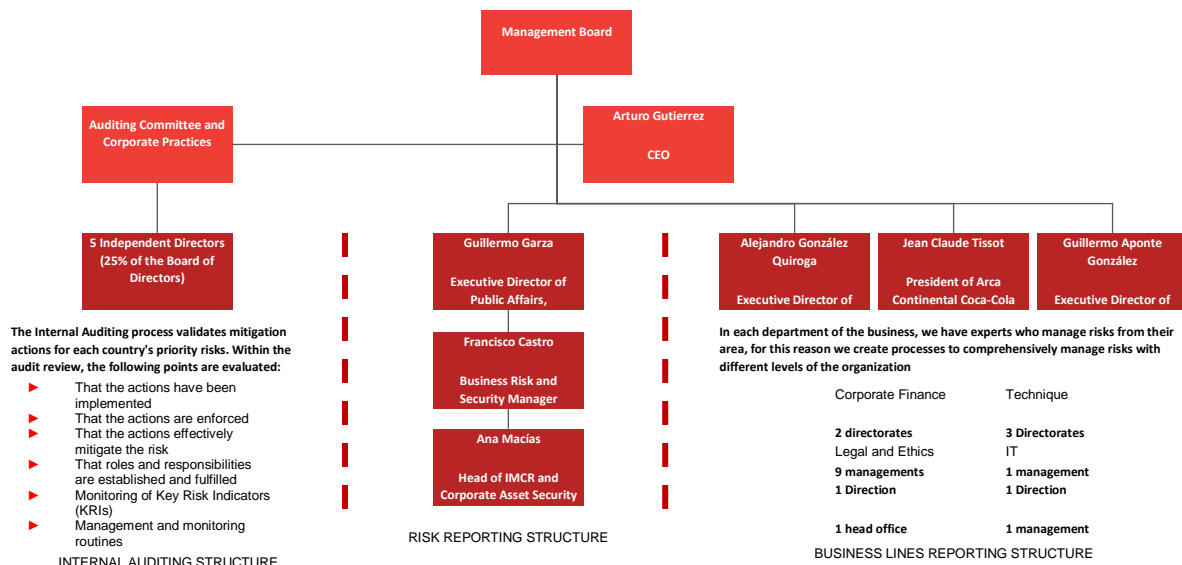
Report line

The risk management process derives from the leadership and supervision of the Board of Directors, by the Auditing and Corporate Practices Committee (composed exclusively of Independent Directors), the General Management and the Coordination of Risk Committees.

The Coordination of Risk Committees ensures that respective committees address all possible critical risks that may arise. Among the identified and managed risks, the following can be found: practices in operations, environmental management systems, industrial and personal safety, corporate image and reputation, insurance and bonds, information security, financials and taxes, audits for suppliers, regulatory compliance and crisis resolution and event management.

To identify, assess, manage, and mitigate risks, we rely on three organizational structures, each completely independent from the other.

- **Internal Auditing structure:** It is made up of the Auditing and Corporate Practices Committee, which is composed exclusively of Independent Board Members.
- **Risk reporting structure:** It is built within the Executive Directorate of Public Affairs, Communication and Sustainability (PACS), and has a specific management body in charge of the supervision of possible business risks.
- **Business line reporting structure:** in each of our business departments, we have experts who manage risks from their area, and for this reason, we create processes to manage risks within the different levels of the organization.

The reporting lines are shown in the figure below:

Organization Chart

Management Board

Auditing Committee and Corporate Practices

Arturo Gutierrez

CEO

5 Independent Directors (25% of the Board of Directors)

The Internal Auditing process validates mitigation actions for each country's priority risks. Within the audit review, the following points are evaluated:

► That the actions have been implemented
► That the actions are enforced
► That the actions effectively mitigate the risk
► That roles and responsibilities are established and fulfilled
► Monitoring of Key Risk Indicators (KRIs)
► Management and monitoring routines

