

Materiality Analysis



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Our commitment to ESG and sustainability

At Arca Continental (AC), sustainability is fully embedded in the company's daily operations, reflecting its core values and influencing our decision-making processes. The company take great pride in fostering a culture where sustainability is not only embraced but also bolstered by suppliers and customers, playing a pivotal role in the integral business strategy.

In today's world, sustainability is an essential element of doing business. Arca Continental understand that the rapidly changing landscape of the food and beverage industry demands the prioritization of sustainability to not only survive but also thrive. As such, the commitment to operate a sustainable business model is a core element of the business.

To ensure the focus on the most important elements that impact business's sustainability, AC have identified material topics. These are the key areas where we need to direct our efforts to make a meaningful difference. Material topics cover a range of environmental and social aspects that we have already observed in our operations.

As part of the material topics that range from environmental to financial and social elements, the company is working in each of them as we represent a core element in the development of the value chain. One of the critical areas the company is enabling water stewardship by reducing water usage while maintaining quality, giving water access to communities and taking care of the water sources. AC is also focusing on packaging circularity, which aims to minimize waste by promoting sustainable packaging design that can be reused or recycled. Additionally, AC is using digitalization to implement innovative technologies that reduce our environmental footprint, optimize our supply chain, and improve our efficiency.

Arca Continental understand that sustainability is not an isolated activity but a crucial part of our business. We continuously assess risks and identify the necessary projects to address them. We also recognize that sustainability and financial performance are a complement to each other. By operating a sustainable business model, we contribute to a better future for the planet and our communities while ensuring the long-term success of the business.

Despite the company's efforts, it acknowledges that it still has a long way to go to address risks and prepare for future challenges. The COVID-19 pandemic has shown how major events can disrupt entire supply chains, while climate change continues to present new challenges. Communities demand a new way of doing things. Therefore, AC is committed to addressing these challenges head-on and ensuring that sustainability remains a core element of the business strategy.

Our Assessment

Introduction

As part of Arca Continental's processes for continuous improvement, the company conducts periodic exercises to hear what its main stakeholders have to say.

The most recent update on these exercises was made in 2022, carrying out the largest materiality analysis to date. It took into consideration the opinion of more than 900 individuals, groups, and organizations that comprise the main stakeholders in the countries where Arca Continental operates.

The timing of the application of the materiality analysis will be determined based on the established corporate strategies and the needs to identify and follow up on material elements previously obtained.

When there is any relevant change in the organization and/or in the external socioeconomic context, we perform these materiality analyses. However, we develop these analyses at least every two years.

The analysis is based on the principles of double materiality considering the impact the value chain has on the environment and society in each ESG topic (outward impact), but it also considers the risks and opportunities that each ESG topic presents that affect corporate value (inward impact).

As a result of this exercise, the company:

- Redefined the focus of sustainability efforts,
- Set precise goals in the matter,
- Enhanced its indicators, and
- Confirmed actions, programs, and initiatives.

Taking into consideration each territory's particular characteristics, the company identified 11 material topics that emerge from the intersection of the company's internal and external stakeholders' expectations, its objectives, primary risks, and the social and political agenda.

About our materiality analysis

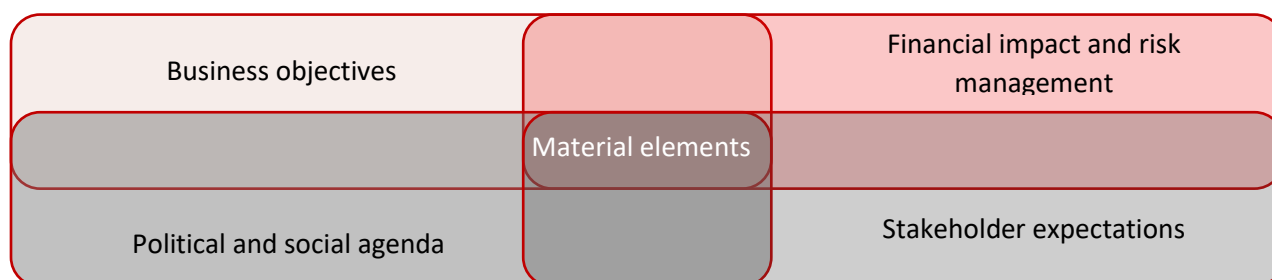
The objective of the assessment is to identify risks and opportunities for the different business segments, pursuing the following goals:

