

# RISK MANAGEMENT



## Risk Management

Like any company of our size and influence, we navigate through an environment that presents us with complex and changing situations that become latent threats and potential risks to the continuity of our operation.

At Arca Continental, we manage risks under the three-line defense model, in which all operational, functional, and administrative areas take a role in risk management by identifying, controlling, or mitigating risks directly or indirectly. These lines of defense have the following functions.

- **1st line of defense:** Identify, assess, and manage risks.
- **2nd line of defense:** Monitor risk management and compliance with laws and regulations.
- **3rd line of defense:** Verify that the efforts of the first two lines are consistent with expectations.

Risk management is at the heart of our strategy: to identify, assess, and mitigate the risks to which we are exposed by the nature of our operation, as well as the protection and creation of long-term value.

For this reason, we developed a Comprehensive Risk Management Model aligned with ISO 31000 and COSO ERM standards, which seeks to ensure business continuity through better risk and crisis management plans from a more predictive and less reactive perspective and operation. Through this model, we transform business threats into opportunities to create a competitive advantage of value creation.

## Comprehensive Risk Management Model



Arca Continental's risk management model is based on three management approaches that help us deal with events, threats, and risks, both internal and external, to protect the continuity and assets of the business and generate competitive advantages by creating value and reputation for the company.

The transversal basis of the entire model is the processes in Integrated Risk Management that understand the methodology and tools of management tools, which together with the support of Public Affairs, Communication, and Sustainability are essential to transform regulatory and reputational threats to the business into opportunities to create a competitive advantage.

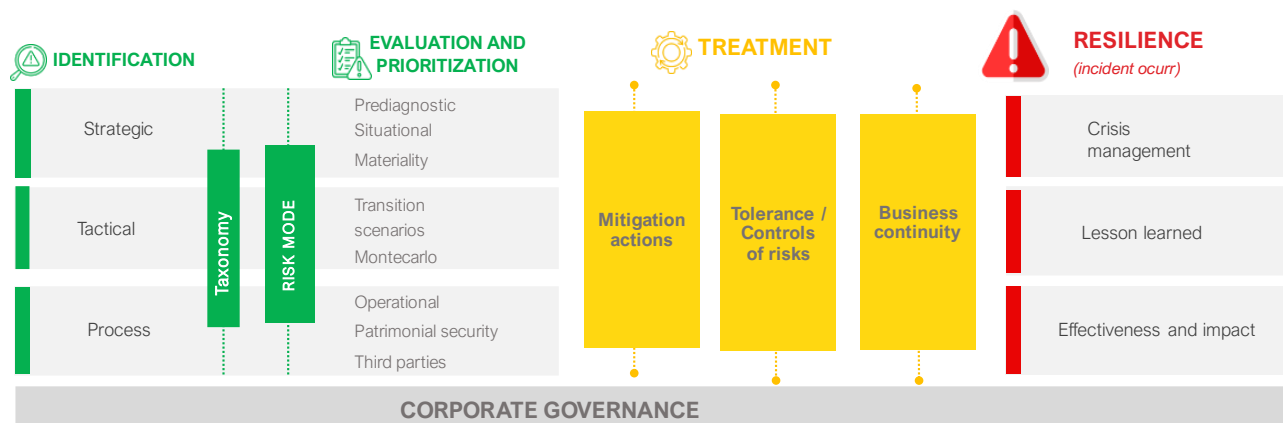
- **Predictive Management:** As the name indicates, this line of transformation seeks to carry out the taxonomy of the risks of each of the business ecosystems, map how these risks are materialized, and prioritize them based on their frequency, impact on the business, and the vulnerability that may occur.
- **Preventive Management:** Based on this prioritization, and its financial and reputational impact; these risks are addressed by seeking preventive mitigation, developing management controls where possible, and/or business continuity plans.
- **Corrective Management:** Methodology and management of incidents and/or risks already materialized in crisis to minimize the reputational impact on brands, and businesses, as well as the financial or operational impact of the same.

With this model, we raise the importance of preventive risk management, strengthening reputation, and promoting sustainable performance, which together enable us to proactively meet the expectations of stakeholders.

### Methodological framework and management tools.

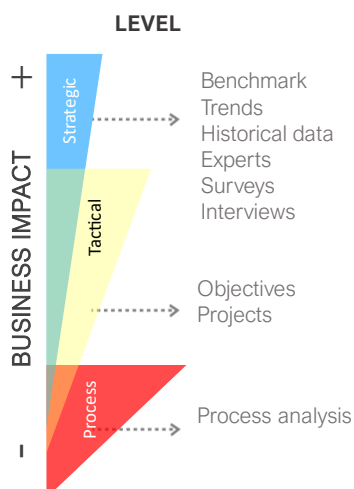
Our focus is on using existing tools and methodologies, developing and adapting our own tools that allow us not only to identify possible threats or risks inside and outside the business but also to prioritize in a more objective way those risks with greater materiality and impact on the business and thus be able to mitigate them in a timely manner.