INTERNAL AUDITING STRUCTURE

Guillermo Garza

Executive Director of Public Affairs,

Francisco Castro

Business Risk and Security Manager

Ana Macías

Head of IMCR and Corporate Asset Security

RISK REPORTING STRUCTURE

Alejandro González Quiroga

Executive Director of

Jean Claude Tissot

President of Arca Continental Coca-Cola

Guillermo Aponte González

Executive Director of

In each department of the business, we have experts who manage risks from their area, for this reason we create processes to comprehensively manage risks with different levels of the organization

Corporate Finance	Technique
2 directorates	**3 Directorates**
Legal and Ethics	IT
9 managements	**1 management**
1 Direction	**1 Direction**
1 head office	**1 management**

BUSINESS LINES REPORTING STRUCTURE

We also have experts who manage risks in each of our business areas and have defined responsibilities. For more information regarding the number of associates in charge of risk management and control, please refer to the ***Risk management*** section in our integrated annual report annexes.

Board of Directors role in the supervision and management of risks

The risk management body of the Board of Directors is the Auditing and Corporate Practices Committee, which is composed solely and exclusively of Independent Counselors.

In addition, all our Counselors receive ongoing training in risk management. For additional information regarding Board Member experience around enterprise risk management (ERM) in operational roles, please refer to the ***Risk management*** section in our integrated annual report annexes.

Training

In risk management, crisis management and asset security, it is essential that employees in different organizational levels understand the basic concepts and are prepared to deal with a business crisis. For this reason, we have integrated a strategy with the intention of developing risk management abilities that allow transforming threats into a competitive advantage. This strategy is based on 5 critical points:

1. **4M's change of focus**

   - **Mindset:** Transform the way we see risks or threats, based on previous experience and prevent them from materializing through analysis, initiative implementation, and resource management.
   - **Model:** Basic working structure that allows us to understand the way in which we manage risks through a corrective, predictive and preventive approach.

- **Methodology:** Shape preventive and crisis management in a common language, using universal tools and methodologies for all AC directorates, areas, and business units.
- **Mitigation:** Transition from reporting risks to identifying specific, high-impact actions that mitigate different scenarios in the short, medium, and long term.

2. **Integration:** Most business threats and risks can be associated with a specific area or direction. The consequences that a certain risk can cause are transversal, which means they affect all business areas and therefore the importance of mapping them in an organized way. By doing this, risks and threats can easily be mitigated by their corresponding business unit or responsible team.

3. **Digitization:** Risks and/or threats are present across the organization; a fundamental part in the ability development process is to incorporate digital systems and tools that allow us to map risks, develop mitigation plans and manage crises in a dynamic way.

4. **Training:** Understanding the taxonomy of risks and how they can affect other areas, as well as adequate crisis management, are fundamental in the risk management training process.

5. **Results:** the goal is to prevent risks from materializing. Therefore, value creation regarding business reputation must be present in all the projects and processes that we develop.

As part of the efforts to transform the risk management process in our business, we have developed e-learning training. This training system is aimed at department chiefs, managers, and directors (executive and functional) in order to raise awareness of the internal and external risks to which we are exposed, as well as their early mitigation. This training lasts 30 minutes and shows the standard risk analysis and management tools we use in Arca Continental.

Sensitivity analysis and stress testing

Apart from identifying internal and external risks, we use tools and methodologies that objectively prioritize those risks that have greater materiality and business impact, so that they can be mitigated as soon as possible.

With these tools and methodologies, we also seek knowledge standardization within the organization, so that the different risk ecosystems, directorates, and business units can easily cross information, priorities and share practices in a more effective way.