- a) Determine the impacts of the company's operational activities and its stakeholders,
- b) Fully understand the scope of operations of the operating divisions,
- c) Establish efficient communication channels between the company and stakeholders, and
- d) Get tools that incorporate ESG factors into business strategy.

The identification of the material elements was based on four main axes:

1. **Business objectives:** identification and alignment of sustainability issues with the annual business plan that contributes to the five-year long-term plan.
2. **Financial impacts and risk management:** through the identification and prioritization of material elements and their implications in the financial statements.
3. **Political and social agenda:** with an analysis developed by each PACS (Public Affairs, Communication and Sustainability) team to identify the most important trends.
4. **Stakeholder expectations:** captured through a methodology to identify and prioritize these groups and their expectations through standardized interviews.

Figure 1 Elements that make up the materiality of Arca Continental



The materiality analysis is divided in two different parts:

1. **Identification of the most relevant topics at a local level:** This was carried out in each of the countries where AC operates through its PACS leaders, where we individually deployed the 5 phases described in the process that comes in the manual
2. **Consolidation of local material topics in the global materiality matrix:** For this step, AC consider the issues identified in the first part of the process and consolidate them by weighting the results according to the contribution that each country has within global revenue. As a result, AC obtained the corporate materiality matrix considering the particularities of each country.

Methodology

Materiality Process

This report indicates the step *by step* to be able to carry out a materiality analysis, which includes the description of the Materiality Process with its 5 phases (¡Error! La autoreferencia al marcador no es válida.).

Table 1 Materiality Process

PHASE 1: Identification of potentially material topics	»»»	Defining the context	»»»	List of potentially material elements				
PHASE 2: Stakeholder map	»»»	Identification of stakeholders	»»»	Breakdown of stakeholders	»»»	Prioritization of stakeholders	»»»	Scope definition
PHASE 3: Material topics and stakeholders prioritization	»»»	Weighting of elements	»»»	General prioritization of stakeholders	»»»	Assignment of relevance to each stakeholder		
PHASE 4: Deployment of communication	»»»	Definition of communication channels	»»»	Application				
PHASE 5: Materiality matrix consolidation	»»»	Graphing – the matrix	»»»	Material elements				

To aid the internal stakeholders which participated in the materiality assessment, the global PACS team created a *materiality manual*, which provided several exercises that could be completed per each phase and step of the assessment.

PHASE 1: Identification of elements with the potential to be material

During the first phase, several questions needed to be answered to understand the specific needs, challenges, and potential impacts and to identify potentially material elements.

Context definition

This step focused on understanding the internal and external issues that may affect the operational continuity of the company.

Preparation of the list of elements with potential to be material

Once each PACS team has: (i) understood its context; (ii) analyzed internal and external affairs, and (iii) consulted own- and third-party resources, a list of all potentially material issues was generated and segmented into different environmental, social, and governance categories.

PHASE 2: Stakeholder mapping

During the 2nd phase of the assessment, stakeholder mapping was conducted to identify relevant actors.

Stakeholder identification

Stakeholder identification began with constructing a list, which could be grouped into clusters. These clusters were then filtered and prioritized based on the specific context of each operational division.

Breakdown of stakeholders

Once stakeholders were identified, the teams analyzed the particularities of each cluster and identify the specific groups within each cluster with whom the company should understand their main concerns.

PHASE 3: Weighting of elements and prioritization of stakeholders

Phase 3 of the materiality assessment involved assigning quantitative values to potentially material elements and interest groups, as well as prioritizing stakeholders.