With these tools and methodologies, we also seek to develop standardized capabilities within the organization so that the different risk ecosystems, directions, or business units speak the same language and can cross information, and priorities and share practices in a more effective way.

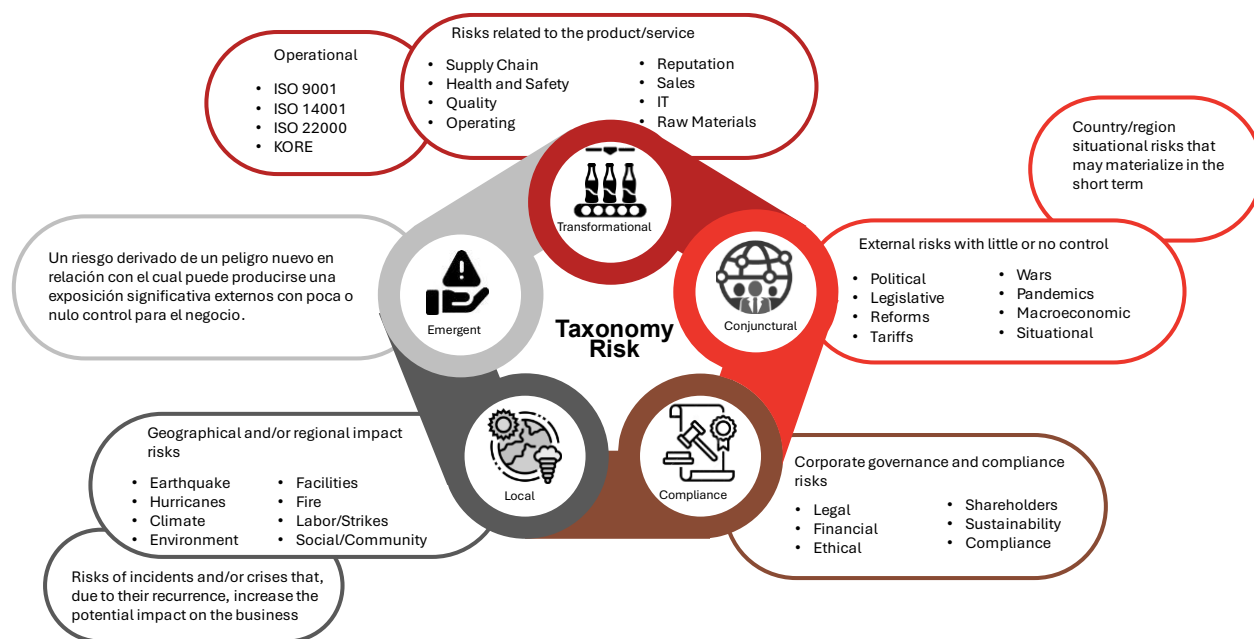


### Risk Identification

At Arca Continental, we define risks as the possibility of damage to people, material and financial assets, the company's reputation, and, in general, the business. We have established 3 levels of risks:



We have also developed a risk taxonomy that provides an important classification structure for the risk management process and a starting point for easily and efficiently carrying out risk prioritization and management. This taxonomy proposes a classification structure according to 5 categories.



### Evaluation and prioritization

For each of the risks that make up the taxonomy of strategic risks, the severity or impact that it may have on the business is defined with the help of an expert, as well as how the risk can be materialized to be more assertive and punctual in the treatment of risk.