The following diagram describes the activities to be carried out in the risk management process, as well as the team responsible to do so.
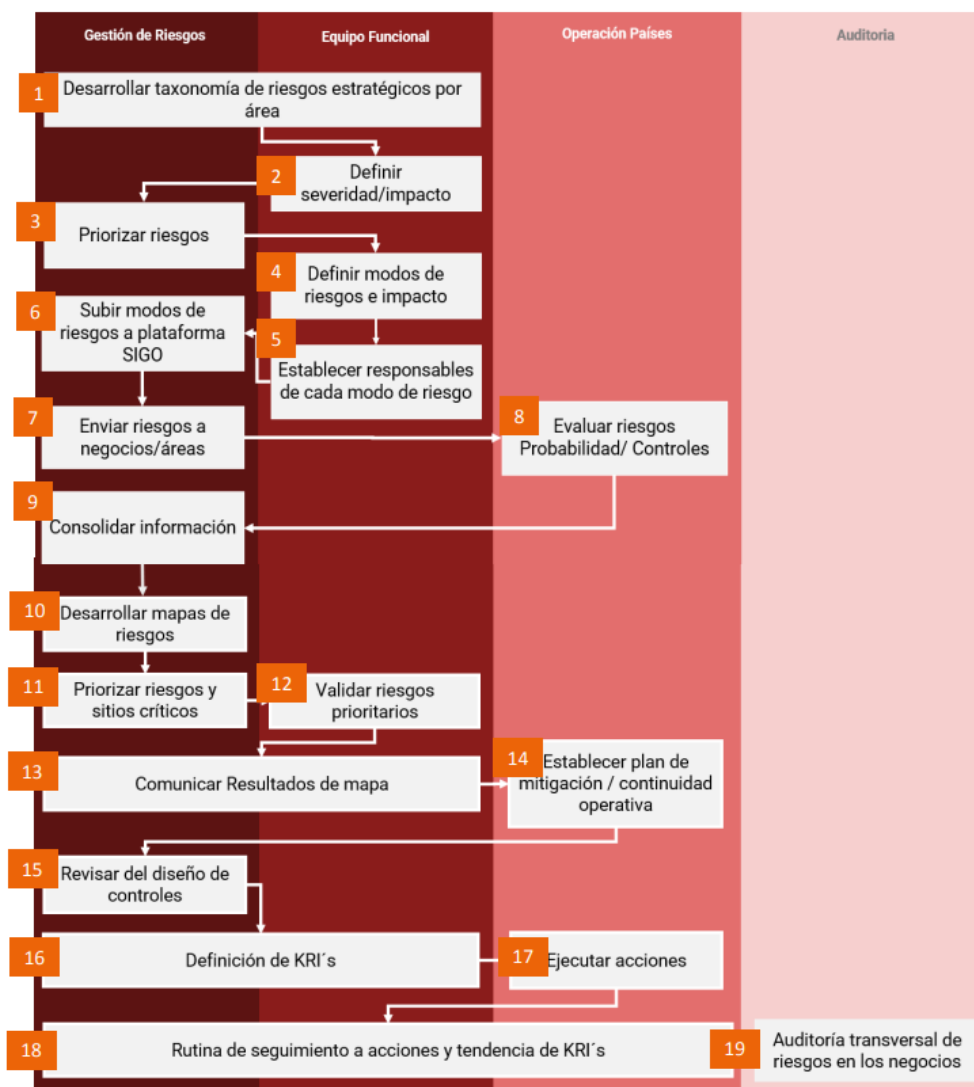
Identified risks

Following our risk taxonomy and the methodology shown in the previous section, we have performed sensitivity analysis and stress tests in our different business units in order to determine our risk exposure. The following table shows some of the main risks we face, their potential impacts, and the actions we have implemented to mitigate them.

Taxonomy	Risk	Potential Impacts	Mitigation actions
Business	**Financial risks** Global economic conditions, financial market volatility and other conditions that	- Decrease in business profitability - Unreliable financial information	- Constant monitoring of macroeconomic conditions

	may affect our business competitiveness.	- Corporate governance instability	- Communication with authorities and stakeholders - Predictive risk management system to determine mitigation measures in advance
Local	**Occupational risks** Risks related to the operations performed by associates and their expectations.	- On-site associate accidents - Strikes and operational cease in production centers - Loss of *know-how* due to resignations. - Low productivity. - Damage to the reputation of the company	- Ensuring safe working conditions for our associates - Attention to the needs and expectations of our associates and stakeholders - Alignment of the organizational culture with the personal purpose and expectations of the associates
Conjunctural	**Climate Change** Risks associated with the physical threats of climate change induced by global warming, and those related to the transition to a low-carbon economy.	- Damage to our own and our suppliers' physical infrastructure - Supply chain disruption - Future environmental regulation - Change in consumer patterns	- Monitoring of climate risks as part of the comprehensive risk management system - Implementation of TCFD recommendations - Associate training - Target development to reduce carbon footprint and environmental impact

