Second-Party Opinion

FEMSA Sustainability-Linked Bond Framework

SUSTAINALYTICS
a Morningstar company
SECOND-PARTY OPINION

Evaluation Summary

Evaluation Date	April 16, 2021
Issuer Location	Monterrey, Mexico

Sustainalytics is of the opinion that the FEMSA Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- **Selection of Key Performance Indicators (KPIs)** The FEMSA Sustainability-Linked Bond Framework includes two KPIs: (i) Zero Operational Waste to Landfill and (ii) Renewable Energy (see Table 1). Based on the consideration for the materiality of the KPIs, their relevance to FEMSA's business and the scope of their applicability, Sustainalytics considers KPI 1 to be strong and KPI 2 to be very strong.
- **Calibration of Sustainability Performance Targets (SPTs)** Sustainalytics considers the SPTs to be aligned with FEMSA's sustainability strategy. Sustainalytics further considers SPT 1 to be ambitious based on past performance and alignment with industry best practice. SPT 2 is considered to be ambitious based on the implied rate of Scope 2 emissions reduction, the Company's past performance and considering the challenges faced in scaling renewable energy procurement, specifically in the Latin America region.
- **Bond Characteristics** FEMSA will link the bond's financial / structural characteristics to the achievement of the SPTs, namely an increase in the coupon-rate. To not trigger a change in coupon, all SPTs need to be achieved (per tranche).
- **Reporting** FEMSA commits to report on an annual basis on its performance on the KPIs in its sustainability report. FEMSA also commits to disclose relevant information that affects the KPIs performance. The reporting commitments are aligned with the SLBP.
- **Verification** FEMSA commits to have external limited assurance conducted on its KPI performance at the communicated SPT deadline, which is aligned with market expectations.

The SPTs contribute to the following SDGs:

Overview of KPIs and SPTs

KPI 1	Baseline 2019	SPT	Strength of the KPI	Ambitiousness of SPT
Percentage of total operational waste diverted from landfills (measured as tonnes of waste recycled or reused / tonnes of total operational waste)	52% or 134,426 metric tonnes	Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030	Strong	Ambitious
KPI 2	**Baseline 2017**	**SPT**	**Strength of the KPI**	**Ambitiousness of SPT**
Percentage of total electricity consumption coming from renewable sources	22% or 573,861 MWh	Increase the annual sourcing of renewable electricity to 65% by 2025 and 85% by 2030	Very Strong	Ambitious

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Scope of Work and Limitations

Fomento Económico Mexicano, S.A.B. de C.V ("FEMSA" or the "Company") has engaged Sustainalytics to review the SLB Framework and to provide an opinion on the alignment of the bonds with the Sustainability-Linked Bond Principles (SLBP).[1]

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent[2] opinion on the alignment of the reviewed SLB Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA.

As part of this engagement, Sustainalytics exchanges information with various members of FEMSA's management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the SLB Framework. FEMSA's representatives have confirmed that:

(1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate or up to date;

(2) They have provided Sustainalytics with all relevant information; and

(3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Bond Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and FEMSA. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure the KPIs' performance. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that FEMSA has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

(1) A material change to the external benchmarks[3] against which targets were set;

(2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.

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[1] The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf

[2] When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

[3] Benchmarks refers to science based benchmarks

Introduction

Founded in 1890, FEMSA is a group of companies operating across multiple sectors, including beverages, retail, and logistics, headquartered in Monterrey, Mexico. The Company operates bottling plants, convenience stores, drugstores, and third-party logistics services in Latin America and specialized distribution in the United States. As of December 31st, 2020, FEMSA has over 320,000 employees in 13 countries, serving more than 290 million customers.

FEMSA intends to issue Sustainability-Linked Bonds (SLBs) where the coupon rate of the bond is tied to the achievement of the SPTs for two KPIs related to increasing the amount of waste diverted from landfills and increasing the Company's sourcing of renewable energy. FEMSA has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the bond framework with the Sustainability-Linked Bond Principles (SLBP).[4] The KPIs and SPTs used by FEMSA are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
KPI 1: Zero Operational Waste to Landfill	The KPI is the percentage of total operational waste diverted from landfills (measured as tonnes of waste recycled or reused / tonnes of total operational waste).[5] The KPI covers all FEMSA's business units, including FEMSA Comercio, Coca-Cola FEMSA and FEMSA strategic businesses.[6] Historically, the KPI covered approximately 85% of FEMSA's facilities, and the remaining will be included in the future reporting associated with the Sustainability-Linked Bond.[7] The KPI is calculated in compliance with FEMSA's Corporate Information Policy, following FEMSA's internal consolidation manual for non-financial information. FEMSA's total operational waste and final waste disposal method (reuse or recycling, disposed to landfill, and special management disposal) are reported quarterly and annually by the business units. Total operational waste volume included on the KPI does not include hazardous waste that needs to be disposed to landfill and/or being incinerated without energy recovery by local regulation.[8]
KPI 2: Renewable Energy	The KPI is the percentage of total electricity consumption coming from renewable sources. The KPI covers all FEMSA's business units, including FEMSA Comercio, Coca-Cola FEMSA and FEMSA strategic businesses.[9,10] Historically, the KPI covered approximately 98% of FEMSA's working centers.[11] The KPI is calculated in compliance with FEMSA's Corporate Information Policy, following FEMSA's internal consolidation manual for non-financial information. The total electricity consumption by type (renewable or not renewable) is reported monthly, quarterly, and annually by the business units.[12] FEMSA currently considers as renewable the following electricity sources: wind energy, solar energy, and organic waste biomass (using only sugar cane bagasse as a feedstock).[13]

