

FEMSA



Sustainability-Linked Bond

FRAMEWORK

April 2021

Contents

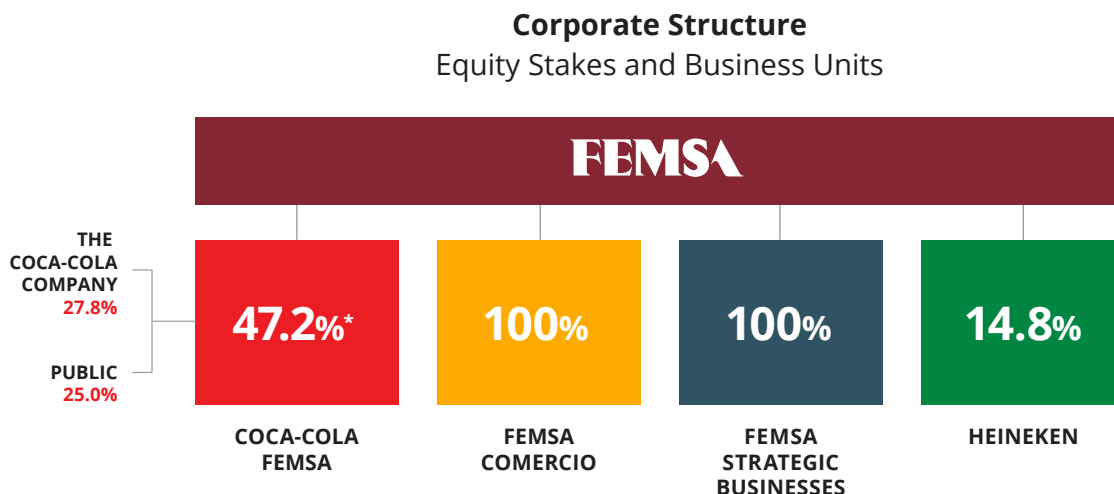
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► Company Overview

Fomento Económico Mexicano, S.A.B. de C.V. (“FEMSA”) is a company that creates economic and social value through companies and institutions and strives to be the best employer and neighbor to the communities in which it operates. Through its business units, FEMSA has more than 320,000 employees in 13 countries, serving over 290 million customers, as of December 31, 2020. We participate in the following businesses:

- I. In the retail industry, through **FEMSA Comercio** (“FEMCO”), comprised of:
 - **Proximity Division**, which operates the OXXO small-format store chain;
 - **Health Division**, which includes drugstores and related activities; and
 - **Fuel Division**, which operates the OXXO GAS chain of retail service stations.
- II. In the beverage industry, through **Coca-Cola FEMSA** (“KOF”), the largest franchise bottler of Coca-Cola products in the world by volume.
- III. In the beer industry, as the second-largest shareholder of Heineken, one of the world’s leading brewers with operations in over 70 countries.
- IV. In other ancillary businesses, through **FEMSA Strategic Businesses**, including logistics services; specialized janitorial, cleaning and sanitation product distribution; point-of-sale refrigeration solutions; food processing equipment and plastics solutions for FEMSA companies and third-party clients.

• FEMSA at a Glance



* Represents 56% of voting rights.

► Sustainability at FEMSA

Throughout our 130-year history, we have contributed to the economic and social development of the regions where we are present. We have founded and developed companies and institutions that tangibly fulfill one of FEMSA's fundamental values: **generating social value**. Through our programs and initiatives, and by optimizing the use of natural resources, our companies directly help improve the quality of life of our more than 320,000 employees and their families, with millions of other indirect beneficiaries.

Since 2004, FEMSA has publicly reported non-financial results of its operations, including through our Annual Reports¹ and GRI Standard Sustainability Contents², which address various issues related to FEMSA's economic, social, environmental, and corporate governance impact.

The vision behind FEMSA's Strategic Sustainability Strategy is to **positively transform our communities**, grounded in our ethics and values. Guided by the principles of the United Nations Global Compact ("UNGC") and the Sustainable Development Goals, FEMSA is focused on issues where we can have the greatest positive impact across three main pillars:

- **Our People**
- **Our Community**
- **Our Planet**

For each of these pillars, FEMSA has defined and implemented policies and management systems, established strategic goals, and monitored performance, incorporating feedback from our stakeholders; all of this with a vision of continuous improvement.