			- Linking the achievement of climate and environmental goals to the compensation of executives - Cooperation with communities
Transformational	**Water risks** The potential consequences related to water availability, regulations for its use and potential conflicts with communities.	- Water supply shortage for production processes - Conflicts with communities - Pressure from NGOs - Change in the water price structure - Change in the current regulation	- Replenishment of aquifers - Rainwater collection systems - Adoption of nature-based solutions for water use efficiency - Reduction of the water footprint of our products - Cooperation with communities
Transformational (Emerging)	**Packaging and waste risks** Risks related to improper disposal of our waste, in addition to improper collection of material for recycling.	- Fines for improper disposal of waste - Obstacles related to achieving recycling and sustainable packaging goals - Insufficient supply of packaging material	- Development of a comprehensive waste management system - Investment in research and design of new packaging - Investment in PETSTAR to increase the recycling capacity of plastics - Linking the achievement of circular economy

			goals to executive compensation - Collaboration with communities and local governments to promote a circular economy
	Cybersecurity Impacts related to the theft of digital information that could compromise the security of the company and third parties.	- Ransomware attacks - Information theft - Compromised safety of associates and business partners	- Investments in technological and cybersecurity infrastructure - Monitoring of system violations and anomalies - Investment in systems that help improve the ability to react and recover from cyber attacks - Training of employees
	Stocking and Supply Chain Risks related to the shortage of critical materials for production processes and the disruption of logistics systems.	- Raw material shortage - Disruption of transport routes - Increase in price and cost structure	- Monitoring of physical risks of climate change - Collaboration with suppliers and business partners - Investment in innovation and process optimization

Aligned with the sensitivity analysis and stress testing, the risk level of the previously mentioned impacts has been calculated as follows:

Risk level category	Global	Mexico	Argentina	Ecuador	Peru	USA
Water						
Raw Materials						

Risk						
Waste	High	High	High	Mild	Mild	Mild
Ransomware	High	High	High	Mild	Mild	Mild
Conjunctural	High	Mild	Negligible	High	High	Low
Labor / Strikes / Unions	Mild	Low	High	Mild	Low	Mild
Natural disasters	Mild	Mild	High	Mild	Mild	Mild
Labeling	Mild	Mild	Low	Low	Mild	High
Insecurity	Low	Mild	Negligible	Mild	Low	Negligible
Product quality	Low	Negligible	Negligible	Low	Negligible	Negligible
Logistics	Low	Mild	High	Low	Negligible	Negligible

Risk Level Scale

Negligible	Low	Mild	High
(green)	(yellow)	(orange)	(red)

ESG risks in critical suppliers

We evaluate the sustainability performance of our critical suppliers, who are responsible for the 80% of the global raw matter spending. To provide greater understanding and transparency of our ingredient supply chain, we include a list of critical suppliers in our annual report (pages 67-74).

Critical supplier sustainable performance assessments allow us to identify risks in our supply chain and develop corrective plans for those suppliers that present a high level of risk in any of the topics shown in the following table:

Environment	Labor practices and human rights	Business ethics	Sustainable supply
Operations • Energy consumption and greenhouse gas emissions • Water • Biodiversity • Local and accidental pollution • Materials, chemicals, and waste *Products* • Use of products • Product lifecycle • Health and safety of consumers	*Human resources* • Health & Safety of Employees • Working Conditions • Social dialogue • Career and coaching management *Human rights* • Child labor, forced labor and human trafficking • Diversity, discrimination, and harassment	• Corruption • Anti-competitive practices • Responsible management of information	• Supplier environmental practices • Supplier social practices