[4] The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/
[5] According to FEMSA, its total operational waste is primarily related to Paper and Cardboard, Glass, Organic waste, Plastics, Wood, Sludge from water treatment plants, PET, among others. Total waste recycled or reused (tonnes): is the sum of the final disposal of each waste stream classified as reused or recycled.
[6] All organic growth over the lifetime of the bond will be also covered by all the KPIs/SPTs. FEMSA's projected organic growth rate related to FEMSA Comercio is approximately 3 to 4 retail stores/day. Inorganic growth is not included as part of the KPIs/SPTs.
[7] Including FEMSA Comercio Latin-America, KOF Distribution Centers, Cooking Depot, Doña Tota, Caffenio, and FEMSA's recent acquisitions: Waxie, North American Corporation, South-eastern Paper Group, and Southwest Paper Company.
[8] According to FEMSA's 2020 Sustainability content report, in 2020, hazardous waste accounted for roughly 5% of FEMSA's total waste, at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[9] See footenote 6.
[10] By 2030, FEMSA expects to have an annual electricity consumption of more than 3.7TWh (an increase of operational from its 2020 consumption of 2.6TWh).
[11] The working centers that are not yet included in historical data of total electricity consumption but will be included in the following years are Caffenio, and our more recent acquisitions; Waxie, North American Corporation, South-eastern Paper Group, and Southwest Paper Company.
[12] Total electricity consumption (MWh): is the sum of all electricity consumption of FEMSA. Total electricity consumption of renewable energy (MWh): is the sum of the total consumption of renewable sourced electricity.
[13] Currently, FEMSA does not use unbundled energy attribute certificates (e.g., renewable energy certifications – "RECs"), or similar green electricity products. FEMSA may use other renewable energy sourcing methods in select markets in the future, only where self-generation or PPAs are not available or applicable to FEMSA's operations.

Table 2: SPTs and Past Performance

KPI 1	2017	2018	2019 (baseline)	2020	SPT 2025	SPT 2030
Percentage of total operational waste diverted from landfills (measured as tonnes of waste recycled or reused / tonnes of total operational waste)	N/A	63% or 151, 410 metric tonnes	52% or 134, 426 metric tonnes	53% or 138,993 metric tonnes	65%	100%
KPI 2	**2017 (baseline)**	**2018**	**2019**	**2020**	**SPT 2025**	**SPT 2030**
Percentage of total electricity consumption coming from renewable energy sources	22% or 573,861 MWh	23% or 640,393 MWh	48% or 1,327,714 MWh	60% or 1,618,813 MWh	65%	85%

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of FEMSA Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework align with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP).

Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

Sustainalytics in its assessment of materiality and relevance considers i) whether an indicator speaks to a material impact of the issuer's business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPIs to be material and relevant given the following:

- **KPI 1:** FEMSA Comercio's Proximity Division is one of the most significant sources of revenues for FEMSA and is primarily engaged in the small-format retailing business.[14] The division comprises a chain of approximately 20,000 OXXO convenience retail stores across Latin America.[15] Sustainalytics' ESG Risk Rating assessment identifies "Emissions, Effluents and Waste" as a material ESG issue for the Food Retail subindustry as it involves the creation and disposal of significant quantities of waste, primarily in the form of pre-consumer packaging materials (boxes, wrapping, or plastic containers). Additionally, FEMSA has disclosed that, in 2020, operational waste made up 40% of FEMSA's overall waste footprint, while post-consumer waste made up the other 60%. Although the KPI 1 does not cover all FEMSA's waste footprint, it is considered to be material to FEMSA's overall operations given its scope and the potential impact of the operational waste on the environment (in tonnes).[16] Furthermore, post-consumer waste is heavily tied to consumer behavior and is often addressed through local regulations on collection, sorting and recycling, making it a challenge for companies like FEMSA.[17] Sustainalytics notes that an area of focus of FEMSA's sustainability strategy is the management of operational waste.[18] FEMSA recognizes that maximizing reusing and recycling as part of its circular economy approach is crucial to mitigating the impacts of waste on the environment.
- **KPI 2:** FEMSA primarily engages in the small-format retail and soft drinks sub-industries through its business units FEMSA Comercio and Coca-Cola FEMSA, respectively. Coca-Cola FEMSA is the largest franchise bottler of Coca-Cola globally by volume, and it is FEMSA's second largest segment by revenues following FEMSA Comercio.[19] Sustainalytics' ESG Risk Rating assessment identifies "Carbon-Own Operations" as a material ESG issue for both subindustries: Food Retail and Soft Drinks. Additionally, the Sustainability Accounting Standard Board (SASB) identifies energy management as a material topic to track and disclose by food retailers and distributors and non-alcoholic beverages (soft drinks).[20,21]

[14] FEMSA's 2020 Annual Report at: https://annualreport.femsa.com/
[15] The business unit FEMSA Comercio at: https://www.femsa.com/en/business-units/femsa-comercio/proximity-division/
[16] FEMSA's total operational waste in 2020 was 260,932 metric tonnes, according to FEMSA's 2020 Sustainability content report.
[17] Coca-Cola FEMSA is the primary business unit affected by FEMSA's overall post-consumer waste.
[18] FEMSA's GRI Standard Sustainability Contents 2020 at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[19] FEMSA's 2020 Annual Report at: https://annualreport.femsa.com/
[20] SASB, "Food Retailers & Distributors. Sustainability Accounting Standard", (2018), at: https://www.sasb.org/wp-content/uploads/2018/11/Food_Retailers_Distributors_Standard_2018.pdf
[21] SASB, "Non-alcoholic beverages. Sustainability Accounting Standard", (2018), at: https://www.sasb.org/wp-content/uploads/2018/11/Non_Alcoholic_Beverages_Standard_2018.pdf

Operations associated with manufacturing and bottling facilities drive Coca-Cola FEMSA's primary electricity consumption. In contrast, refrigeration, ventilation and air conditioning (HVAC) and lighting associated with retail stores drive most of FEMSA Comercio's energy needs. FEMSA has communicated to Sustainalytics that electricity consumption is the largest contributor to FEMSA's operational carbon footprint, making up 68% of Scope 1 and 2 emissions in 2020. FEMSA also states that its business unit FEMSA Comercio, through more than 20,000 electricity consumption points (stores), drives approximately 77% of FEMSA's total electricity consumption. Sustainalytics noted that an area of focus of FEMSA's sustainability strategy is to mitigate climate change by focusing on the efficient use of energy and the use of renewable sources.[22]

KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.[23]

Sustainalytics considers FEMSA's definition and methodology to calculate KPI 1 performance to be clear and consistent market practice. Sustainalytics views this KPI as a direct measurement of FEMSA's operational waste. Sustainalytics views the methodology to be supportive of benchmarking to external targets while noting that at this time there is insufficient comparable peer data to conduct a quantitative analysis.