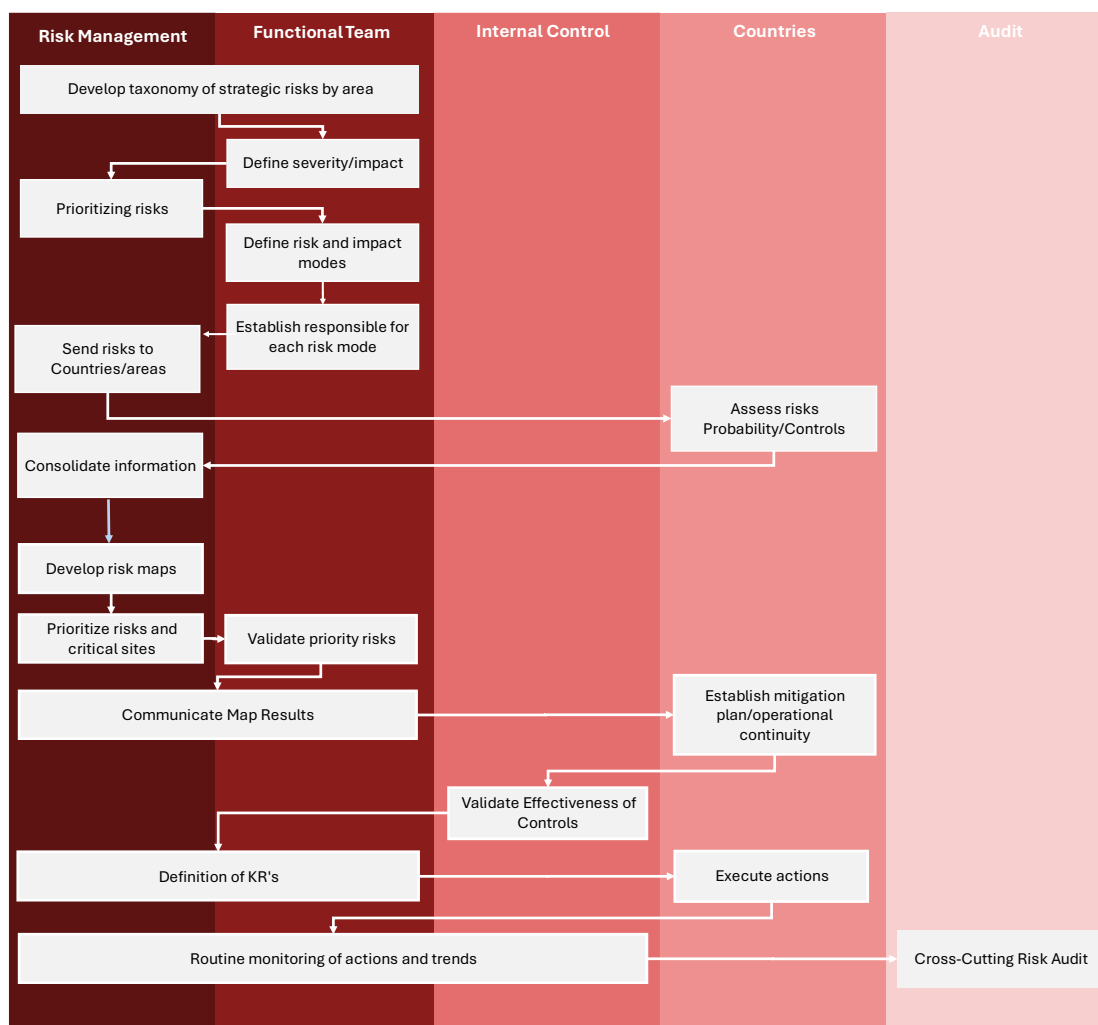
Each of the risks and their risk modes is periodically evaluated by the risk leader or owner according to our risk ecosystem matrix, in which we establish the correlation between risks and the areas that are affected.

The prioritization of risks is carried out by taking into account mainly the impact or severity that it may have on the business, its frequency of occurrence, and how vulnerable our processes, controls, and mitigation actions are to prevent its materialization.

The company's risk exposure is reviewed periodically, according to the types of risks. For example, exposure to situational risks, which by their nature can evolve very quickly, is reviewed quarterly. Other types of risks are reviewed less frequently, for example, strategic risks, which are eminently long-term, are reviewed annually.

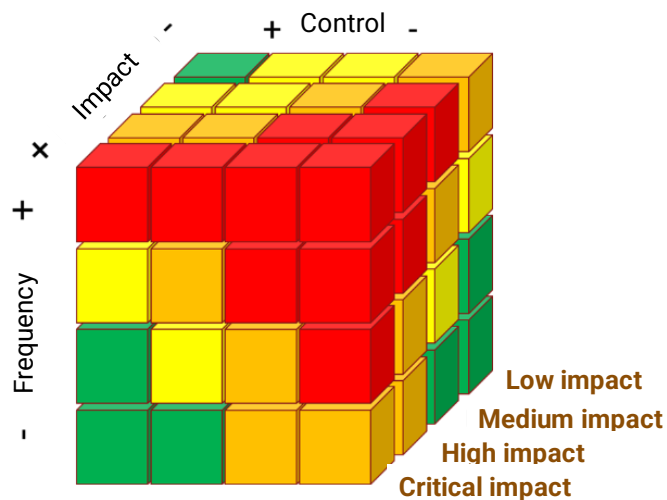
The following diagram describes the complete process of all the activities to make a comprehensive risk analysis, the activities of the process are integrated by each person

responsible for the participation of the Risk Management departments, the functional team, Country Operation, and Audit.



### Dealing with risks

At Arca Continental, we recognize that resources are limited and therefore we seek to manage risks according to their assessment and location in the 3-dimensional heat maps we use to prioritize risks.



**Green:** When the result of the assessment is in a green zone, the guidelines of the first line of defense are followed, i.e. controls and mitigation actions are managed according to local and/or area processes.

**Yellow:** The risks in this area are periodically monitored and their trend is continued with local and/or area management.

