

alfa

ESG BOOKLET
2022

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INTRODUCTION

This ESG Booklet 2022 serves as a valuable resource providing additional insights into ALFA's ESG (Environmental, Social, and Governance) performance for the year 2022. It is imperative to carefully review this document in conjunction with the Annual Report 2022, as the Booklet serves as a supplement and does not substitute the comprehensive information presented in the Annual Report. By examining both resources, stakeholders can gain a holistic understanding of ALFA's ESG initiatives and achievements during the specified period.

GOVERNANCE

CSA 1.2 Corporate Governance

CSA 1.2.1 Board independence statement.

ALFA seeks to ensure that decisions to achieve the Company's strategy adhere to the highest standards of integrity, transparency, and value creation. ALFA's statutes are in line with the guidelines of the Mexican Stock Exchange Law and adheres to the Code of Principles and Best Practices of Corporate Governance (CMPC), which has been in force in Mexico since 2000. Companies whose stocks trade on the Mexican Stock Exchange must disclose the extent to which they adhere to the Code of Principles and Best Corporate Governance Practices. This is done annually by responding to a questionnaire, which is available to the public through the Mexican Stock Exchange's website. The definition of independence is clearly stated in this Law, in its Article 26:

Article 26. - Independent directors and, as the case may be, their corresponding alternates, shall be chosen on the basis of their experience, capability and professional prestige, taking into consideration also that in the light of their qualities, they shall be able to perform their duties free from any conflicts of interest and without being subject to personal, patrimonial or economical interests.

The general shareholders' meeting, where the members of the board of directors are appointed or ratified or, as the case may be, where such appointments or ratifications are reported shall qualify the independence of its directors. Notwithstanding the foregoing, the following individuals shall never be appointed or act as independent directors:

- I. The relevant executive officers or employees of the company or the legal entities composing the corporate group or consortium to which such company may belong, as well as the examiners of the latter. The aforementioned limitation shall be applicable to those individuals that shall have occupied such positions during a period of twelve months immediately before the date of appointment.
- II. Any individuals who have significant influence or decision-making power on the company or in any of the legal entities composing the corporate group or consortium to which such company belongs.
- III. The shareholders who are part of the group of individuals or legal entities holding a controlling interest in the company.

- IV. The customers, service providers, suppliers, debtors, creditors, partners, directors or employees of a company that is an important customer, service provider, supplier, debtor or creditor. It is considered that a customer, service provider or supplier is important, when the sales of the company represent more than ten percent of the total sales of the customer, of the service provider or of the supplier, during a twelve-month period preceding the date of the appointment. Likewise, it is considered that a debtor or creditor is important, when the amount of the credit is greater than fifteen percent of the assets of the same company or of its counterparty.
- V. Those who are related by blood, marriage or civil kinship up to the fourth degree, as well as the spouses, the concubine and the male concubine, of any of the individuals mentioned in subsections I to IV of this article.

Any independent directors who during their office cease to meet such qualifications, shall inform such situation to the board of directors no later than on the next meeting of such body. The Commission, upon having granted previously the right to be heard to the company and to the relevant officer and with the agreement from its Board of Governors, may object to the qualification of independence of the members of the board of directors, whenever there are elements that evidence lack of independence under the provisions of sections I to V of this article, in which case they shall be deprived of the aforementioned qualification. The Commission shall have a term of thirty-business day from the notice date made for such purpose by the public corporation as set forth in applicable provisions, to object, as the case may be, the independence of the relevant director; once such term has elapsed without the Commission having rendered its opinion, it shall be understood that no objection whatsoever exists. The foregoing, notwithstanding that the Commission may object such independence, when it is detected afterwards, that during the performance in office of any director he falls in any of the causes to which this article refers.

CSA 1.2.6 Board Effectiveness.

Regular self-assessment of Board performance:

This is published in the **Code of Best Corporate Practices** of the Mexican Stock Exchange in Spanish. Here is the translation:

Section 7.5 Responsibilities of Directors.	
40. Is each director provided with the necessary information regarding the obligations, responsibilities and powers implied by being a member of the company's Board of Directors? (Best Practice 23)	YES
41. Do the directors notify the Chairman and the other members of the Board of Directors of any situation in which there is or could lead to a conflict of interest, refraining from participating in the corresponding deliberation? (Best Practice 24)	YES
42. Do the directors use the assets or services of the company only for the fulfillment of the corporate purpose? (Best Practice 24)	YES
43. In your case, are clear policies defined that allow, in exceptional cases, to use said assets for personal matters? (Best Practice 24)	NO