Sustainalytics considers FEMSA's definition and methodology to calculate KPI 2 performance to be clear and consistent with market practice. Sustainalytics views this KPI as a strong measurement of FEMSA's Scope 2 GHG emissions performance, and aligned with its corporate focus on using renewable power to mitigate climate change. Sustainalytics views the methodology to be supportive of benchmarking against peer performance.

Overall Assessment

Sustainalytics overall considers KPI 1 Zero Operational Waste to Landfill to be strong given its direct relation to FEMSA's operational waste across all its business units, representing approximately 40% of FEMSA's overall waste footprint, as well as the clear methodology.

Sustainalytics overall considers KPI 2 Renewable Energy to be very strong given the direct relation of FEMSA's operational carbon footprint to its overall environmental performance. Sustainalytics notes that electricity consumption is the largest contributor to FEMSA's operational carbon footprint, making up 68% of Scope 1 and 2 emissions in 2020.

Zero Operational Waste to Landfill	Not Aligned	Adequate	Strong	Very strong
Renewable Energy	Not Aligned	Adequate	Strong	Very strong

[22] FEMSA's GRI Standard Sustainability Contents 2020 at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf

[23] External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

Calibration of Sustainability Performance Targets (SPTs)

FEMSA has set the following SPTs for its KPIs:

- Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030 from a 2019 baseline of 52%.
- Increase the annual sourcing of renewable electricity to 65% by 2025 and 85% by 2030 from a 2017 baseline of 22%.

Alignment with Issuer's Sustainability Strategy

Sustainalytics considers the SPTs to be aligned with FEMSA's sustainability strategy (please refer to Section 2 for analysis of the credibility of FEMSA's sustainability strategy).

- **SPT 1:** As highlighted in its 2020 Sustainability Report, FEMSA recognizes the impact its operations have on the environment, particularly as it relates to waste. Therefore, as part of its sustainability strategy and commitment to transitioning toward a circular economy, the Company has set a target to achieve zero operational waste to landfill by 2030.[24] In 2020, FEMSA generated 260,932 MT of total operational waste (including non-hazardous, hazardous, and special management waste)[25] from its operations, and successfully diverted 53% from landfills.[26] FEMSA intends to continue investing in technology and infrastructure to increase its recycling rates and further improve its waste management effort, including through the promotion of reusable and/or recyclable containers.[27] The Company has categorized its initiatives across its three key business units: (i) FEMSA Comercio, (ii) FEMSA Strategic Businesses, and (iii) Coca-Cola FEMSA.[28] As of 2020, more than 11,700 of the Company's OXXO stores and 500 gas service stations are equipped with waste separation infrastructure.[29] Further, the Company is developing programs for the reduction of waste generated by the packaging, bottling, and wrapping of materials used for manufacturing, as well as a Zero Waste Certification, which to date has helped it recycle 98% of the waste generated from its bottling plants.[30] Sustainalytics views SPT 1 to be directly aligned with the Company's ongoing sustainability strategy.
- **SPT 2**: Since 2015, FEMSA has been working towards increasing the proportion of renewable energy across its various business units.[31] As part of its sustainability strategy, the Company had set a goal to achieve 85% of its electricity consumption in Mexico from renewable sources by 2020, of which it achieved 77.60% by the end of the year.[32] In the same year, FEMSA globally was able to supply 60% of its electricity needs with renewable energy.[33] As a result, the Company was able to significantly reduce its direct GHG emissions in 2020, despite missing its overarching target.[34] As of March 2021, FEMSA has sourced 4,346,259.9 MWh of renewable energy in Mexico since 2015, helping it avoid 2,290,479 tonnes of CO_2.[35] The Company was primarily able to achieve this through purchase contracts with various wind farms in Mexico; an initiative it intends to continue investing in. FEMSA has communicated to Sustainalytics that SPT 2 in this Framework will serve as the Company's new renewable energy target,

[24] FEMSA, "2020 Sustainability Content", at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[25] While hazardous waste has historically been included in the calculation of FEMSA's operational waste, it will be excluded from the calculation of the SLB KPI and in reporting going forward given that it makes up an immaterial portion of the Company's operational waste footprint. Due to local regulatory requirements, hazardous waste has to be disposed to landfill and/or be incinerated without undergoing energy recovery.
[26] FEMSA, "2020 Sustainability Content", at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[27] *Ibid.*
[28] FEMSA Sustainability-Linked Bond Framework April 2021.
[29] *Ibid.*
[30] *Ibid.*
[31] FEMSA, "2020 Sustainability Content", at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[32] *Ibid.*
[33] In 2020 the percentage of renewable energy consumption was as follows for some of FEMSA's key markets: Argentina (68%), Brazil (53%), Colombia (53%), Mexico (77.60%), and Panama (88%). See more, at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[34] FEMSA, "2020 Sustainability Content", at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[35] FEMSA, "La Energia Renovable Nos Mueve", at: https://energia.femsa.com/

targeting all of the business units in the countries in which it operates. Sustainalytics views SPT 2 to be directly aligned with FEMSA's ongoing sustainability strategy and encourages the Company to integrate this commitment within its annual sustainability report, and to provide regular progress updates.