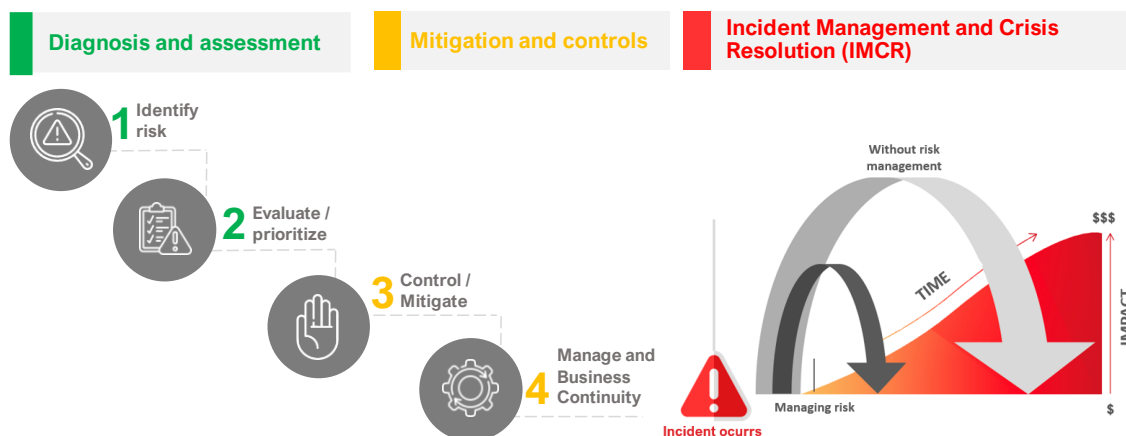
**Orange:** The risks evaluated in this area, and preventive mitigation actions are requested to reduce their frequency and/or improve controls, these risks are reported to the second line of defense for consideration.

**Red:** Priority risks that are in the red zone are managed and communicated to the management for treatment, whether the risk is transferred, improvement projects are developed, operational continuity plans and/or resources are allocated for their management, and risk level reduction.

### ***Resilience***

Effective risk management, in addition to seeking to prevent the materialization of risks, must be prepared to face and recover when a setback occurs.

Aware of this, we seek to reduce response time and impact on the business with resilient processes and tools.



As part of our efforts to strengthen crisis management at Arca Continental, we have deployed the IMCR SIGO platform in 100% of our operating regions. This platform allows our employees to learn about the management of past crises by monitoring the incidents that occurred in our operations and a repository that includes the following points:

- Root Cause Analysis
- Lessons learned
- Replicas and tracking

For a breakdown of the crises detected, managed, and documented through our ICMR SIGO platform, please refer to the **Risk Management section** of the annexes to our integrated annual report.

### Corporate governance

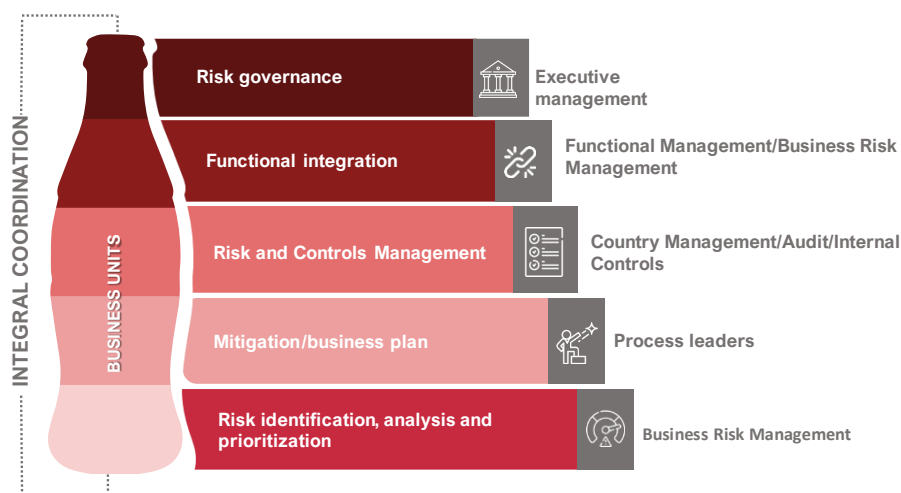
To establish a structured framework for decision-making, supervision, and accountability in business risk management, Arca Continental has a corporate governance.





To integrate the processes in risk management, the active participation of the corporation is necessary, where the Executive and Functional Directors and Risk Management intervene, and the participation of the business units where the Country Directorates, Public Affairs, Process Leaders, and Audit participate.

The following image shows all the areas involved in the identification, evaluation, management, and mitigation of risks at Arca Continental:



The comprehensive risk management process considers comprehensive collaboration between departments and business units, considering roles and responsibilities at the levels and the use of standardized methodology for risk identification and prioritization, focused on preventive risk mitigation and business continuity.

### **Report Line**

The risk management process stems from the leadership and supervision of the Board of Directors, the Audit and Corporate Practices Committee (composed exclusively of Independent Directors), the General Management, and the Coordination of Risk Committees.