Weighting of potential material elements (X-axis definition)

The weighting of potentially material elements was determined based on the team's experience and financial estimates in case of risk scenarios. Criteria such as the probability of occurrence or consequences were integrated to limit subjectivity.

General prioritization of stakeholders

The prioritization of stakeholders involved weighing the influence of each stakeholder group. Criteria such as the power to affect social license, reputation, financing, or access to resources were considered. Stakeholders were assessed and given scores based on their influence and dependence.

Establishing the scope

Once the weighting of elements and prioritization of stakeholders were completed, the scope of the materiality analysis was established based on the participation strategy. The number of stakeholders to communicate with was based on establishing a statistical confidence interval.

Assignment of relevance to each stakeholder against the elements identified as potential material

The relevance of each stakeholder was assigned to each potentially material elements, ensuring that the elements were properly evaluated and prioritized, leading to a comprehensive analysis.

PHASE 4: Deployment of communication – stakeholder engagement

Phase 4 involved deploying communication and engaging with stakeholders. PACS teams collaborated with relevant operational areas to determine appropriate approaches for stakeholder participation.

Definition of communication channels

To facilitate interaction with stakeholders, various communication channels were utilized, ranging from simple forms of participation to more advanced methods.

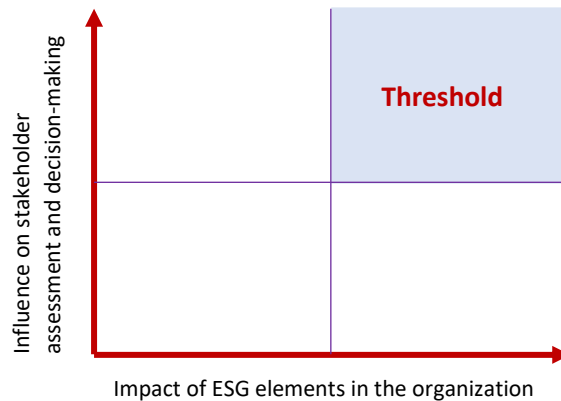
Application

Once these considerations were addressed, PACS members developed specific content for the selected communication channels and ensured the collection of quantitative information.

PHASE 5: Consolidation of the materiality matrix

Phase 5 involved the consolidation of the materiality matrix using the information gathered during the communication deployment in Phase 4.

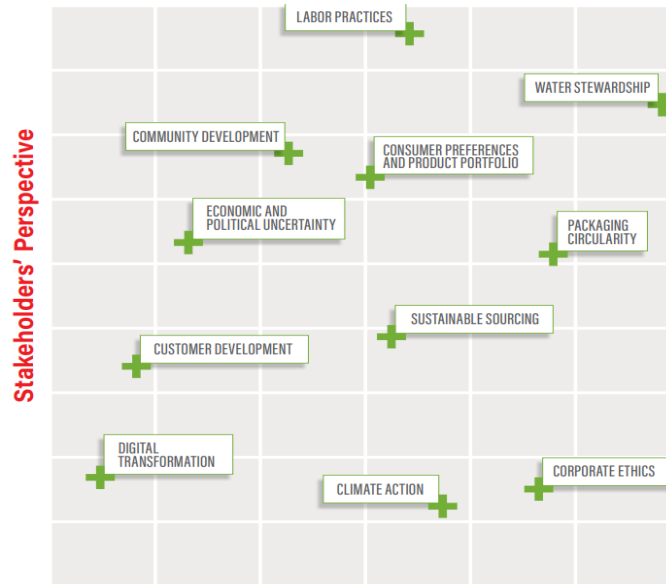
Figure 3 Quadrants and axes of the materiality matrix



The matrix was consolidated by plotting the quantitative values provided by stakeholders on the Y-axis and the importance of each element for the company on the X-axis. By combining the values of both axes, the position of each element in the materiality matrix was determined. In the matrix, AC established a threshold of 60%, beyond which elements were considered material. The identification of material elements enabled the analysis of risks and opportunities for the business.