Strategy to Achieve the SPTs

FEMSA intends to achieve the SPTs through the following strategy:

- The Company has several projects and programs in place that will support its ability to achieve SPT 1, including programs for sustainably decommissioning office equipment, furniture and recycling uniforms, investments in a recycling plant that recycles commercial refrigerators that have reached the end of their useful life,[36] investments in zero-waste plants, and a program to recycle waste such as paper, cardboard, PET, and aluminium at FEMSA's corporate and administrative buildings.[37] FEMSA recognizes that the lack of local recycling infrastructure in some of the more remote areas where it operates may act as a potential barrier to achieving its goals, as the SPT relies heavily on physical infrastructure to ensure that waste is segregated effectively. In such cases where infrastructure is lacking, FEMSA is committed to finding alternatives, such as co-development and collaboration for transporting waste and developing recycling facilities.
- FEMSA intends to achieve SPT 2 through three key strategies: 1) establishing new power purchase agreements with energy providers in the countries in which it operates; 2) installing distributed renewable energy generation at the sites where this is feasible at a technical level; 3) continuing its energy efficiency initiatives to lower its energy requirements and improve its ability to achieve its renewable energy target.[38] The Company recognizes that it faces some barriers to achieving the SPT, including the complexity of operating various business units with different electricity consumption profiles as well as the adverse impact of regulatory uncertainty in some Latin American markets.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers i) whether the SPTs go beyond a business-as-usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science-based targets.[39]

For SPT 1, FEMSA has set the baseline at 2019 because of the validation of the data collection methodology used and compliance requirements for historical data according to its internal policies.

For SPT 2, FEMSA has set the baseline at 2017 to comply with at least a three-year baseline before the commitment year of 2021 and to align the target with a 10-year timeframe in alignment with the United Nations Sustainable Development Goals timeline.

SPT 1: Sustainalytics primarily used the Company's past performance to determine ambitiousness, as well as a recognition that the 2030 target achieves 100%. Sustainalytics has relied on this metric as there is insufficient information for comparison or benchmarking within the relevant subindustry[40] or with science-based targets. While there is no clear science-based target for waste management, Sustainalytics views the Ellen MacArthur Foundation targets as a credible industry benchmark, particularly as it relates to reducing the footprint associated with plastic packaging.[41] Sustainalytics views FEMSA's SPT and strategy to be aligned with these targets, which seek to advance the circular economy.

Sustainalytics considers the SPT to go beyond a business-as-usual trajectory as it requires significant improvement in waste diversion performance year-over-year. While comparable peer data is not widely available,

[36] The EOS REPARE Plant is an initiative that aims to recycling commercial refrigerators that have reached the end of their useful life. The plant recovers, recycles, or repairs 97% of components from coolers.
[37] FEMSA Sustainability-Linked Bond Framework April 2021.
[38] *Ibid.*
[39] We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.
[40] Sustainalytics notes that even though there are targets set by industry peers on waste management, there is a lack of direct comparability due to different methodologies used to define the scope of operational waste.
[41] Ellen MacArthur Foundation, 'Vision: A circular economy for plastic in which it never becomes waste', at: https://www.ellenmacarthurfoundation.org/our-work/activities/new-plastics-economy/vision

Sustainalytics does view the SPT to be aligned with industry expectations in terms of the ambitiousness of the selected quantitative target.

SPT 2: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer analysis, and science-based targets.

Sustainalytics considers the SPT to go beyond a business-as-usual trajectory as it represents a significant increase in the annual sourcing of renewable electricity compared to a 2017 baseline. The Framework states that the Company used the RE100 initiative as a reference to set this target. While recognizing that this initiative includes commitments from companies in various industries, it is noted that 75% of the members in the RE100 initiative plan to reach 100% by at least 2030, if not earlier.[42] In a local context, FEMSA's average historical performance has generally been in line with, and in some cases surpassed, that of its regional peer group. Some peers have set more aggressive medium-term targets, but the majority have not yet reported on their performance against these targets.[43] Globally, at a sub-industry level, the SPT falls short of its peers' performance as global best practice is for companies in the retail industry to aim for 100% renewable energy procurement by 2030.[44] However, Sustainalytics recognizes that the regulatory context of the markets in which FEMSA operates poses present-day challenges for companies in these regions to commit to long-term renewable energy procurement goals, and that these barriers should be considered when conducting peer analyses.

Regarding external trajectories, Sustainalytics notes that the Science-based Targets initiative (SBTi) prescribes that companies must reach 100% renewable energy by 2030 in order to be credibly aligned with a 1.5-degree scenario based solely on procurement objectives. While FEMSA's SPT is below this target, Sustainalytics notes positively that the rate of improvement associated with the SPT meets the SBTi's threshold using the absolute contraction method, considering the emissions reductions associated with achieving the renewable energy target as compared to FEMSA's total Scope 1 & 2 emissions.[45]

Events such as divestment or drastic changes in the regulatory environment can impact the calculation of the KPIs, the restatement of the SPTs and/or pro-forma adjustments of baselines or KPI scope. FEMSA will communicate any such readjustment to its investors within its annual reporting.

Overall Assessment

Sustainalytics views SPT 1 to be ambitious given that it presents a material improvement compared to past performance and its clear alignment with the goals outlined in the Company's sustainability strategy.

Sustainalytics considers FEMSA's SPT 2 to be ambitious given FEMSA's historical performance relative to its local peers, and that the target achieves the following: (i) it is aligned with the SBTi absolute contraction method, and (ii) it goes beyond a business-as-usual trajectory. While Sustainalytics recognizes that the target does not fully align with global industry peers operating in the same sector, it notes positively that the target is still aligned with science-based trajectories. Therefore, Sustainalytics views the target to be ambitious, particularly when considering the regulatory context and challenges the region faces.

Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030 (Zero Operational Waste to Landfill)	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious

[42] RE100, "Business Leadership in the Transition to Renewable Electricity", at: https://www.there100.org/media/2136/download
[43] Sustainalytics reviewed the historical performance and energy procurement targets set by FEMSA's peers, including, Grupo Bimbo, Herdez, Organization Soriana, El Puerto Liverpool and Arca Continental.
[44] Sustainalytics conducted a sub-industry analysis by looking at several key market players in retail sector, including Walmart, Unilever, and Target.
[45] FEMSA provided Sustainalytics with projections for its Scope 1 and 2 emission reductions, whereby the projected amount of Scope 2 emissions reductions achieved by 85% renewable energy results in a total annual reduction rate of 4.6% to its operational (Scope 1 & 2) emissions. Sustainalytics notes that SBTi views a 4.2% annual reduction rate over the target period to be aligned with a 1.5-degree scenario. FEMSA has confirmed that its emissions projections include anticipated business growth for both Scope 1 (2%) and Scope 2 (4%). In terms of increased energy consumption, the Company has included estimated expansion figures (for example 1,100 new OXXO stores in Mexico for every year) and has modeled similar growth estimations for all of its business units in accordance to the specific business model and the country in which the business units operate. See more, at: https://sciencebasedtargets.org/resources/files/foundations-of-SBT-setting.pdf

Increase the annual sourcing of renewable electricity to 65% by 2025 and 85% by 2030 (Renewable Energy)	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious

Bond Characteristics

FEMSA has disclosed that bond issuances pertaining to the Framework will be subject to a penalty for not achieving the SPTs by December 2025 and by December 2030. If FEMSA is unable to achieve the SPTs, the interest rate will increase from the next coupon date. FEMSA has confirmed that the exact penalty amount will be provided in the bond documentation. Sustainalytics positively notes that both SPTs need to be met to avoid an increase in the coupon rate, however it does not opine on the adequacy of the penalty imposed for not achieving the set SPTs.

Reporting

FEMSA commits to report annually on the selected KPI performance and expects to include the relevant data in a Sustainability-Linked Bond Report that will be enclosed in its annual Sustainability Report. Where feasible, the Company will aim to include an illustration of the positive sustainability impacts of the performance improvements. This is aligned with the SLB Principles. FEMSA further commits to disclose relevant information that enabling investors to monitor the level of ambition of the SPTs.

Verification

FEMSA commits to having an external verifier provide a limited level of assurance on the published KPI performance figures at the relevant observation date, which is aligned with the SLB Principles.

Section 2: Assessment of FEMSA's Sustainability Strategy

Credibility of FEMSA Sustainability Strategy

According to Sustainalytics' ESG Risk Rating, FEMSA's' management of material ESG issues slightly outperforms its sub-industry peers' average performance.[46] In the context of ESG Reporting Standards, FEMSA's 2020 Sustainability Content Report references the GRI guidelines,[47] and, the structure and content of the report, including the performance indicators, comply with the reporting criteria of the GRI Standards.[48] FEMSA's ESG governance is overseen by the board of directors, suggesting that the Company's material ESG risks are integrated into its core business strategy. FEMSA's Sustainability Team oversees its ESG-related policies, programmes, performance and targets applied to all the business units.

[46] This assessment has been derived from Sustainalytics' ESG Risk Rating, based on FEMSA's 2019 disclosure.
[47] FEMSA has communicated to Sustainalytics that its reporting is written in accordance with the GRI standards - core option, and that the Company is in the process of submitting its latest ESG disclosure to the GRI, which is expected to be publicly available in the GRI Sustainability Disclosure Database in the coming months.
[48] According to an independent assurance report conducted by Ernst & Young (EY) Global Limited. The performance indicators identified for the work of EY verification until December 31st 2020 includes: energy consumption, Scope 1 and Scope 2 GHG emissions, total waste generated, and disposal method and percentage of renewable energy consumed from operations in Mexico.

FEMSA's sustainability strategy is based on the principles of the UN Global Compact (UNGC) and the Sustainable Development Goals (SDGs). In its 2020 Sustainability Content Report, FEMSA identifies three main focus areas: people, community and planet.[49] FEMSA's strategies, policies, and procedures across these areas aim to address the following key ESG issues: climate change, water resource management, circular economy, human and labour rights, comprehensive development, inclusion and diversity, health and safety, and corporate ethics. Since 2012, FEMSA has consistently implemented a materiality analysis tool to identify the economic, environmental and social aspects and the risks and opportunities relevant to its stakeholders.[50] FEMSA implements this sustainability framework across all the business units and, since 2004, it has publicly reported relevant ESG-related disclosure.

Sustainalytics notes that FEMSA's sustainability strategy is focused on the adoption and promotion of the principles of the circular economy, especially related to waste management and recycling. Furthermore, 52% of plastics used by FEMSA for durable goods are recycled materials. In addition to the circular economy approach, Sustainalytics noted that FEMSA's sustainability strategy is also focused on the efficient use of energy and the use of renewable sources.[51] Since 2015, FEMSA has significantly increased renewable energy use across all its business units, primarily through strategic partnerships with wind farms in Mexico. At present, FEMSA's ESG disclosure shows that it supplies renewable electricity to 14,847 OXXO stores and 13 distribution centers of FEMSA Comercio in Mexico, and 20 bottling plants and 58 distribution centers of Coca-Cola FEMSA.[52]

According to FEMSA's 2020 Sustainability Content Report, the Company has made significant progress in the past years. Sustainalytics believe that it is on track to increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030. In contrast, increased efforts are required from FEMSA to achieve its renewable energy target of 85% by 2030, given the complexity of its business structure. FEMSA Comercio, which represents 77% of FEMSA's total electricity consumption, is a highly dispersed buyer of electricity with over 20,000 electricity consumption points across Latin America. Additionally, FEMSA's geographic footprint and regulatory uncertainty in some Latin American markets pose a challenge to long-term planning around the private procurement of renewable energy, especially in Mexico.

