

Arca Continental, S.A.B. de C.V.

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Introduction

In May 2021, Arca Continental, S.A.B. de C.V. (“Arca Continental” or the “Company”) issued green bonds (the “2021 Green Bonds”) aimed at financing and refinancing eligible green projects to promote renewable energy generation, sustainable water and waste management and procurement of recycled materials. In March 2023, Arca Continental engaged Sustainalytics to review the projects financed with proceeds from the 2021 Green Bonds and provide an assessment as to whether the projects met the use of proceeds criteria and the reporting commitments outlined in the Arca Continental Green Bond Framework (the “Framework”).¹ Sustainalytics provided a second-party opinion on the Framework in April 2021.² This is Sustainalytics’ second annual review of allocation and reporting of the 2021 Green Bonds issued under the Framework, following a previous review in June 2022.³

Evaluation Criteria

Sustainalytics evaluated the projects funded with proceeds from the 2021 Green Bonds based on whether the projects:

1. Met the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Renewable Energy	Expenditures related to the development, acquisition, maintenance, and operation of long-term renewable energy projects, such as solar, wind and biogas. Example projects may include, but are not limited to: <ul style="list-style-type: none"> • Power purchase agreements from renewable sources, like wind power farms • Installation of biogas recovery system (anaerobic reactor) for power generation • Solar power panels installation in production facilities and corporate offices 	<ul style="list-style-type: none"> • % Reduction in GHG emissions • % Renewable energy use

¹ Arca Continental, “Arca Continental Green Bond Framework 2021”, at: https://www.arcacontal.com/media/371032/arca_continental_green_bond_framework_2021.pdf

² Sustainalytics, “Arca Continental Green Bond Framework Second-Party Opinion”, (2021), at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/arca-continental-s.a.b.-de-c.v/arca-continental-green-bond-framework-second-party-opinion#:~:text=Arca%20Continental%20intends%20to%20establish%20a%20Green%20Bond,Projects%20per%20the%20criteria%20defined%20in%20the%20Framework>

³ Arca Continental, Sustainalytics Annual Review Report 2022, at: https://www.arcacontal.com/media/389115/arca_continental_s.a.b._de_c.v_annual_review_2022.pdf

Energy Efficiency	<p>Expenditures related to renewal, installation, operation, and maintenance of energy efficient equipment's and infrastructure. Example projects may include, but are not limited to:</p> <ul style="list-style-type: none"> • Renewal of point of sale coolers with new low-energy consumption technology, at least 25% energy reduction from current models • Equipment and process improvements in production plants, including but not limited to: <ul style="list-style-type: none"> ○ Production line filler equipment upgrade to reduce at least 20% of energy use ○ Cooling tower replacement to reduce 33% of energy use 	
Pollution Prevention & Control	<p>Expenditures related to the construction, maintenance, operation, improvements and infrastructure of zero waste facilities and industrial and post-consumption waste management processes. Example projects may include, but are not limited to:</p> <ul style="list-style-type: none"> • Recycling & Collection Projects, including standardization of recycling bins to increase waste recycling rate • Initiatives aimed at achieving 100% collection of the bottles produced by 2030 • Investment to achieve Zero Residue Certification in production facilities 	<ul style="list-style-type: none"> • % Reduction in GHG emissions • % Of wasted recycled / properly disposed in Arca Continental's operations • PET collection rate (% of PET packaging footprint)
Clean Transportation	<p>Expenditures related to the procurement, maintenance, and operation of electric vehicles, and associated infrastructure. Example projects may include, but are not limited to:</p> <ul style="list-style-type: none"> • Electric vehicles and forklifts • Battery operated Tractors 	<ul style="list-style-type: none"> • % Reduction in GHG emissions (gr CO2 ton / km) • % Reduction in fuel consumption (L / km traveled)
Sustainable Water and Wastewater Management	<p>Expenditures related to efficiency in water used at its bottling plants with the installation of new efficient water-related equipment in Arca Continental production lines; also including water replenishment, wastewater management and water treatment projects</p>	<ul style="list-style-type: none"> • % Reduction in water use per liter of beverage produced • Water recovered through reuse projects (m³) • Water replenished (m³)
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	<p>Expenditures related to the procurement of recycled PET resin (rPET) in one-way packaging to achieve 50% rPET; the minimum goal is to reduce Arca Continental's packaging emissions by 111 kilotons of CO₂e.</p> <p>Expenditures to improve the recyclability in Arca Continental refillable PET packages, as well as reducing the necessary inventory to fulfill market needs from the Company's refillable bottles</p>	<ul style="list-style-type: none"> • Tons of rPET used in Arca Continental PET bottles • % Reduction in CO₂ emissions from rPET usage (vs. virgin PET)