- Environmental services and actions to promote environmental protection

- Human rights of external stakeholders
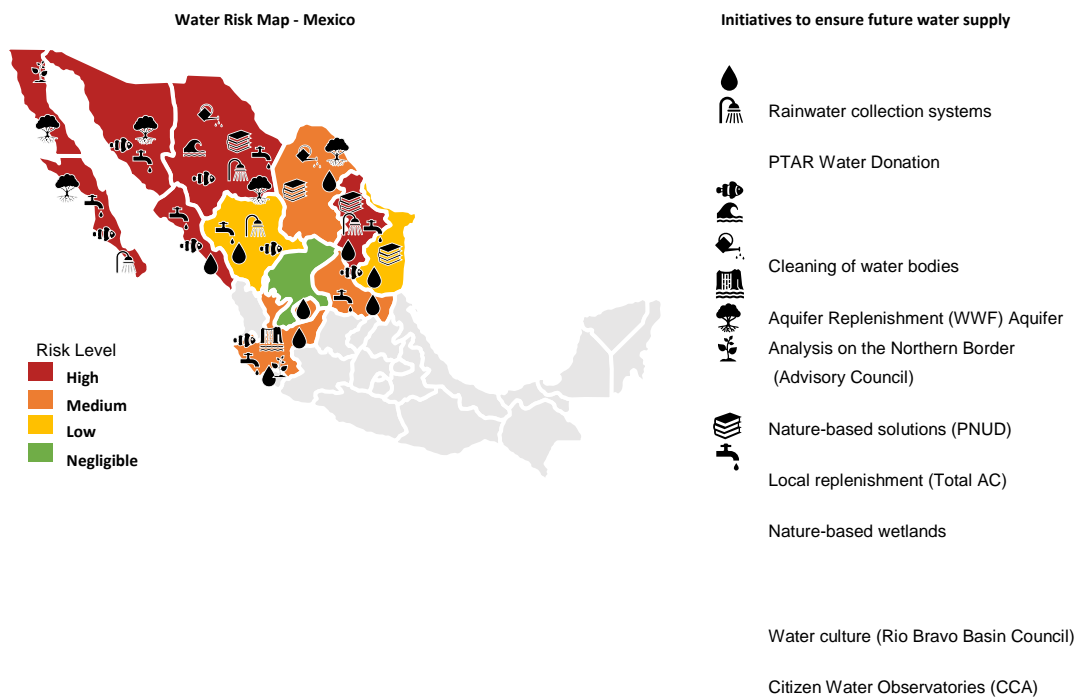
Mapping ESG levels on critical suppliers

Risk Level (Score Ecovadis)

- High (Score <40)
- Medium (Score 40-44)
- Low (Score 45-74)
- Negligible (Score >75)

For more information regarding sustainability in our supply chain, follow **this link**.

Water-related risks

Since water is the most important resource in our operations, significant efforts have been made to understand the origin of water-related risks that could prevent its supply. Some potential business impacts associated with water are shown next up.

- **NGOs, community, or neighbors' social pressure:** Closure of facilities, removal of operating permits, impact on local sales, reputation.

- **Modification of the legal framework of water:** Closure of facilities, removal of permits, impact on sales, profitability.

- **Climate change, drought due to water stress:** Lack of water supply, capacity reduction and sales, social pressure, reputation.

- **Lack of water availability:** Reduction of the municipal network, wells, lack of water supply, capacity reduction, permits for new wells, impact on sales, social pressure, reputation.

- **Exceeding well capacity permission:** Possibility of removal of the permit, fines.

According to our operational regions, a water-related risk identification was deployed, as well as multiple initiatives that have been developed to ensure future water supply. Now, we have geographic information about our operations in Mexico, which are shown below.

Water Risk Map - Mexico

Risk Level
- **High**
- **Medium**
- **Low**
- **Negligible**

Initiatives to ensure future water supply

Rainwater collection systems

PTAR Water Donation

Cleaning of water bodies

Aquifer Replenishment (WWF) Aquifer
Analysis on the Northern Border
(Advisory Council)

Nature-based solutions (PNUD)

Local replenishment (Total AC)

Nature-based wetlands

Water culture (Rio Bravo Basin Council)

Citizen Water Observatories (CCA)

For more information on how we manage climate and water risks, we invite you to consult our TCFD Recommendations Table and our Integrated Annual Report. In the upcoming editions of these reports, we plan to provide greater visibility on climate and water risks in the rest of the countries where we operate.

Risk culture

In Arca Continental, we consider risk management, sustainability, and public affairs initiatives a strategic priority for the business's global reputation.