Through a collective effort across our corporate and operative structures, we spent time identifying the sustainability challenges of each business unit. In doing so, we aim to be able to channel the necessary and available resources to strengthen our sustainability strategy and be accountable to our stakeholders.

The results obtained from our assessments highlight our main priorities: climate change, water management, circular economy, human and labor rights, comprehensive development, inclusion and diversity, health and safety, and corporate ethics.



¹ Annual Reports: <https://femsa.gcs-web.com/financial-reports/annual-reports>

² GRI Standard Sustainability Contents: <https://www.femsa.com/en/sustainability/resources/sustainability-reports/>

• Sustainability governance

As part of our business mission, we strive to incorporate sustainability at every level, starting with the Board of Directors. The Board of Directors is responsible for directing corporate strategy and defining and supervising the implementation of the Company's vision and values.

FEMSA's sustainability team, headed by FEMSA's Vice-President of Strategic Businesses (who reports directly to the CEO and is a member of our Board of Directors), oversees the integration of sustainability into all of FEMSA's 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 the results thereunder.

The **FEMSA Code of Ethics**³ is the basis for our business conduct. It serves as a fundamental guide to policies, procedures, and directives, aimed at informing our employees' decision-making in keeping with our values, maintaining a respectful workplace, and acting in an ethical and responsible manner.



In addition to the Code of Ethics, FEMSA has corporate policies covering Human & Labor Rights, Sustainability, Environment, Community Commitment and Anti-corruption⁴. FEMSA is committed to its declared values, which is why we share our corporate policies with our stakeholders.

• FEMSA's sustainability partnerships and commitments

In 2019, through its business units FEMSA Comercio and Coca-Cola FEMSA, FEMSA joined the Mexican national agreement for the new plastics economy. We also contribute to the 2030 Agenda – Sustainable Development Goals promoted by the United Nations and, as a signatory of the UNGC, we support its 10 Principles in the areas of human rights, labor, environment and anti-corruption. Since 2017, FEMSA is part of the Dow Jones Sustainability MILA Pacific Alliance and the FTSE4Good Emerging Index. In July 2020, FEMSA and Coca-Cola FEMSA were included in the new S&P/BMV Total Mexico ESG Index launched by the S&P Dow Jones Indices alongside the Mexican Stock Exchange (*Bolsa Mexicana de Valores*).

³ Code of Ethics: <https://femsa.gcs-web.com/corporate-governance/code-of-ethics>

⁴ Corporate Governance: <https://www.femsa.com/en/about-femsa/corporate-governance/>

► Rationale for Issuing Sustainability-Linked Bonds

In August 2020, Coca-Cola FEMSA priced its inaugural green bond in the international capital markets. The successful public offering of US\$ 705 million principal amount of notes due 2032, priced at US Treasury + 120 basis points and a coupon of 1.850%. As part of the green bond offering, Coca-Cola FEMSA published its Green Bond Framework⁵, which is in line with the four core components of the Green Bond Principles 2018 as administered by the International Capital Market Association (“ICMA”), and obtained a second-party opinion from Sustainalytics, in accordance with industry best practices.

To demonstrate FEMSA's continued commitment to sustainability, we have established a Sustainability-Linked Bond Framework to fully align our funding strategy with our sustainability commitments. FEMSA continues to progress in its evolution as an organization that generates economic and social value through companies and institutions.

Now, more than ever, is the time to continue pushing for better conditions that will create prosperity, protect our people and, preserve our planet. FEMSA's Sustainability-Linked Bond Framework addresses two material issues where we believe we can have the most impact: **the transition to a circular economy and the mitigation of climate change.**