Materiality Matrix

As a result of the materiality assessment, the following materiality matrix consolidates the most material issues for Arca Continental. The materiality matrix results provide valuable insights into Arca Continental's priority areas for enterprise value creation and impact.



Arca Continental's Perspective

Our top material topics viewed through a financial lens

Viewed through a financial lens, the following topics—water stewardship, waste management, and consumer preferences and product portfolio—are of utmost importance for our financial performance. These topics have been identified as the most material ones from Arca Continental's perspective, resulting from an extensive double materiality analysis. This analysis takes into consideration the risks and opportunities presented by each ESG topic, considering their potential impact on corporate value. The following business cases explain how each of these material topics influence our financial outcomes, as well as what we do to deliver long-term value to shareholders.

Water Stewardship

Effectively managing water resources is central for Arca Continental's operational continuity. As the main ingredient, the company aims to have an efficient use of this resource across the value chain, including communities where we source, make, and sell our products. According to global trends the UN estimates that by 2030 there will be a 40% gap between water supply and water demands, highlighting this present and future risk. Therefore, multiple stakeholders may seek to take action to face this collective challenge. To contribute, we have a comprehensive water stewardship strategy based on the following strategic lines of action: improving efficiency, enhancing water access for communities and conserving water sources. Understanding how business can—and must—play a critical role in the water agenda, The Coca-Cola Company and leaders of the System as Arca Continental responded to this call by signing the Business Leaders' Open Call to Accelerate Action on Water.

What's ahead?

In the areas where AC operates, water stress is forecasted to increase up to 40% between now and 2040. To prepare for a future with water challenges, AC is analyzing and acting on the following topics:

- Increase operational capacity and flexibility to compensate for underperforming locations affected by water restrictions, ensuring the achievement of production goals.
- Assess the risk exposure related to water-sensitive key ingredients and consider developing suppliers to secure ingredient availability.
- Optimize investments by implementing strategies to mitigate risks, balancing the impacts.
- Enhance the capability to identify potential disruptions in advance, enabling timely decision-making to effectively manage and respond to future challenges.

Packaging Circularity

The increasing responsible consumer culture and circular economy models in the industry promotes the reduction of the plastics leaked into the environment, supporting the action towards reducing global pollution. AC has publicly committed to making 100% of its packaging recyclable by 2025 and using at least 50% recycled material in its packaging by 2030. These commitments pose challenges. However, the company focuses on innovations to protect the planet and generate value.

What's ahead?

To ensure readiness for a more circular future, AC is taking the following measures:

- Explore opportunities to guarantee rPET supply through strategic investments that support the development of the recycling chain.

- Present a packaging portfolio based on the use of different materials and presentations, fostering sustainability and addressing availability concerns.
- Evaluate the potential for packaging circularity to become a differentiating factor for consumers, highlighting the environmental benefits and promoting a positive brand image.
- Contribute actively to public discussions to develop root-cause solutions for plastic leakage issues.

Consumer preferences

Actively listening to consumers is key to Arca Continental as it allows it to evolve its portfolio and keep up with consumer preference. The FDA, EFSA, WHO have proposed new legislations related to consumer health and product labeling, influencing the adaptation of Arca Continental's portfolio to consumer preferences. In line with the above, Arca Continental follows a strict practice on consumer safety and transparency which, in most cases, exceeds regulatory requirements. Moreover, the company adopts Responsible Marketing best practices alongside The Coca-Cola Company. And it will continue offering a broad product portfolio, including a wide range of low and non-caloric products that seeks to satisfy consumers' taste.

What's ahead?

