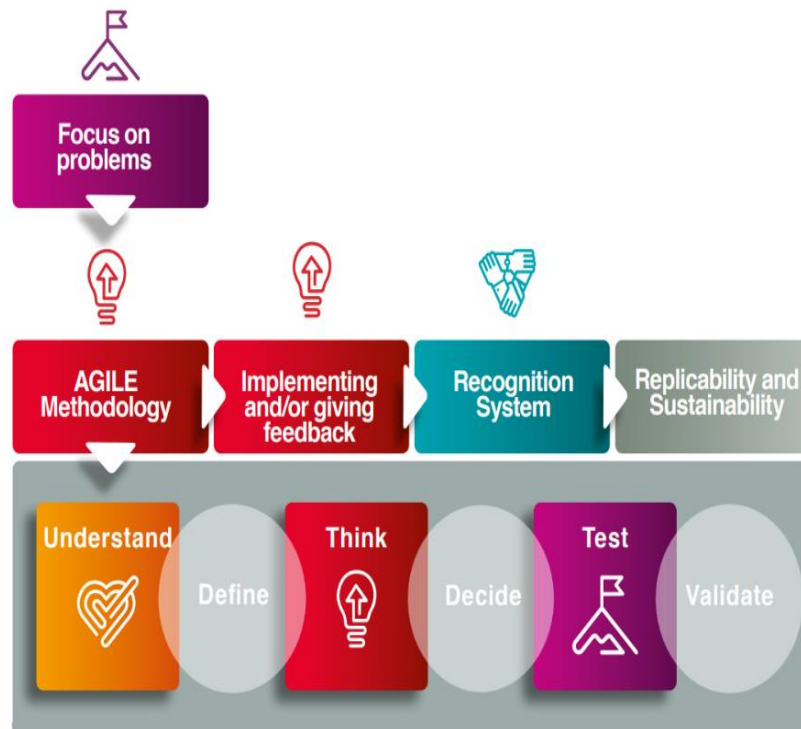


INNOVATION APPROACH



Arca Continental – Innovation Approach

Innovation is a key component of our culture. Our methodology is focused on solving problems to turn them into opportunities to build replicable and sustainable projects. This methodology, based on AGILE, is structured as follows:



In addition, our **Innovation Model** consists of five steps, described below:

1. **Innovation Sources:** Such as poor performance, stable performance, market changes, legal changes, and megatrends.
2. **Innovation Planning:** Based on creativity, collaboration, knowledge, redesign of processes, products or services, innovation workshop and project portfolio.
3. **Validation and Implementation:** Whose process includes floor innovation testing, user feedback, implementation
4. **Supervision:** We benchmark, innovate new alternatives and monitor.
5. **Protection:** We promote and protect intellectual or industrial property.

Investments in Innovation

Arca Continental is a company that is always looking for innovative solutions and value creation opportunities to further consolidate its solid leadership position in the marketplace. For this reason, we make direct investments that have a strategic rationale and that are linked to the company's current operational capabilities, resources, processes, and sustainability targets. Part of these investments are done through AC Ventures, our own private equity fund.

Currently, we focus our investments in start-up companies Latin America and the US, and act as a limited partner in venture capital funds, with an average ticket size ranging between USD 500k and USD 3M. The investments in innovation done by our venture capital fund are centered in the following topics.

- **Logistics:** solutions to optimize distribution and increment the resiliency of our supply Chain.
- **Retail:** development of technology in the fields of analytics, POS, SaaS, big-data, AI, image recognition, among others.
- **Fintech:** to advance the use of wallets, ease processing payments and give financing access for SMEs.
- **Value chain:** innovations to meet our water and circular economy targets.

For more information on our VC fund, please follow [this link](#).

In addition to the monetary investments done by our venture capital fund, we collaborate with NGOs and universities to drive innovation in the following verticals.

- **Sustainable agriculture:** research that involves our suppliers in the agriculture and farming sectors to improve practices.
- **Food loss & waste:** in-house investments in continuous improvement programs to minimize loss and waste from ingredients.
- **Packaging:** applied business models that generate social and environmental benefits along our value chain.
- **Manufacturing:** lean manufacturing principles applied to all our processes.

Green Financing

A genuine commitment to the transition to a low-carbon economy requires allocating capital to green projects that contribute to achieving the goals of the Paris Agreement.

In line with this principle, we developed a Green Financing Framework in which we established the parameters that will govern any potential issuance of such financial instruments. The framework seeks to promote transparency and integrity in these types of financing and is aligned with the Green Bond Principles published by the International Capital Markets Association¹ (ICMA).

The eligible categories within our Green Financing Framework are the following:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Clean transportation

- Sustainable water and wastewater management
- Products adapted to the ecological and/or circular economy, technologies and production processes

In 2021, we issued 4.65 billion pesos in Stock Exchange Certificates under the green bonds² category. These bonds are among the first issued by a beverage company in Mexico in pesos. The placement consisted of two tranches, one for 3 billion pesos with a 7-year term at a fixed rate of 6.75%, and another for 1.650 billion pesos with a 4-year term at a variable rate equal to TIIE plus seven basis points.

The transaction attracted strong interest from a diverse investor base and was over-subscribed by almost 4.3 times. Both issues obtained the “mxAAA” rating by S&P3 and “AAA(mex)” by Fitch Ratings⁴, which are Mexico’s highest credit ratings, above the country’s sovereign debt.

With these resources, we expect to refinance about 6% of the projects implemented in the Sustainable Water and Wastewater Management category and the remainder will be used to finance new projects.

Relevant projects and results

The following tables provide an overview of the innovation projects we have developed in some of the afore mentioned topics, either through investments or collaborations with NGOs and universities.