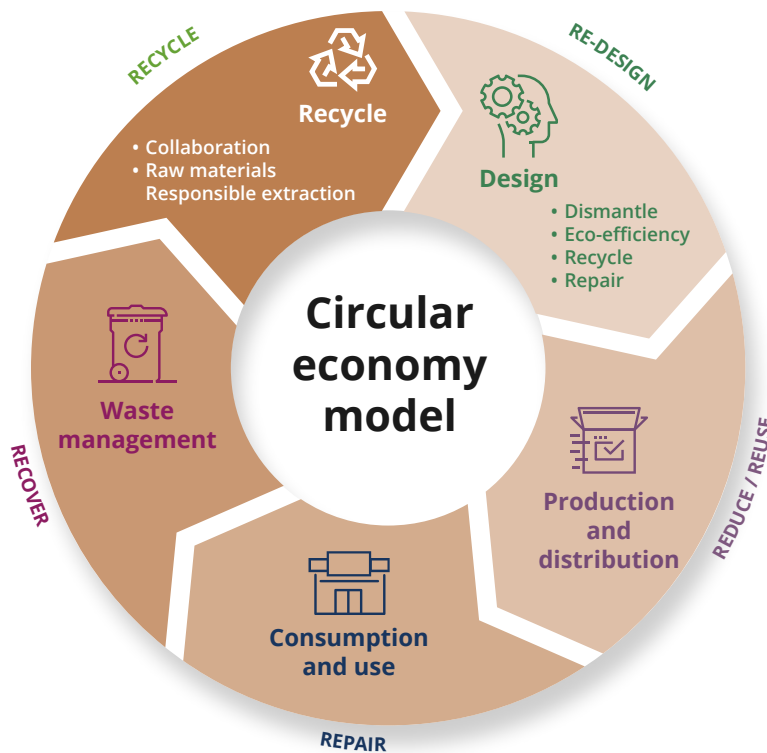
⁵ Coca-Cola FEMSA GB Framework: <https://coca-colafemsa.com/wp-content/uploads/2020/08/4.-KOF-GB-Framework.pdf>

• Transition to a circular economy

The transition towards a circular economy is crucial for preserving and protecting our planet's natural resources, and is also key in promoting the success and continuity of our business units. Operational waste made up 40% of FEMSA's overall waste footprint in 2020 and post-consumer waste made up the remaining 60%. Over 83% of post-consumer waste is PET, aluminum, and glass from Coca-Cola FEMSA's bottling operations, with an additional 12% of post-consumer waste resulting from plastic used to produce durable goods (refrigerators, plastics boxes, pallets), and 5% from other plastics, steel, paper and cardboard.

To minimize our footprint, FEMSA has set an ambitious "Zero Operational Waste to Landfill" goal by 2030 and has addressed operational waste management in many ways. As of 2020, two-thirds of our bottling plants have earned "Zero Operational Waste to Landfill" certification⁶, including 100% of our beverage manufacturing facilities in Mexico.

To address post-consumer waste, we remain committed to "World Without Waste", the global initiative led by The Coca-Cola Company, which includes targets for 2030 to collect and help recycle the equivalent of 100% of the primary packaging we place in the market, as well as integrating 50% of recycled PET resin into our bottles. Additionally, 52% of plastic used by FEMSA for durable goods is recycled material. We continue to innovate to reduce the amount of non-recycled materials used.

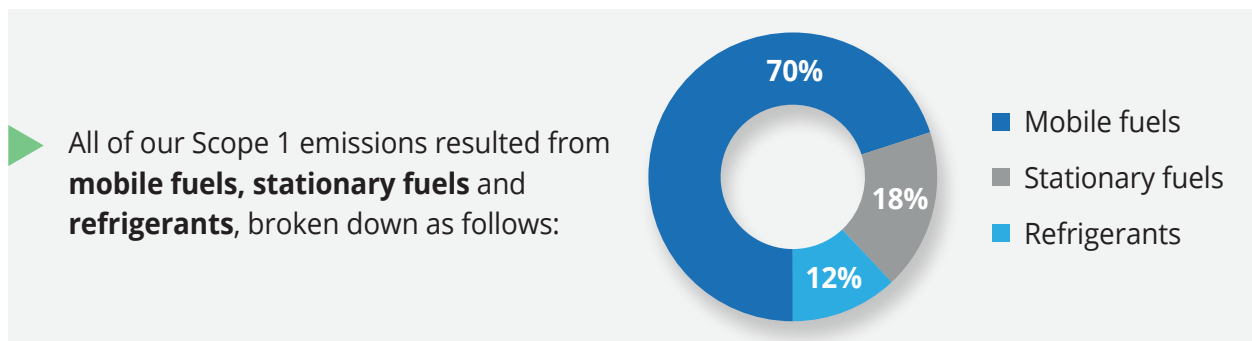
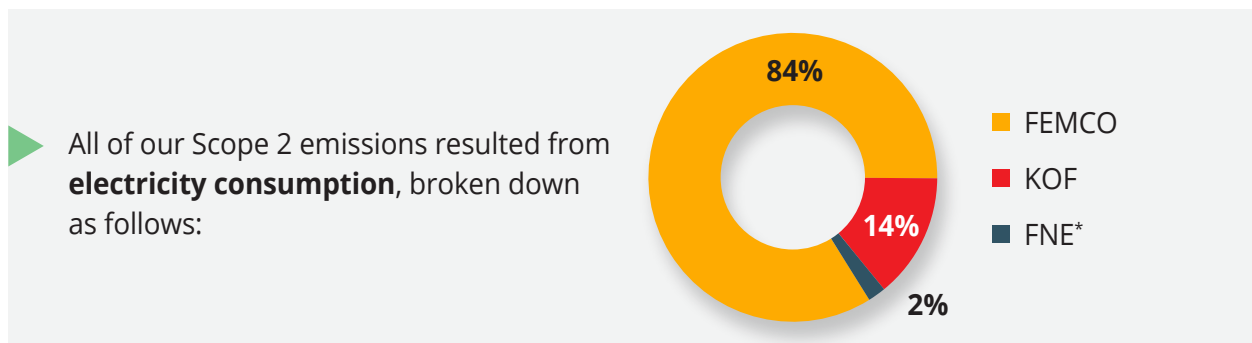