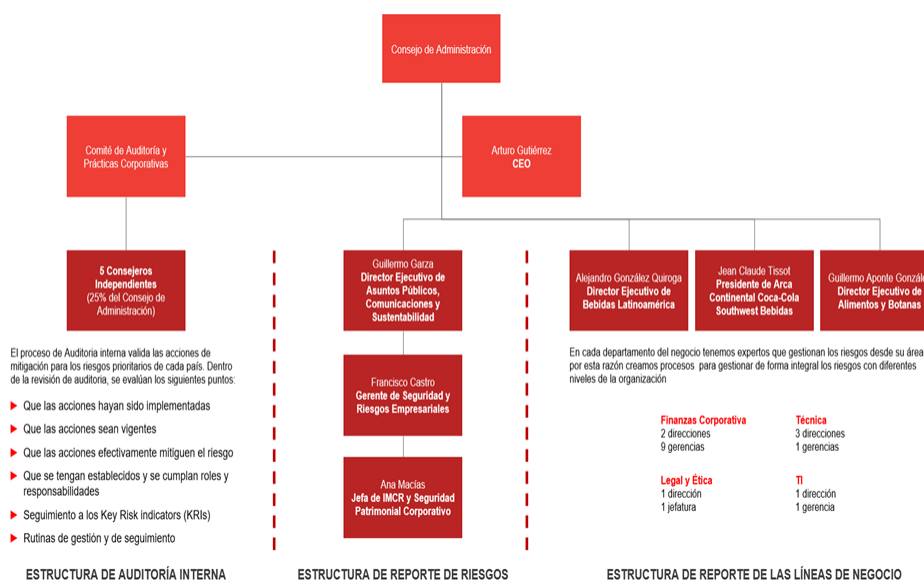
The Coordination of Risk Committees ensures that all possible critical risks that may arise are addressed by their respective committees. Among the risks that are identified and managed are those related to operations practices, environmental management systems, industrial and personal safety, corporate image and reputation, insurance and bonds, information, financial and tax security, audits for suppliers, regulatory compliance, and crisis resolution and contingency management.

To have an identification, evaluation, management, and mitigation of risks, we have 3 personnel structures, each totally independent of the other.

- **Internal audit structure:** it is made up of the Audit and Corporate Practices Committee, which in turn is made up solely and exclusively of Independent Directors.

- **Risk reporting structure:** it is nested within the Executive Directorate of Public Affairs, Communication and Sustainability (PACS), and has a specific management in charge of managing and supervising risks that the business lines may have.
- **The reporting structure of the lines of business:** in each department of the business we have experts who manage risks from their area, for this reason, we create processes to comprehensively manage risks with different levels of the organization

The reporting lines are shown in the following figure.



We also have experts who manage risks in each of the areas of our business, who have defined responsibilities. To find out the number of employees responsible for risk management at Arca Continental, please refer to the **Risk Management section** of the annexes to our integrated annual report.

### ***Role of the board of directors in supervision and risk management***

The risk management body of the Board of Directors is the Audit and Corporate Practices Committee, which is made up solely and exclusively of Independent Directors.

All of our counselors receive ongoing training in risk management, as outlined in the *Training and Training section*.

To find out the number of directors who have experience in enterprise risk management (ERM), please refer to the **Risk Management section** of the annexes to our integrated annual report.

### ***Third-party verification***

To validate the robustness of our risk management model, we have commissioned studies from independent third parties, which aimed to verify the alignment of our model and processes with ISO 31,000, COSO ERM, and IFRS standards. These studies were conducted by the external firms Deloitte and KPMG, during 2023 and 2024 respectively. Both reports were favorable and allowed us to confirm that Arca Continental has a robust and mature model while allowing us to identify aspects to continue improving.

### ***Training and training***

In risk management, crisis management, and asset security, employees at different levels of the organization must understand the basic concepts and are prepared both preventively and to be able to deal with an eventuality or crisis in the business. For this reason, we have integrated a strategy to develop capabilities in risk management that allow threats to be transformed into a competitive advantage. This strategy is based on 5 critical paths:

#### **1. Focus shift 4M´s**

- **Mindset:** Transform the way we see risks or threats from something that has already happened to us to an approach of analysis, initiatives, and resource management to prevent them from materializing.
- **Model:** Base work structure that allows us to understand how we manage the risks of its corrective, predictive, and preventive parts.
- **Methodology:** Mold preventive management and crisis management with a common language, using universal tools and methodologies for all AC directions, areas, and business units in risk management.
- **Mitigation:** Shift from reporting risks to specific, high-impact actions that mitigate different scenarios in the short, medium, and long term

- 2. Integration:** The vast majority of threats and/or risks to the business can be associated with a specific area or direction, the damages or affectations of the same if it materializes go beyond that area, that is why the importance when defining the risks, during their analysis, mitigation or during a crisis to carry it out in an integrated way with those areas, positions or business units that may be affected or that can support their mitigation.
- 3. Digitalization:** Risks and/or threats are present in all corners inside and outside the organization; a fundamental part of capacity building is to incorporate digital systems and tools that allow us to map risks, their mitigation plans, and crisis management in a more dynamic way.
- 4. Training:** Understanding the taxonomy of risks, how they can impact other areas, and this in turn the reputation or value to the business; as well as adequate crisis management are fundamental in the development of risk management capabilities.