Issuer's Responsibility

Arca Continental is responsible for providing accurate information and documentation relating to the details of the funded projects, including description of projects, amounts allocated and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from the 2021 Green Bonds. The work undertaken as part of this engagement included collection of documentation from Arca Continental and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by Arca Continental. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Arca Continental.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. Arca Continental raised a total of MXN 4,650 million through the 2021 Green Bonds and has disclosed to Sustainalytics that the proceeds were fully allocated as of December 2022.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded with proceeds from the 2021 Green Bonds to determine if projects aligned with the use of proceeds criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the use of proceeds criteria.	None
Reporting Criteria	Verification of the projects funded with proceeds from the 2021 Green Bonds to determine if impact of projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per use of proceeds category.	None

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the funded projects, including description of projects, their estimated and realized costs and impact, as provided by the issuing entity, which is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix

Appendix 1: Allocation and Impact Reporting by Eligibility Criteria

Use of Proceeds Category	Location	Green Projects Financed	Environmental Impact Reported by Eligibility Criteria	Net Bond Proceeds Allocation in 2022 (MXN)
Renewable Energy	All Operations	Purchase of energy from renewable sources ⁵	Percent of electricity consumption from renewable sources was 50% in 2022, 39% in 2021 and 34% in 2020	375,756,930
Energy Efficiency	Ecuador	Replacement of coolers with more energy-efficient models	Over 29% reduction in the consumption of refrigerants as of January 2022 when compared with the previous year 8,097.47 MWh of avoided electricity consumption in 2022	190,599,130
Sustainable Water and Wastewater Management	Mexico	Replacing an outdated washing machine with new and more efficient equipment at 3 facilities: Juarez, Las Fuentes and Las Trojes in Mexico. 30% reduction in water consumption (0.16 liters of water/washed bottle)	Plant Juarez: 0.47% improvement in litres of water/litre beverage produced; from 1,483 to 1,476 litres Las Fuentes: 1.9% improvement in litres of water/litres of beverage produced; from 1,377 to 1,350 litres Las Trojes: 3.5% improvement in litres of water/litres of beverage produced; from 1,630 to 1,572 litres	102,141,975
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	All Operations	Purchase of recycled resin	Percentage of food grade recycled PET and BioPET ⁶ in packaging was 27.8% in 2021 and 23.6% in 2022	1,445,801,150
Net Bond Proceeds Allocation in 2022 (MXN)				2,114,299,185
Net Bond Proceeds Allocation in 2021 (MXN)				2,620,201,906 ⁷
Net Bond Proceeds Allocated as of December 2022 (MXN)				4,650,000,000 ⁸

⁵ Arca Continental has communicated to Sustainalytics that this includes purchase from wind (49.54%), biomass (21.94%) and solar (28.52%) energy sources.

⁶ Arca Continental has communicated to Sustainalytics that while allocations under this category were made towards the purchase of only recycled PET, the KPI captures both the percentage of recycled PET and BioPET.

⁷ Refer to Sustainalytics' Annual Review on the allocation made in 2021 at:

https://www.arcacontal.com/media/389115/arca_continental_s.a.b._de_c.v._annual_review_2022.pdf

⁸ Pro-rata computation on proceeds to MXN 4,650 million given that a total of MXN 4,734.5 million was allocated by Arca Continental to assets (re)financed.

Net Bond Proceeds Raised (MXN)	4,650,000,000
Percentage of Proceeds Allocated	100%

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