⁶ Zero Waste Certification: is an internal comprehensive system for managing, disposing and reusing operating waste from our bottling plants, which to date has enabled us to recycle 98% of the waste generated.

• Mitigation of climate change

FEMSA continues to make progress in its energy efficiency efforts. We have invested in clean technology, tested the use of electric vehicles, optimized distribution routes, developed energy-saving campaigns, and used more energy-efficient devices and equipment in our facilities. We go one step further in reducing our emissions: with our portfolio of low-carbon products and services across FEMSA Strategic Businesses, we help customers to reduce their carbon footprint.

For 2021, FEMSA is developing a holistic strategy to measure, address and ultimately reduce Scope 1, 2, and 3 greenhouse gas (“GHG”) emissions. Our analysis in 2020 found that Scope 1 emissions make up 32% of FEMSA’s operational emissions, while Scope 2 makes up the remaining 68%:



In June 2020, Coca-Cola FEMSA became the first Mexican company and the third in Latin America to receive approval from the Science-Based Targets Initiative (“SBTi”) for its GHG emissions reduction targets. The targets established by the company for its operations (Scopes 1 and 2) are consistent with the reductions required to meet the goals of the Paris Agreement and limit global warming to a well-below 2°C. Coca-Cola FEMSA’s target for emissions from its value chain (Scope 3) meets the SBTi’s criteria for ambitious value chain goals, meaning they are in line with current best practices.

FEMSA is now gathering data on Scope 3 for all its business units, with the goal of setting reduction targets, which will ultimately lead to more actions to reduce Scope 3 carbon emissions. Throughout 2021, FEMSA’s remaining business units will commit to setting targets to be verified by the Science-Based Targets initiative.

► FEMSA's Sustainability-Linked Bond Framework

FEMSA's Sustainability-Linked Bond Framework (the "Framework") is aligned to the Sustainability-Linked Principles ("SLBP") 2020, as administered by ICMA⁷.

The following five components form the basis of FEMSA's Sustainability-Linked Bond Framework:

1. Selection of **key performance indicators (KPIs)**;
2. Calibration of **sustainability performance targets (SPTs)**;
3. **Bond characteristics**;
4. **Reporting**, and
5. **Verification**.

1. Key Performance Indicators (KPIs)

1.1. Zero Operational Waste to Landfill (Circular economy)

KPI 1

Percentage of total operational waste diverted from landfills (measured as tons of waste recycled or reused divided by tons of total operational waste).

Scope

This KPI applies to 100% of FEMSA's business units, including all organic growth over the lifetime of the bond⁸. As of 2021, this KPI has a data coverage of 85% of the total FEMSA sites⁹. The sites that are not yet included in the historical data (total operational waste) but will be included in the reporting for the SPT will be FEMSA Comercio Latin-America stores, Coca-Cola FEMSA Distribution Centers, Cooking Depot, Doña Tota, Caffenio sites, and the operating facilities of our more recent acquisitions: Waxie, North American Corporation, South-eastern Paper Group, and Southwest Paper Company.