Sustainalytics considers FEMSA to have a strong sustainability strategy. Given FEMSA's long history of sustainability practices and setting quantitative targets, Sustainalytics believes that the SLBs will further support FEMSA to advance its sustainability strategy.

FEMSA's Environmental and Social Risk Management

According to Sustainalytics' ESG Risk Assessment, FEMSA's exposure to ESG risks is medium, similar to the subindustry average. Overall, Sustainalytics notes that the ESG risk management of FEMSA is considered average. Sustainalytics also recognizes that while FEMSA's defined targets are impactful, achieving the SPTs bears environmental and social risks related to overall human rights within its supply chain, human capital, business ethics, impacts of products and services, and resource use.

The following section summarizes the policies and initiatives which Sustainalytics believes will allow FEMSA to mitigate such potential risks

- Since 2005, FEMSA is a signatory to the UNGC, committing to aligning its business and retail strategy with the UNGC's Ten Principles, in particular in the areas of human rights, labour, environment, and anti-corruption.[53] The FEMSA Code of Ethics includes principles relating to human rights and labour rights.[54] Additionally, FEMSA has a formal corporate policy protecting human and labour rights, demonstrating its commitment to respect its employees' human rights.[55] Furthermore, FEMSA expects alignment across all its operations' value chain.
- In addition to the FEMSA Code of Ethics, which serves as the FEMSA business conduct guidelines to shareholders, customers, suppliers, authorities, civil organizations, environment, and community, FEMSA has corporate Policies covering Sustainability, Environment, Community Commitment and Anti-corruption. FEMSA is committed to sharing its

[49] FEMSA's 2020 Sustainability content report, at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[50] FEMSA's materiality analysis: https://www.femsa.com/en/ sustainability/sustainability-strategy/materiality/
[51] FEMSA's materiality analysis: https://www.femsa.com/en/ sustainability/sustainability-strategy/materiality/.
[52] FEMSA's 2020 Annual Report at: https://annualreport.femsa.com/
[53] UNGC, at: https://unglobalcompact.org/what-is-gc/participants/3791-Fomento-Economico-Mexicano-S-A-de-C-V-FEMSA
[54] The FEMSA Code of Ethics, at: https://femsa.gcs-web.com/corporate-governance/code-of-ethics
[55] FEMSA's Corporate Policy, Human and Labor Rights, at: https://www.femsa.com/assets/2020/07/Human_and_Labor_Rights.pdf

Corporate Policies with its stakeholders.[56] Furthermore, FEMSA has a formal independent whistleblower mechanism, the Ethics Line, available 24/7/365 for collaborators and stakeholders to report potential breaches of its Code of Ethics and corporate policies, with the possibility of reporting anonymously. The FEMSA Ethics Line is supervised by the Audit Committee of the FEMSA Board of Directors. FEMSA has communicated to Sustainalytics that it reports total "calls" received through the Ethics Line annually.

- Additional risk management initiatives that FEMSA has implemented include: MIRC (Manejo de Incidentes y Resolución de Crisis) and MARRCO (la Metodología de Atención a Riesgos y Relacionamiento Comunitario). MIRC, FEMSA's overall incident management and crisis resolution methodology, considers the identification, potential impacts, probability of occurrence, emergency plans, and risk mitigation strategies. MIRC is established across all the business units and all levels of the organization. MARRCO, the model for managing risks and community engagement, was created in 2015. It aims to build and maintain effective relations with local communities by fostering dialogue and mutually beneficial collaboration opportunities.[57,58]

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to FEMSA.

Section 3: Impact of the SPTs Chosen

Importance of transitioning to circular economy in Latin America

As of 2017, 8.3 billion metric tonnes of plastic has been produced worldwide.[59] Given that approximately 40% of this plastic is used for items that have a short lifespan and are thrown away quickly, 6.4 billion metric tonnes of this waste is already regarded as discarded materials that need to be managed.[60] According to a report conducted by the Inter-American Development Bank in 2020, only 9% of these discarded materials have been recycled, and 12% incinerated.[61] Therefore, an estimated 79% of plastic waste ever produced still exists in landfills and other natural environments like lakes and oceans.[62] Other than having a high GHG emission footprint throughout its lifecycle, plastic products cause devastation to marine life. It is estimated that about 8 million tonnes of plastics enter oceans every year, degrading fragile marine ecosystems and killing millions of marine animals.[63] In Mexico, the production of single-use plastics has increased significantly in recent decades such that the volume of single-use plastic waste now exceeds the country's recycling capabilities.[64] In response, to growing concerns over the impact that this may have on the environment, the Government is working on a series of legislative changes.[65] In some states, legislation is pushing for amendments in product manufacturing, packaging, and labeling processes.[66] Similarly, there has been a push towards transitioning to circular economy, with many countries in the region introducing policy measures that promote circular

[56] The FEMSA Code of Ethics, at: https://femsa.gcs-web.com/corporate-governance/code-of-ethics
[57] The FEMSA Code of Ethics, at: https://femsa.gcs-web.com/corporate-governance/code-of-ethics
[58] FEMSA's GRI Standard Sustainability Contents 2020 at: https://www.femsa.com/assets/2021/03/FEMSA_GRI_Standard_Sustainability_Contents_2020.pdf
[59] Inter-American Development Bank, "Plastic Waste Management and Leakage in Latin America and the Caribbean" (2020), at: https://publications.iadb.org/publications/english/document/Plastic-Waste-Management-and-Leakage-in-Latin-America-and-the-Caribbean.pdf
[60] *Ibid.*
[61] Inter-American Development Bank, "Plastic Waste Management and Leakage in Latin America and the Caribbean" (2020), at: https://publications.iadb.org/publications/english/document/Plastic-Waste-Management-and-Leakage-in-Latin-America-and-the-Caribbean.pdf
[62] *Ibid.*
[63] National Geographic, "We depend on plastic. Now we're drowning in it" (2018) at: https://www.nationalgeographic.com/magazine/2018/06/plasticplanet-waste-pollution-trash-crisis/
[64] Lexology, "Legislative reforms seek to reduce single-use plastic waste" (2019), at: https://www.lexology.com/library/detail.aspx?g=6e5875a0-57ce-4e1c-96de-39e5677cdcad
[65] Chatham House, "The circular economy in Latin America and the Caribbean" (2020), at: https://www.unido.org/sites/default/files/files/2020-09/circular_economy_lac.pdf
[66] Chatham House, "The circular economy in Latin America and the Caribbean" (2020), at: https://www.unido.org/sites/default/files/files/2020-09/circular_economy_lac.pdf