- 5. Results:** the ultimate goal is to prevent risks from materializing, so the generation of value in terms of reputation and business protection must be present in all the projects and processes we develop.

As part of the efforts to transform risk management in our business, we have developed e-learning aimed at key personnel throughout the organization, including managers, managers, and directors (executive and functional) to sensitize and raise awareness about the internal and external risks to which we are exposed, as well as the importance of early mitigation. This training, given to more than 10 thousand employees, lasts 30 minutes and shows the standard risk analysis and management tools that we use at Arca Continental.

To find out the number of employees who have received Enterprise Risk Management (ERM) training, please refer to the **Risk Management section** of the annexes to our integrated annual report.

### **Risks identified**

Following our taxonomy and the methodology shown above, we have carried out sensitivity analyses and stress tests in the different units of our business to determine the risks to which we are exposed. The following table shows some of the main risks we face, their potential impacts, as well as the actions we have implemented to mitigate them.

Taxonomy	Risk	Potential impacts	Mitigation actions
Compliance	<b>Business risks</b> Global economic conditions, financial market volatility, and other conditions that may affect the competitiveness of the business.	<ul style="list-style-type: none"> <li>- Decreased business profitability</li> <li>- Unreliable Financial Information</li> <li>- Instability in corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>- Constant monitoring of macroeconomic conditions</li> <li>- Communication with authorities and stakeholders</li> <li>- Predictive risk management system to determine mitigation measures in advance</li> </ul>
Local	<b>Occupational hazards</b> The risks inherent to the functions performed by our employees, as well as the expectations on their part, could affect our ability to operate.	<ul style="list-style-type: none"> <li>- On-site employee accidents</li> <li>- Unscheduled strikes and stoppages in production centers</li> <li>- Loss of <i>know-how</i> due to resignations.</li> <li>- Low productivity.</li> <li>- Damage to the company's reputation</li> </ul>	<ul style="list-style-type: none"> <li>- Ensuring safe working conditions for our employees</li> <li>- Attention to the needs and expectations of our employees and stakeholders</li> <li>- Alignment of the organizational culture with the employee's purpose and expectations</li> </ul>
Circumstantial	<b>Climate change</b> Risks associated with the physical dangers of climate change induced by global	<ul style="list-style-type: none"> <li>- Damage to our own and our suppliers' physical infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>- Monitoring of climate risks as part of the comprehensive risk management system</li> </ul>

	warming and risks associated with the transition to a low-carbon economy.	<ul style="list-style-type: none"> <li>- Supply chain disruption</li> <li>- Increase in future environmental regulation</li> <li>- Changing consumer patterns</li> <li>- Increment</li> </ul>	<ul style="list-style-type: none"> <li>- Implementation of TCFD recommendations</li> <li>- Employee training</li> <li>- Development of goals to reduce carbon footprint and environmental impact</li> <li>- Linking the achievement of climate and environmental goals to executive compensation</li> <li>- Collaboration with civil society</li> </ul>
<b>Transformational</b>	<b>Water risks</b> The potential impacts on the business associated with the availability of water, the regulations for its use, as well as the potential conflicts with communities that depend on the basins from which we obtain this resource.	<ul style="list-style-type: none"> <li>- Water shortages for production processes</li> <li>- Conflicts with communities</li> <li>- Pressure from NGOs</li> <li>- Change in water price structure</li> <li>- Change in the current regulation</li> </ul>	<ul style="list-style-type: none"> <li>- Aquifer replenishment</li> <li>- Rainwater harvesting systems</li> <li>- Adopting Nature-Based Solutions for Water Use Efficiency</li> <li>- Reducing the water footprint of our products</li> <li>- Collaboration with civil society</li> </ul>
	<b>Packaging and waste risks</b> Risks related to the improper disposal of our waste, in addition to the improper collection of material for recycling.	<ul style="list-style-type: none"> <li>- Fines for improper disposal of waste</li> <li>- Impediment to achieving sustainable packaging and recycling goals</li> <li>- Insufficient supply of packaging material</li> </ul>	<ul style="list-style-type: none"> <li>- Development of a comprehensive waste management system</li> <li>- Investment in research and design of new packaging</li> <li>- Investment in PETSTAR to increase plastics recycling capacity</li> <li>- Linking the achievement of circular economy goals to executive compensation</li> <li>- Collaboration with civil society and local governments to promote the circular economy</li> </ul>
<b>Transformational (Emerging)</b>	<b>Cybersecurity</b> Impacts related to the theft of digital information that could compromise the security of the company and third parties.	<ul style="list-style-type: none"> <li>- Ransomware attacks</li> <li>- Information theft</li> <li>- Compromised safety of employees and business partners</li> </ul>	<ul style="list-style-type: none"> <li>- Investment in technological and cybersecurity infrastructure</li> <li>- Monitoring of system violations and anomalies</li> <li>- Investment in systems that help improve responsiveness and resilience to cyberattacks</li> <li>- Employee training</li> </ul>