Methodology

This KPI is calculated in compliance with our Corporate Information Policy and our internal consolidation manual for non-financial information.

The business units report on a quarterly and annual basis the total waste generated by type (Non-hazardous, Hazardous, and Special Waste) and the final disposal method for each type of waste according to the following disposal options: reuse or recycling, disposed to landfill, and special management disposal.

- Total operational waste (in tons): is the sum of all waste types, excluding hazardous waste¹⁰.
- Total waste recycled or reused (in tons): is the sum of the final disposal of each type of operational waste classified as recycled or reused.

⁷ SLBP 2020: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

⁸ Inorganic growth is not included as part of the SPTs.

⁹ Portions of the historical data has been verified by an external auditor.

¹⁰ Hazardous waste makes up an immaterial portion of FEMSA's operational waste (5.1% in 2020), and due to local regulatory requirements has to be disposed to landfill and/or be incinerated without energy recovery.

1.2. Renewable Energy

KPI 2 *Percentage of total electricity consumption coming from renewable sources.*

Scope

This KPI applies to 100% of FEMSA's business units, including all organic growth over the lifetime of the bond⁸. By 2030 we expect to have an annual electricity consumption of more than 3.7 TWh (an increase of 40% from our 2020 consumption of 2.6 TWh).

Historically, this KPI has a data coverage of 98% across all of FEMSA's sites⁷. The sites that are not yet included in historical data of total electricity consumption, but will be included in the reporting for the SPT will be Caffenio sites, and the operating facilities of our more recent acquisitions: Waxie, North American Corporation, South-eastern Paper Group, and Southwest Paper Company.

Methodology

This KPI is calculated in compliance with our Corporate Information Policy and our internal consolidation manual for non-financial information. The business units report on a monthly, quarterly, and annual basis, the total electricity consumption by type (renewable or non-renewable).

- Total electricity consumption (in MWh): is the sum of all electricity consumption of FEMSA.
- Total electricity consumption of renewable energy (in MWh): is the sum of the total electricity consumption generated by renewable sources. As of April 2021, FEMSA uses the following generation technologies: wind energy, solar energy, and organic waste biomass (using only sugar cane bagasse as a feedstock)¹¹.

Currently, FEMSA does not use unbundled energy attribute certificates (e.g. renewable energy certificates ("RECs")), green electricity products or similar. Our strategy to reach our Renewable Energy targets will prioritize self-generation and power purchase agreements ("PPAs"). FEMSA may use other renewable energy sourcing methods in select markets in the future, only where self-generation or PPAs are not available or adequate for our operations.

⁷ SLBP 2020: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

⁸ Inorganic growth is not included as part of the SPTs.

¹¹ FEMSA may, in future, utilize other sources of renewable energy, such as tidal energy, small-scale hydropower (less than 25MW), or biomass from sustainably sourced feedstock that does not compete with food sources. In some geographies, FEMSA may not be able to procure renewable energy via power purchase agreements or on site generation or distributed energy; in these contexts FEMSA may choose to purchase green tariffs or renewable energy credits. FEMSA will communicate the sources of renewable energy consumed in our annual reporting.

2. Sustainability Performance Targets (SPT)

2.1. Zero Operational Waste to Landfill (Circular economy)

SPT 1.1 Increase the percentage of waste diverted from landfills to 65% by 2025.

SPT 1.2 Increase the percentage of waste diverted from landfills to 100% by 2030.

Baseline

In 2019, after completing an internal data validation process and obtaining approval from the business units and FEMSA's Executive Team, we established a plan to commit to zero operational waste to landfill. The baseline year for this plan is 2019, due to the validation of the data collection methodology used.

Timeline to achieve the targets and KPI's past performance

Name	2018	2019 (baseline)	2020	2025 Target	2030 Target
KPI 1: Zero Operational Waste to Landfill¹²	63% ¹³	52%	53%	65%	100%

The target is aligned with the following UN Sustainable Development Goal (SDG):



SDG 12

Responsible Production and Consumption. Target 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.