economy practices, including policies such as setting material resource efficiency and recycling targets as well as product policies that include eco-design, single-use product bans and product lifetime extension.[67]

In this context, Sustainalytics expects FEMSA's investments in waste management technology and infrastructure to contribute directly to the promotion of a circular economy in the regions in which it operates. Overall, Sustainalytics acknowledges the ambitiousness of FEMSA's target, and is of the opinion that the Company's efforts will positively contribute to minimizing the environmental footprint of the food and beverage retail industry in Latin America.

Impact of investing in renewable energy in Mexico

According to a report released by the International Renewable Energy Agency ("IRENA"), Mexico has the potential to generate 46% of its electricity from renewable sources by 2030.[68] Renewable energy generation in Mexico could have significant positive environmental impacts and potential for fostering social and economic development due to the country's diverse renewable energy source base.[69] Given the importance of the renewable energy sector in Mexico's socio-economic development and potential impact in reducing the country's GHG emissions, the Mexican Government has set the target to generate at least 35% of power from clean energy sources by 2024 and at least 50% by 2050.[70] Despite these ambitious targets set by the government, fossil fuels still make up approximately 87% of Mexico's energy mix.[71] While there has been an increase in renewable energy generation capacity, the energy mix's carbon intensity has remained almost unchanged since 2011, as this has been offset by the rise in fossil-based energy sources used to meet growing energy demands.[72] The stagnation of the energy mix's carbon intensity highlights the need for further investments in clean energy.

Based on the above, Sustainalytics is of the opinion that FEMSA's efforts to increase the share of renewable energy consumption in its activities will contribute directly to decarbonizing Mexico's energy mix, supporting the transition to a low carbon economy.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability linked bonds advances the following SDG goals and targets:

KPI	SDG	SDG Target
Zero Operational Waste to Landfill	12. Responsible Production and Consumption	12. 5 By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse.
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.

[67] Chatham House, "The circular economy in Latin America and the Caribbean" (2020), at: https://www.unido.org/sites/default/files/files/2020-09/circular_economy_lac.pdf
[68] IRENA, "Renewable Energy Prospects: Mexico" (2015), at: http://www.irena.org/-/media/Files/IRENA/Agency/Publication/2015/IRENA_REmap_Mexico_report_2015.pdf?la=en&hash=8A259915297B04B0D50A422EDF48AD87007B56B1.
[69] *Ibid.*
[70] *Ibid.*
[71] Climate Transparency, "Mexico", at: https://www.climate-transparency.org/wp-content/uploads/2020/11/Mexico-CT-2020-WEB2.pdf
[72] *Ibid.*

Conclusion

FEMSA intends to issue Sustainability-Linked Bonds which will tie the coupon rate to the achievements of the following SPTs:

- **SPT 1:** Zero Operational Waste to Landfill: Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030;
- **SPT 2:** Renewable Energy: Increase the annual sourcing of renewable electricity to 65% by 2025 and 85% by 2030;

Sustainalytics performed a review of FEMSA's SLB information and considers the KPIs to be relevant and material and aligned with the Company's sustainability strategy. Further, Sustainalytics considers KPI 1 to be strong and SPT 1 to be ambitious as it represents a material improvement compared to past performance. Sustainalytics considers KPI 2 to be very strong and SPT 2 to be ambitious based on the Company's past performance and the challenges faced in scaling renewable energy procurement, specifically in the Latin America region, as well as the percentage emissions reductions implied by the target. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers FEMSA's Sustainability-Linked Bond Framework to be in alignment with the five core components of the SLBP and the prospective of achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: FEMSA

Sustainability-Linked Bond ISIN: The Framework may be used for multiple bonds/offerings.

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3)**:** Sustainalytics

Completion date of second party opinion pre-issuance: April 16, 2021

Independent External Review provider's name for post-issuance verification (section 4)**:**

Completion date of post issuance verification:

At the launch of the bond, the structure is:

☒ a step-up structure ☐ a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

☒ assessed all the following elements (complete review) ☐ only some of them (partial review):

- ☒ Selection of Key Performance Indicators (KPIs)
- ☒ Calibration of Sustainability Performance Targets (SPTs)
- ☒ Verification
- ☒ Bond characteristics *(acknowledgment of)*
- ☒ Reporting

☒ and confirmed their alignment with the SLBP.