Project category	Description	Efficiency gains	Cost reduction / Revenue generation	Access to human capital, technologies & inventions	Other impacts
Energy efficiency	<p>Projects related to the renovation, installation, operation and maintenance of efficient equipment in energy use and infrastructure</p> <p>Among others, developed projects include:</p> <ul style="list-style-type: none"> • Renovation of coolers with low energy consumption technology • Equipment and process improvements in production plants, including, but not limited to: <ul style="list-style-type: none"> ○ Upgrading of filling equipment on the production 	<ul style="list-style-type: none"> • Reduction of 25% energy consumption in coolers with respect to current technologies • Reduction of 20% energy use in production lines • Reduction of 33% energy use in cooling towers 	<p>Cost reduction is not disclosed because of confidentiality, however, it is directly linked to expenditure in energy.</p> <p>R&D has been benefited through an expenditure in new technologies and process improvements.</p>	<p>Human capital is impacted because our production teams' incentives are aligned with yearly energy efficiency targets.</p> <p>Access to technology and inventions has improved, particularly by investing in low energy consuming coolers.</p>	<p>In 2021, innovations and launches yielded positive results. Topo Chico Hard Seltzer continued to occupy 2nd and 3rd place in market share in Guadalajara and Monterrey, respectively, thanks to point-of-sale execution strategies such as investments in coolers, communication displays, and exclusive plans for the on-premise channel. The deployment of Costa Coffee continued in the rest of the territories and Topo Chico Twist achieved</p>

	<p>line to reduce energy use</p> <ul style="list-style-type: none"> ○ Replacement of cooling towers to reduce energy use 				<p>significant coverage in the traditional channel.</p>
<p>Sustainable water and wastewater management</p>	<p>Projects related to the efficiency of water use in our bottling plants with the installation of new efficient equipment related to water in our production lines; it also includes water replenishment, wastewater management, and water treatment projects.</p>	<ul style="list-style-type: none"> • Reduction of 8.2% water footprint with respect to 2017 baseline (liters of water per liter of beverage produced) 	<p>Cost reduction is not disclosed because of confidentiality, however, it is directly linked to expenditure in water.</p> <p>R&D has been benefited through an expenditure in new technologies and process improvements.</p>	<p>Human capital is impacted because our production teams' incentives are aligned with yearly energy efficiency targets.</p> <p>Access to technology and inventions has improved, particularly by investing in water-efficient equipment and new generation waste water</p>	<p>In Mexico, we have a satellite technology in place that helps us measure water extraction and consumption automatically and in real-time.</p> <p>Water is reused by the communities neighboring our operations. For example, in Guadalajara, Mexico, we have an</p>

				<p>treatment technologies.</p>	<p>agreement with ITESO University through which the institution uses our treated water for sanitation and maintenance purposes.</p> <p>Water is also crucial in our value chain because it can be used in agriculture. This resource is primarily used in the ingredients production step of our value chain, for which a portion of their water requirements are fulfilled with recycled water. Accordingly, our suppliers have implemented best practices in water use and recycling to ensure that the potential impact of lower water availability does not</p>
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					<p>limit their ability to provide raw materials in the quantity and quality required to meet customer needs, and at the adequate price.</p>
<p>Circular economy</p>	<p>Projects related to improve recyclability in our returnable PET containers, as well as reduce the inventory needed to meet market needs for our returnable bottles.</p>	<ul style="list-style-type: none"> • Reduction of 26% virgin PET sourcing by using rPET. 	<p>Cost reduction is not disclosed because of confidentiality, however, it is directly linked to expenditure in packaging materials.</p> <p>R&D has been benefited through an expenditure in new technologies and process improvements.</p>	<p>This initiative improves access to human capital by attracting and retaining talent to solve complex challenges that have a clear impact on sustainability.</p> <p>From our partnerships with PetStar, which improve conditions for workers in collection centers, to our supply chain managers, each and every one of our collaborators are engaged on a daily basis to comply with our sustainable</p>	<p>PetStar's Sustainable Business Model has a 26-year history of excellence in the circular economy for PET containers. It is integrated from bottle collection to the inclusion of PET into new packaging with recycled content, contributing to The Coca-Cola Company's global 2030 goal.</p> <p>From the social-economic viewpoint, the PetStar Inclusive Collection Model</p>

				<p>packaging commitments</p> <p>Access to technology and inventions are incentivized through experimentation that can lighten our packaging, and increase the quantity of recycled material in our containers.</p>	<p>(MAIP) promotes social mobility and the recognition of the rights of PET waste collectors and urban recyclers.</p> <p>Furthermore, the company partners with other actors to foster the rights of children and ensure supply with no child labor. At the same time, PetStar makes sure its operations are cost-effective by making the price of its recycled resin competitive. It also generates direct and indirect jobs for 24,000 waste collectors and urban waste collectors.</p>
Food loss & waste	Projects related to minimize waste related to ingredients use in	<ul style="list-style-type: none"> • Reduction of 99% food waste among the majority of 	Cost reduction is not disclosed because of confidentiality,	Human capital is at the center of this strategy, given that our production	We have created a <i>solutions hub</i> online portal, where plant managers can

	<p>our bottling process.</p>	<p>production plants.</p>	<p>however, it is directly linked to expenditure in ingredients.</p> <p>R&D has been benefited through an expenditure in new technologies and process improvements.</p>	<p>teams' incentives are aligned with a continuous improvement system that rewards reduction of food loss & waste.</p> <p>Our teams continuously deliver results by developing innovations in process lines and adapting previously implemented solutions in other plants of our network.</p>	<p>access data on efficiency solutions implemented by other teams of our network, saving time and expenditures on research.</p>
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