Strategies to achieve the SPT

To meet this goal, FEMSA is accelerating the adoption and promotion of the principles of the circular economy. We are developing business models, redesigning products, strengthening collaboration in the value chain, and investing in waste management infrastructure.

Per the principles of circular economy, FEMSA will first seek to reduce or avoid unnecessary operational waste. If waste cannot be avoided, then FEMSA will seek to either recycle or reuse the remaining operational waste.

To make these ambitions a reality, we invest in technology and infrastructure to increase recycling, and we have committed to the redesign and promotion of reusable and/or recyclable containers.

¹² Historically operational waste calculations included hazardous waste, but hazardous waste will not be included for the calculation of this KPI starting in 2021, per the methodology described in Section 1.1: Circular economy.

¹³ The operational waste for OXXO stores is measured using a sample calculation method that was updated starting in 2019.

Some projects and programs on circular economy

- Program for sustainable decommissioning of office equipment and furniture.
- Program for decommissioning and recycling uniforms.
- “No bag, thank you” campaign to reduce the use of using plastic bags at our retail locations.
- EOS REPARE Plant, a recycling plant to recycle commercial refrigerators that have reached the end of their useful life. The EOS Repare plant recovers, recycles, or repairs 97% of components from commercial refrigerators.
- Coca-Cola FEMSA Zero Waste Plant certification, an internal certification program led by The Coca-Cola Company.
- SÚMATE, a program to recycle waste at FEMSA corporate and administrative buildings. In 2020, we were able to recycle and/or reuse 100% of paper, cardboard, PET, aluminum, organic waste, and electronics generated in our buildings.

At FEMSA Comercio, we are implementing mechanisms to optimize waste separation and handling, by investing in visual signage and primary infrastructure. More than 11,700 OXXO stores and 500 OXXO GAS service stations are equipped with waste separation infrastructure.

At FEMSA Strategic Businesses, we are developing programs for the reduction of waste generated by the packaging, bottling, and wrapping of materials used for manufacturing, as well as for delivering the final product, while complying with the strict quality standards that characterize our product portfolio.

At Coca-Cola FEMSA, we are implementing a “Zero Waste Plant” certification, which includes a comprehensive system for managing, disposing of, and reusing operational waste from our bottling plants, which to date has enabled us to recycle 98% of the waste generated. 100% of our bottling plants in Mexico have achieved this certification.

Potential barriers

This SPT relies heavily on investments in physical infrastructure that enable effective waste separation. Meeting this SPT will be time and resource-intensive, given the vast footprint of FEMSA’s operations (more than 25,000 individual locations). In some of the remote locations where FEMSA operates, such as small towns in Mexico, Colombia, Brazil and Peru, there is no local recycling infrastructure. In these cases, FEMSA will need to find alternatives, such as co-development and collaboration for transporting waste and developing recycling facilities, adding to the complexity of reaching 100% compliance by 2030.

2.2. Renewable energy

SPT 2.1 Increase the annual sourcing of renewable electricity to 65% by 2025.

SPT 2.2 Increase the annual sourcing of renewable electricity to 85% by 2030.

Baseline

FEMSA set 2017 as the baseline year, in order to include a record of at least a 3 year baseline before setting the commitment year of 2021. The commitment was set in 2020 in order to align a 10-year timeframe for this target to the United Nations Sustainable Development Goals timeline.

Timeline to achieve the targets and KPI's past performance

Name	2017 (baseline)	2018	2019	2020	2025 Target	2030 Target
KPI 2: Renewable Energy ¹⁴	22%	23%	48%	60%	65%	85%

The target is aligned with the following UN Sustainable Development Goal (SDG):



SDG 7

Affordable and Clean Energy. Target 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.

FEMSA is also using the global corporate renewable energy initiative RE100¹⁵ as a reference in setting this target.

Strategies to achieve the SPT

To achieve this target, FEMSA will incorporate new sources of renewable electricity into its operations through three main strategies:

- Establishing new power purchase agreements with energy providers in the countries in which we operate.
- Installing distributed renewable energy generation at the sites where this is technically possible.
- Continuing our energy efficiency initiatives to lower our energy requirements and improve our ability to achieve our renewable energy target.

¹⁴ Historical data varies slightly from data reported on FEMSA's website, largely due to data for Venezuela being excluded from the reporting on our website. Venezuela is included for the purposes of the calculation of our SPT.