For this reason, our directors and managers have financial incentives linked to effective risk management. Below, we show the metrics used in our variable compensation initiative.
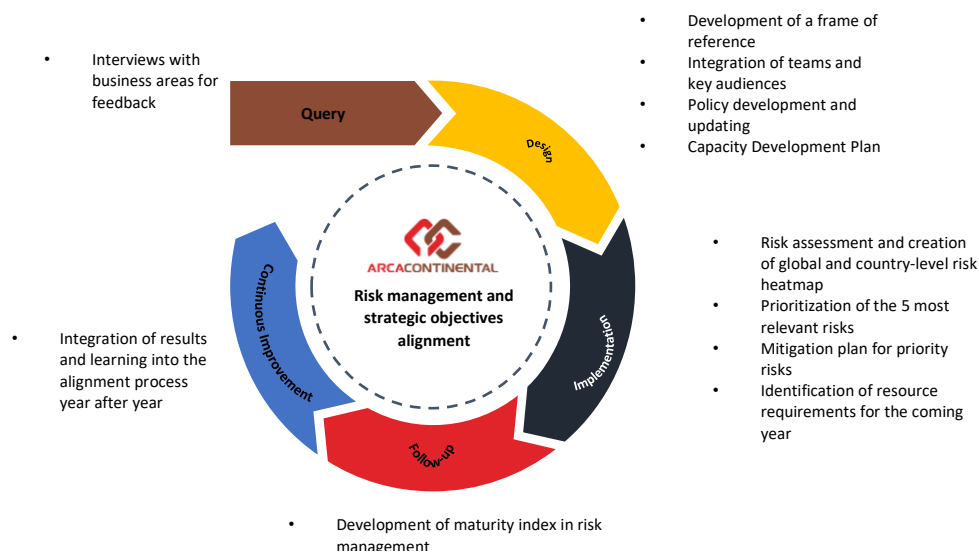
Risk management metrics linked to variable compensation	
Directors	- Reduction of vulnerability to risks (measured in probability of occurrence) - Reduction in the number of crises - Achievement of annual environmental targets (water, waste, and emissions) - Some directorates have sector-specific objectives and material risks linked to their operation area.
Managers	- Reduction of vulnerability to risks (measured in probability of occurrence) - Reduction in the number of crises - Achievement of annual environmental targets (water, waste, and emissions) - LTIR

We align risk management with our strategic objectives through a continuous improvement approach. This approach allows our employees to analyze, detect and address areas of improvement at different stages of our processes and throughout our supply chain.

Through our continuous improvement program, we strive to train our partners in the countries where we are present so that they can suggest improvement opportunities regarding productivity, costs, expenses, safety, quality, and other indicators. We also focus on 4 specific pillars:

1. Measures for the proactive identification of risks
2. Measures for continuous improvement in the risk management processes
3. Inclusion of risk criteria in product development
4. Innovation in risk management

The continuous improvement program, responsible for aligning our risk management process with strategic objectives, follows a process of constant communication, design, testing, and implementation of innovations, as described in the following figure.

- Development of a frame of reference
- Integration of teams and key audiences
- Policy development and updating
- Capacity Development Plan

- Interviews with business areas for feedback

Query

Design

Risk management and strategic objectives alignment

Implementation

- Risk assessment and creation of global and country-level risk heatmap
- Prioritization of the 5 most relevant risks
- Mitigation plan for priority risks
- Identification of resource requirements for the coming year

Continuous Improvement

- Integration of results and learning into the alignment process year after year

Follow-up

- Development of maturity index in risk management

This model allows us to have a predictive risks management process with an integrated vision of our business ecosystems, as well as a systemic and methodological approach for the preventive mitigation of risks. Through this program, we generate and preserve value over time.

Crisis management

As part of our efforts to strengthen crisis management at Arca Continental, we have deployed the IMCR SIGO platform in all our regions of operation. This platform allows our employees to learn about the management of previous crises by monitoring the incidents that occurred in our operations and a repository that includes the following approaches:

- Root cause analysis
- Lessons learned
- Replies and follow-up

For further information regarding detected, managed and documented crises through our ICMR SIGO platform, please refer to the **_Risk management_** section of our integrated annual report