Considering changing consumer preferences towards healthy and sustainable products, it is crucial for AC to prioritize the development and promotion of products that align with these values. As consumers continue to prioritize these values in their purchasing decisions, AC is taking the following measures:

- Enhance analysis capabilities to proactively anticipate and prepare for shifts in consumer preferences, encompassing aspects such as production lines, suppliers, and technology.
- Proactively identify and address potential challenges to the portfolio, implementing risk mitigation and adaptation strategies.
- Take an active role in adapting portfolio to consumer preferences, ensuring alignment with its objectives of maximizing profitability and social impact.

Our material topics viewed through an impact lens

Arca Continental's material topics, when viewed through an impact lens, highlight the significance of water stewardship and packaging as the most crucial areas for outward impacts. These topics emerged as the most important ones in our double materiality analysis, which comprehensively assessed the impact our value chain has on the environment and society for each ESG topic. AC specifically focused the analysis on these two topics due to their vital role in the business continuity and potential to enhance the overall impact on the environment, society, and other relevant stakeholders.

Water Stewardship

Water stewardship is a crucial focus for Arca Continental, as it has a significant impact on its stakeholders. Responsible water management practices directly impact society and the environment. By prioritizing water stewardship, we contribute to communities to access reliable, clean and safe water, improving public health, supporting livelihoods, and enhancing overall social welfare. Moreover, our responsible water management actively contributes to the preservation of ecosystems, minimizing water pollution, reducing consumption, and safeguarding habitats and biodiversity.

Arca Continental's commitment to water stewardship is evident through the various initiatives we have implemented, including enhancing water access for communities, improving efficiency within its operation, and preserving water sources in the regions we operate. These efforts reflect our dedication to water stewardship and the creation of shared value for stakeholders.

Why does it matter to external stakeholders?

- **Impact on society:** Responsible water management practices have direct implications for the communities that coexists with our operations, as access to clean and safe water is essential for their well-being and development. Water management practices directly affect communities in various ways. Firstly, by prioritizing responsible water use and conservation, we promote the availability of clean and safe water for communities, meeting their fundamental needs and promoting their well-being. Moreover, by engaging in initiatives that educate and empower people about sustainable water practices, we foster a sense of environmental responsibility. By prioritizing water stewardship, Arca Continental ensures that communities have reliable access to this vital resource.
- **Impact on the environment:** Water stewardship has a profound impact on the environment and ecosystems where Arca Continental operates. By prioritizing responsible water management practices, the company help protect and preserve these vital natural systems. Through minimizing water pollution, reducing water consumption, and safeguarding aquatic habitats and biodiversity, Arca Continental actively contributes to the health of the environment. This commitment to water stewardship ensures the long-term viability of ecosystems, promotes ecological balance, and mitigates the potential adverse effects of water-related activities.
- **[Impact on supply chain:](#)** Through the Sustainable Supply Program (PAS), we assess our suppliers on their water-related practices, among other environmental considerations. By engaging our suppliers in water stewardship initiatives, we collectively reduce water-related risks, conserve water resources, and contribute to the long-term sustainability of the ecosystems in which we operate. Our dedication to sustainable water practices not only aligns with our stakeholders' expectations but also fosters a culture of environmental responsibility and resilience within supply chain.

What is the company doing to maximize impact?

- **Efficiency:**
 - Implements technology and processes to capture, treat, reuse, and optimize water use.
 - Adheres to international standards of water quality and environmental management systems.
 - Conducts Source Vulnerability Analysis (SVA) every five years to identify environmental and social risks and monitor resource availability and implements Sourced Water Protection Plans (SWPP) to manage identified risks.
 - Utilizes Facility Water Vulnerability Assessment (FAWVA) to analyze local context and vulnerabilities of water extraction basins, tagging operation centers, as a result of the analysis, with greater water-related exposure as "leadership locations".
- **Water Access:**
 - Aims to become a water enabler, providing communities with access to clean water.
 - Promotes water stewardship and prioritizes actions based on local risks, vulnerabilities, and opportunities.
 - Commits to giving back 100% of the water used for production to nature, reinforcing sustainability efforts.
 - Implemented shared value initiatives to boost water access in communities.
 - Provided water to communities within the five countries of operation.
 - Installed water harvesting systems, benefiting students in Mexico.
- **Water Source Conservation:**
 - Collaborate with institutions to protect water sources and solve specific challenges.
 - Ensures compliance with wastewater treatment regulations in all beverage plants.
 - Works closely with allies for the distribution and utilization of treated wastewater.