¹⁵ Climate Group and CDP initiative <https://www.there100.org/>

Potential barriers

As a group of companies, FEMSA's various business units have different electricity consumption profiles and requirements, increasing the complexity of procuring renewable energy. In particular, FEMSA Comercio, which represents 77% of FEMSA's total electricity consumption, is a highly dispersed consumer of electricity, with over 20,000 points of electricity consumption as of April 2021. Sites need to be aggregated to achieve sufficient consumption volume in order to access renewable energy purchase agreements.

Additionally, FEMSA's geographic footprint creates challenges for sourcing renewable energy. Regulatory uncertainty in some Latin American markets poses a challenge to long-term planning around the private procurement of renewable energy.

3. Bond Characteristics

Unless otherwise specified in the specific offering documents, FEMSA is not required to use the net proceeds of its offering of sustainability-linked bonds for investments in green or social projects.

If one of the SPTs has not been reached at the target observation date, as per the annual reporting published following the target observation date, FEMSA will have to pay a higher interest rate on its securities. The mechanism for payment of such interest rate will be specified in the final terms of the securities offered.

Potential changes to calculation

Both KPIs apply to 100% of FEMSA business units at the issuance date of the Sustainability-Linked Bond and organic growth projections are applied for the following years.

For purposes of the Sustainability Performance Targets and the calculation of the Zero Operational Waste to Landfill and Renewable Energy Percentages, certain potential events, such as acquisitions or divestitures, or changes in the regulatory environment, can substantially impact the calculation of the KPI, and may require the restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope. Any such readjustment will be communicated within FEMSA's annual reporting on the KPIs.

4. Reporting

FEMSA will publish and keep readily available and easily accessible on our website a Sustainability-Linked Bond Report (the “report”) included within our annual sustainability reporting. The report will be made available annually until FEMSA has reported on the performance of the SPT on the stated observation date. The report will include:

- Information on the performance of the selected KPI;
- Verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on a bond’s financial performance; and
- Any relevant information enabling investors to monitor the progress of the SPT.

Information may also include when feasible and possible:

- Illustration of the positive sustainability impacts of the performance improvement; and/or
- Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope.

5. Verification

FEMSA’s performance of the KPIs defined in 1.1 and 1.2 at the relevant observation date will be verified by an external auditor as part of our annual report audit process. FEMSA will provide verification to a limited level of assurance.

FEMSA’s Sustainability-Linked Bond Framework has been reviewed by Sustainalytics who provided a second party opinion (“SPO”), confirming the alignment of the Framework with the Sustainability-Linked Bond Principles (“SLBP”) 2020 as administered by ICMA. The SPO will be made available on Sustainalytics and FEMSA websites.

Disclaimer

This Framework does not constitute a recommendation regarding any securities of FEMSA or any affiliate of FEMSA. This Framework is not, does not contain and may not be deemed to constitute an offer to sell or a solicitation of any offer to buy any securities issued by FEMSA or any affiliate of FEMSA. In particular, neither this document nor any other related material may be distributed or published in any jurisdiction in which it is unlawful to do so, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession such documents may come must inform themselves about, and observe any applicable restrictions on distribution. Any bonds or other securities that may be issued by FEMSA or its affiliates from time to time, including any Sustainability-Linked Securities, shall be offered by means of a separate prospectus or offering document in accordance with applicable laws, and any decision to purchase any such securities should be made solely on the basis of the information contained in any such prospectus or offering document provided in connection with the offering of such securities, and not on the basis of this Framework.

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This Framework does not create any legally enforceable obligations against FEMSA; any such legally enforceable obligations relating to any Sustainability-Linked Securities are limited to those expressly set forth in the legal documentation governing each such series of Sustainability-Linked Securities. Therefore, unless expressly set forth in such legal documentation, FEMSA's failure to adhere or comply with any terms of this Framework, including, without limitation, failure to achieve any sustainability targets or goals set forth herein, will not constitute an event of default or breach of contractual obligations under the terms and conditions of any such Sustainability-Linked Securities. Factors that may affect FEMSA's ability to achieve any sustainability goals or targets set forth herein include (but are not limited to) market, political and economic conditions, changes in government policy (whether with a continuity of the government or on a change in the composition of the government), changes in laws, rules or regulations, and other challenges.



FEMSA