	<b>Supply and supply chain</b> Risks related to the shortage of critical materials for production processes and the disruption of logistics systems.	<ul style="list-style-type: none"> <li>- Shortage of raw materials</li> <li>- Disruption of transport routes</li> <li>- Price increase and cost structure</li> </ul>	<ul style="list-style-type: none"> <li>- Monitoring of physical risks of climate change</li> <li>- Collaboration with suppliers and business partners</li> <li>- Investment in innovation and process optimization</li> </ul>
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Through the process of sensitivity analysis and stress testing, the risk level of the above impacts has been calculated as shown below.

### **ESG risks in critical suppliers**

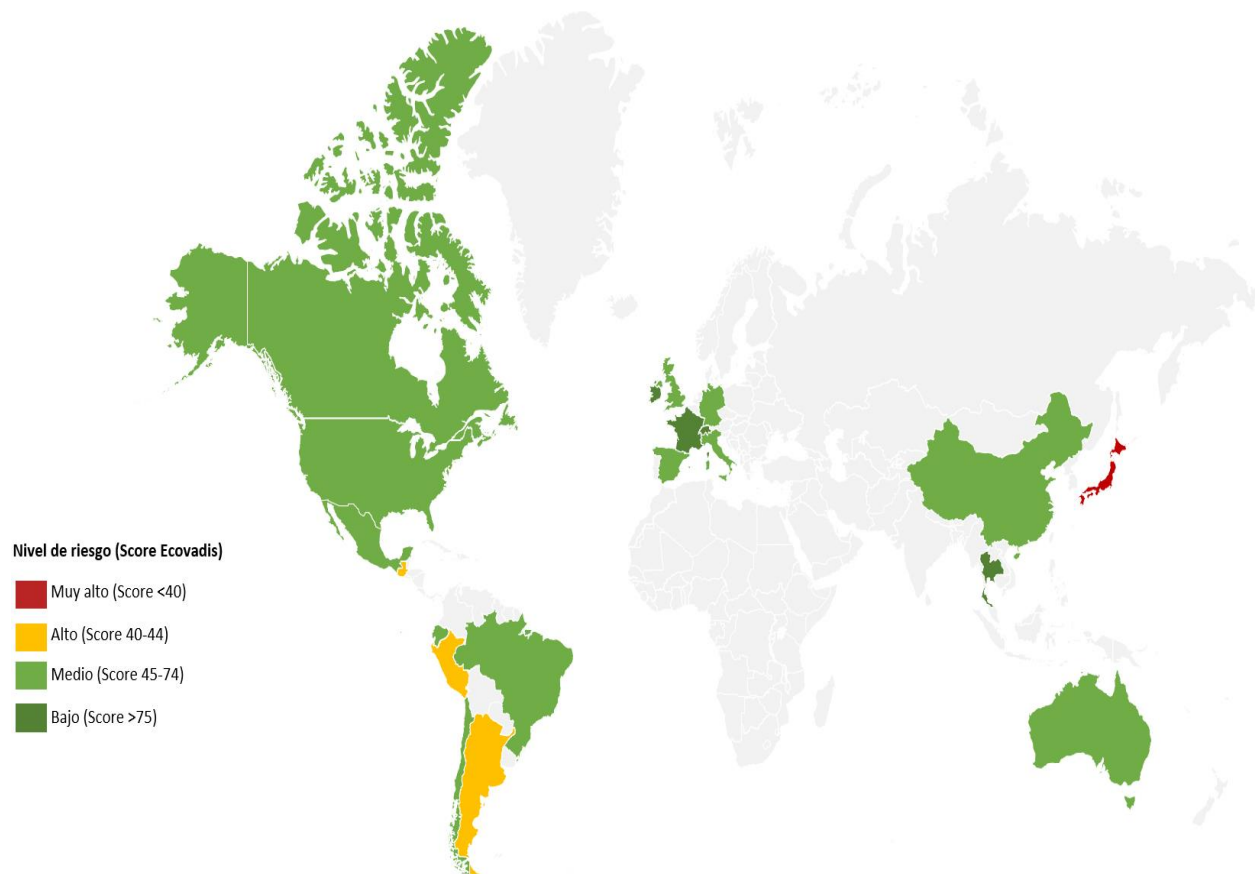
In 2021, we began evaluating the sustainability performance of our critical suppliers, which account for the top 80% of global spending for our highest-priority ingredients by volume.

The sustainability performance assessments of our critical suppliers allow us to identify risks in our supply chain and develop corrective plans for those suppliers that present a high level of risk in any of the topics shown in the table below.