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- ☒ Second Party Opinion
- ☐ Verification
- ☐ Certification
- ☐ Scoring/Rating

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

FEMSA intends to issue Sustainability-Linked Bonds which will tie the coupon rate to the achievements of the following SPTs:

- SPT 1: Zero Operational Waste to Landfill: Increase the percentage of waste diverted from landfills to 65% by 2025 and 100% by 2030;
- SPT 2: Renewable Energy: Increase the annual sourcing of renewable electricity to 65% by 2025 and 85% by 2030;

Sustainalytics performed a review of FEMSA's SLB information and considers the KPIs to be relevant and material and aligned with the Company's sustainability strategy. Further, Sustainalytics considers KPI 1 to be strong and SPT 1 to be ambitious as it represents a material improvement compared to past performance. Sustainalytics considers KPI 2 to be very strong and SPT 2 to be ambitious based on the Company's past performance and the challenges faced in scaling renewable energy procurement, specifically in the Latin America region, as well as the percentage emissions reductions implied by the target. Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers FEMSA's Sustainability-Linked Bond Framework to be in alignment with the five core components of the SLBP and the prospective of achievement of the SPTs to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIS)

Overall comment on the section *(if applicable)***:**

Sustainalytics overall considers KPI 1 Zero Operational Waste to Landfill to be strong given its direct relation to FEMSA's operational waste across all its business units, representing approximately 40% of FEMSA's overall waste footprint, as well as the clear methodology.

Sustainalytics overall considers KPI 2 Renewable Energy to be very strong given the direct relation of FEMSA's operational carbon footprint to its overall environmental performance. Sustainalytics notes that electricity consumption is the largest contributor to FEMSA's operational carbon footprint, making up 68% of Scope 1 and 2 emissions in 2020.

List of selected KPIs:

- ✓ Zero Operational Waste to Landfill
- ✓ Renewable Energy

Definition, Scope, and parameters

- ☒ Clear definition of each selected KPIs
- ☒ Clear calculation methodology
- ☐ Other *(please specify)*:

Relevance, robustness, and reliability of the selected KPIs

- ☒ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy.
- ☒ Evidence that the KPIs are externally verifiable
- ☒ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis
- ☒ Evidence that the KPIs can be benchmarked
- ☐ Other *(please specify):*

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section *(if applicable)***:**

Sustainalytics views SPT 1 to be ambitious given that it presents a material improvement compared to past performance and its clear alignment with the goals outlined in the Company's sustainability strategy.

Sustainalytics considers FEMSA's SPT 2 to be ambitious, given FEMSA's historical performance relative to its local peers, and that the target achieves the following: (i) alignment with the SBTi absolute contraction method, and (ii) goes beyond a business-as-usual trajectory. While Sustainalytics recognizes that the target does not fully align with global industry peers operating in the same sector, it notes positively that the target is still aligned with science-based trajectories, particularly when considering the regulatory context and challenges the region faces.

Rationale and level of ambition

- ☒ Evidence that the SPTs represent a material improvement
- ☒ Credentials on the relevance and reliability of selected benchmarks and baselines
- ☒ Evidence that SPTs are consistent with the issuer's sustainability and business strategy
- ☒ Credentials that the SPTs are determined on a predefined timeline
- ☐ Other *(please specify):*

Benchmarking approach

- ☒ Issuer own performance
- ☒ Issuer's peers
- ☒ reference to the science
- ☐ Other *(please specify)*:

Additional disclosure

- ☒ potential recalculations or adjustments description
- ☒ issuer's strategy to achieve description

☒ identification of key factors that may affect the achievement of the SPTs

☐ Other *(please specify)*:

3-3 BOND CHARACTERISTICS

Overall comment on the section *(if applicable)***:**

FEMSA has disclosed that bond issuances pertaining to the Framework will be subject to a penalty for not achieving the SPTs by December 2025 and by December 2030. If FEMSA is unable to achieve the SPTs, the interest rate will increase from the next coupon date. FEMSA has confirmed that the exact penalty amount will be provided in the bond documentation. Sustainalytics positively notes that all SPTs need to be met to avoid an increase in the coupon rate, however it does not opine on the adequacy of the penalty imposed for not achieving the set SPTs.

Financial impact:

☒ variation of the coupon

☐ …

☐ Other *(please specify)*:

Structural characteristic:

☐ …

☐ …

☐ Other *(please specify)*:

3-4 REPORTING

Overall comment on the section *(if applicable)***:**

FEMSA commits to report annually on the selected KPIs performance and expects to include the relevant data in a Sustainability-Linked Bond Report that will be enclosed in its annual Sustainability Report. Where feasible, the Company will aim to include an illustration of the positive sustainability impacts of the performance improvements. This is aligned with the SLB Principles. FEMSA further commits to disclose relevant information that enabling investors to monitor the level of ambition of the SPTs.

Information reported:

☒ performance of the selected KPIs

☒ level of ambition of the SPTs

☒ verification assurance report

☐ Other *(please specify):*

Frequency:

☒ Annual

☐ Semi-annual

☐ Other *(please specify):*

Means of Disclosure

- ☐ Information published in financial report
- ☒ Information published in sustainability report
- ☐ Information published in ad hoc documents
- ☐ Other *(please specify):*
- ☐ Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review):*

Where appropriate, please specify name and date of publication in the "useful links" section.

Level of Assurance on Reporting

- ☒ limited assurance
- ☐ reasonable assurance
- ☐ Other *(please specify):*

USEFUL LINKS *(e.g. to review provider methodology or credentials, to issuer's documentation, etc.)*

Section 4. Post-issuance verification

Overall comment on the section *(if applicable)***:** FEMSA commits to having an external verifier provide a limited level of assurance on the published KPI performance figures at the relevant observation date, which is aligned with the SLB Principles on verification

Information reported:

- ☒ limited assurance
- ☐ reasonable assurance
- ☐ Other *(please specify):*

Frequency:

- ☒ Annual
- ☐ Semi-annual
- ☐ Other *(please specify):*

Material change:

- ☐ Perimeter
- ☒ KPI methodology
- ☒ SPTs calibration

Disclaimer

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

5th Green Bond Pioneer Awards
Climate Bonds Initiative
Largest Verifier for Certified Climate Bonds of 2019
awarded to Sustainalytics
SUSTAINALYTICS
Climate Bonds AWARDS 2020
More information conference.climatebonds.net/awards

CLIMATE BONDS STANDARD
APPROVED VERIFER

GlobalCapital
SRI Awards
Named
2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

The Green Bond Principles