Packaging Circularity

Arca Continental understand the impact of packaging on society, the environment, consumers, and the supply chain. By prioritizing sustainable packaging choices such as the reduction of materials and incorporation of recycled content in packaging, the implementation of recycling initiatives collaborating with suppliers and members of the recycling chain, and the promotion of consumer education, the company actively contribute to reducing pollution, conserving natural resources, and empowering consumers to make environmentally conscious choices. With its continuous innovation and setting of ambitious targets, Arca Continental strive to minimize its environmental footprint and foster a culture of environmental responsibility and innovation.

Why does it matter to external stakeholders?

- **Impact on the environment:** If not correctly manage and dispose, packaging materials could potentially impact the ecosystems where the company have presence. The extraction, production, and disposal of packaging materials can also contribute to increase or minimize greenhouse gas emissions, deforestation, and resource availability. Stakeholders are increasingly demanding sustainable practices and responsible packaging solutions based on circular economy. By minimizing AC environmental footprint through recycling initiatives, and material reduction efforts, the company demonstrate its commitment to circularity.

- **Impact on society:** As consumers become more aware of the environmental impact of packaging, we seek products that are packaged in eco-friendly materials and support circular economy with responsible disposal practices. Inadequate packaging disposal can lead plastic leakage, which could contribute to pollution, degrading the environment and impacting water quality. This, in turn, can have adverse effects on the health and well-being of society. By prioritizing sustainable packaging design and promoting adequate disposal practices among consumers, AC promote cleaner and healthier environment for communities, as well as environmental consciousness among consumers.
- **Impact on supply chain:** Arca Continental recognizes the impact of packaging on the environment and collaborates closely with suppliers to address these challenges. Through the Sustainable Supply Program (PAS), AC evaluate its suppliers based on their waste management strategies, recycling initiatives, and adherence to ethical and environmental standards. By engaging suppliers in sustainable packaging and waste reduction efforts, we collectively strive to minimize the environmental footprint associated with their operations. One example of this kind of engagement is the strategic investment made with PetStar in Mexico, the world's largest food-grade PET recycling plant and a great example of circular economy. This collaboration not only meets the expectations of stakeholders but also fosters a culture of environmental responsibility and innovation within the supply chain through initiatives to strengthen the recycling chain. Together with its suppliers, AC aim to reduce plastic leakage, increase recyclability, and promote the use of sustainable materials, contributing to a circular economy and the long-term well-being of ecosystems.

What is the company doing to maximize impact?

- **Sustainable packaging:**
 - Conducted a packaging assessment to identify opportunities for optimization of material usage.
 - Implemented standardized packaging design guidelines to promote efficiency and reduce waste.
 - Transitioned from non-recyclable materials to recyclable alternatives across product lines.
 - Replaced plastic packaging with biodegradable or compostable materials for select products.
 - Collaborated with suppliers and industry experts to stay up-to-date with emerging trends and technologies in sustainable packaging.
- **Development of the recycling chain**
 - Implemented an enhanced waste management system, including dedicated recycling bins at production facilities and corporate offices.
 - Collaborated with local recycling initiatives to improve collection and recycling rates.
 - Established partnerships with recycling facilities to ensure proper disposal and processing of packaging waste.
- **Recycling culture**
 - Launched an educational campaign to raise awareness among consumers about the importance of recycling and responsible packaging disposal.
 - Provided clear instructions on packaging labels regarding proper recycling practices.
 - Collaborated with environmental organizations and schools to conduct workshops on sustainable packaging and waste reduction.