<b>Environment</b>	<b>Labor practices and human rights</b>	<b>Business ethics</b>	<b>Sustainable Supply</b>
<i>Operations</i> <ul style="list-style-type: none"> <li>• Energy and GHG consumption</li> <li>• Water</li> <li>• Biodiversity</li> <li>• Local and accidental contamination</li> <li>• Materials, chemicals, and waste</li> </ul>	<i>Human resources</i> <ul style="list-style-type: none"> <li>• Employee Health and Safety</li> <li>• Working conditions</li> <li>• Social dialogue</li> <li>• Race and training management</li> </ul> <i>Human rights</i> <ul style="list-style-type: none"> <li>• Child labor, forced labor and human trafficking</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption</li> <li>• Anti-competitive practices</li> <li>• Responsible information management</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier Environmental Practices</li> <li>• Supplier Social Practices</li> </ul>
<i>Products</i> <ul style="list-style-type: none"> <li>• Product Usage</li> <li>• End of product life</li> <li>• Consumer Health and Safety</li> <li>• Environmental services and actions to promote environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Diversity, discrimination, and harassment</li> <li>• Human Rights of External Interest Groups</li> </ul>		

To date, **we have assessed the sustainability risks of 43% of our critical suppliers.** Below, we show the dispersion of ESG risks across our suppliers globally.

## Mapping the level of ESG risk present in critical suppliers



### Water risks

Since water is vital to our operations, significant efforts have been made to understand the sources of risk that could impede the supply of this resource. Some of the potential business impacts associated with water are as follows.

- **Social pressure NGOs, community or neighbors:** Closure of facilities, removal of operating permits, impact on local sales, reputation.
- **Modification of the legal framework of water:** Closure of facilities, removal of permits, impact on sales, profitability.
- **Climate change, drought due to water stress:** Lack of water supply, reduction of capacity and sales, social pressure, reputation.
- **Lack of water availability:** Reduction of the municipal network, downed wells, lack of water supply, reduction in capacity, permits for new wells, impact on sales, social pressure, and reputation.
- **Exceeding the permitting capacity of wells:** Possibility of removing the permit, fines.



For this reason, a mapping of water risks has begun according to the regions in which we operate and multiple initiatives have been developed to guarantee the supply of water in the future. At the moment, geographic information on our operations in Mexico is available, which is shown below.



For more information on how we manage climate and water risks, you can consult our TCFD Report and our Integrated Annual Report. In the next editions of these reports, we plan to provide greater visibility on climate and water risks in the rest of the countries in which we operate.

## Risk culture

At Arca Continental, we consider improving business reputation and business growth through risk management, sustainability, and public affairs initiatives a strategic priority.

For this reason, our directors and managers have financial incentives linked to effective risk management. Below, we show the metrics linked to the variable compensation of our employees.

Taxonomy	Risk	Metric	Organization level with applicable metrics		
			Directors	Managers	Headquarters
Transformational	Health and Safety	LTIR	X	X	X
		Fatalities		X	X
		Vehicle accidents			X
	Product Quality	Process control variance		X	X
		Product shrinkage		X	X



		External quality complaints		x	x
	Cybersecurity	No incidents	x	x	x
		The number of attacks contained	x	x	x
		Preventive training		x	x
	Supply chain	Line Utilization	x	x	x
		Raw material shrinkage	x	x	x
		Inventory level		x	x
	Service Model	Fill rate	x	x	x
		Sales volume in channels	x	x	x
	Labor	Rotation	x	x	x
		Days Lost to Illness		x	x
	Water	Liter of water/ Liter of drink	x	x	x
		WUR	x	x	x
	Waste	Emissions into the atmosphere			x
		Number of Waste			x
Short-term	Reputation	Communication indicator		x	x
	Tariffs	No. of applicable reforms	x	x	
	Materialized risks	IMCR		x	
		Effectiveness of the response		x	
		Materialized Impact Cost		x	
Compliance	Permits and licenses	No expired permits		x	
		Validity of permits		x	
	Compliance	Mailboxes	x	x	
		Policies	x	x	

At Arca Continental, we align risk management with our strategic objectives through a continuous improvement approach. This approach allows our employees to analyze, detect, and address areas for improvement at different stages of our processes and throughout our supply chain.

Through our continuous improvement program, we strive to train our employees in the countries where we have a presence so that they can suggest improvements in different aspects such as productivity, costs, expenses, safety, quality, and other indicators. We also focus on 4 specific pillars:

1. Measures for Proactive Risk Identification
2. Continuous improvement measures in risk management
3. Inclusion of risk criteria in product development
4. Innovation in risk management

The continuous improvement program for the alignment of risk management with strategic objectives follows a process of constant communication, design, testing, and implementation of innovations, as described in the figure below.



This model allows us to have an analytical predictive management of risks, with an integrated vision of the ecosystems of our business, and a systemic and methodological approach for preventive risk mitigation. In this way, we preserve and generate value over time.