44. Do the directors devote the necessary time and attention to their duties, attending at least 70 percent of the meetings to which they are called? (Best Practice 24)	YES
45. Is there any mechanism that ensures that the directors maintain absolute confidentiality regarding all the information they receive for the performance of their duties and, in particular, regarding their own participation and that of other directors, in the deliberations that are carried out? in the sessions of the Board of Directors? (Best Practice 24)	YES
46. If the answer to the previous question is affirmative, explain the mechanism:	
a) Confidentiality agreement.	
b) Exercise of fiduciary duties	X
c) Others (please explain):	
AS PART OF THE DIRECTOR SELECTION MECHANISM, THE ISSUER EVALUATES THE PROFESSIONAL AND MORAL QUALITY OF THE CANDIDATES, ONCE ELECTED, IT MAKES SURE THAT THE DIRECTORS ARE PERFECTLY AWARE OF THEIR LEGAL RESPONSIBILITIES, INCLUDING THOSE RELATING TO THE USE OF CONFIDENTIAL INFORMATION DISCUSSED IN THE MEETINGS OF THE COUNCIL. IN ADDITION, THE DIRECTORS WHO MAY HAVE AN ACTUAL OR POTENTIAL CONFLICT OF INTEREST, REFRAIN FROM PARTICIPATING IN THE RESPECTIVE DELIBERATIONS AND THEIR ACCESS TO INFORMATION RELATED TO THE PARTICULAR MATTER IS EXCLUDED.	
47. Do the regular directors and, if applicable, their respective alternates, keep each other informed about the matters dealt with at the meetings of the Board of Directors that they attend? (Best Practice 24)	YES
48. Do the proprietary directors and, if applicable, their respective alternates, support the Board of Directors with opinions and recommendations derived from the analysis of the company's performance; so that the decisions made are are duly supported? (Best Practice 24)	YES
49. Is there a mechanism for evaluating the performance and compliance with the responsibilities and fiduciary duties of the directors? (Best Practice 24)	YES

Best practice 24 on page 8 of the **Code of Best Corporate Practices**:

24. Indicate which intermediate body performs each of the following functions:	
b) Evaluation and Compensation.	
THE INTERMEDIATE BODY IN CHARGE OF THE EVALUATION AND COMPENSATION FUNCTIONS IS IN CHARGE OF THE CORPORATE PRACTICES COMMITTEE, AMONG OTHER FUNCTIONS, THIS COMMITTEE IS IN CHARGE OF THE EVALUATION OF PERFORMANCE AND THE DETERMINATION OF COMPENSATION IN GENERAL, AS WELL AS OF THE KEY EXECUTIVES, INCLUDING THAT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THAT OF THE GENERAL MANAGER, AS WELL AS THE APPROVAL OF APPOINTMENTS OF DIRECTORS THAT REPORT TO THEM.	

CSA 1.2.7 Board Average Tenure

The average tenure ALFA’s Board Members by the end of 2022 was 13.32 years.

CSA 1.2.13 Government ownership

To the best of ALFA’s knowledge, no government agency or institution own more than 5% of voting rights.

MATERIALITY

CSA 1.3.3 Materiality metrics for Enterprise Value Creation

	Material Issue 1	Material Issue 2	Material Issue 3
Name of the issue			
Target or metric	For ALFA and its Business Units to operate within the first occupational safety performance quartile.	<p>ALFA’s target by 2022 was to have its two main Business Units’ emissions reduction targets approved by the SBTi.</p> <p>SIGMA: Reduction of 9.8% of S3 by 2027, and 20% of S1 and S2 by 2027 (2019 baseline).</p> <p>ALPEK: Reduce 27.5% of Scope 1 and 2 emissions by 2030 and 13.5% for Scope 3 (both 2019 baseline).</p> <p>The SBTi has approved these targets.</p>	<p>ALPEK: PET: Increase its PET bottle recycling capacity to 300 thousand metric tons per year by 2025 to meet its customers’ recycled content needs.</p> <p>SIGMA: Create packaging solutions that move the Company toward a circular economy.</p>
Target year	2025	<p>ALFA: 2023</p> <p>SIGMA: 2027</p> <p>ALPEK: 2030</p>	2025

Progress 2022	<p>SIGMA: 43% reduction in accident rate vs. 2018 baseline.</p>	<p>SIGMA: 18%+ reduction of its emissions vs 2015.</p>	<p>ALPEK:</p> <ul style="list-style-type: none"> Thanks to the acquisition of OCTAL, Alpek will be able to recycle 33,000 tons of PET sheets of high post-industrial value. Added 15,000 tons of conversion capacity from PET recycling to single pellets at the Pearl River plant. Alpek joined Cyclyx, seeking to improve logistics to find postconsumer EPS in suitable conditions that facilitate its recycling.
	<p>ALPEK: reduced its TRIR by 5% vs 2021.</p>	<p>ALPEK: During 2022, Alpek achieved a cumulative Scope 1 and 2 emissions** reductions equivalent to 19% against its 2019 SBTi baseline.</p>	<p>SIGMA: Avoided consumption of 1,300+ tons of virgin plastic during 2022; 7,800+ tons vs. 2019 baseline.</p>
	<p>These results reflected a reduction in ALFA's overall accident rate from 233.7 in 2021, to 205.5 in 2022.</p>		

RISK AND CRISIS MANAGEMENT

1.4.2 Risk Management Processes

Risk identification and management processes, including those that cover ESG risks, are carried out at each Business Unit so that proposed initiatives and strategies are optimized considering their sectors and operations. This information is integrated into the ALFA process and reported to the Board of Directors' Audit Committee, which monitors progress and performance in the main risks' management. Each risk's nature, likelihood, and impact determine the strategy and specific work plan, as well as the times required and persons responsible for its handling. ALFA's Internal Audit area evaluates control processes, corporate governance, and risk management from a systemic approach that generates benefits such as:

- Greater possibility of achieving strategic and business objectives.
- Supporting more effective decision-making by understanding the risk exposures involved.
- Creating an environment that enables the Company to meet its stakeholders' performance expectations.

- Safeguarding the Company's human, physical, and reputational resources.
- Comply with legal and regulatory requirements.

In 2022, Internal Audit integrated ESG issues into its work plan, which was presented to the Audit Committee of the Board with information on:

- Identification of background, status, and goal identification for each Business's sustainability issues. Advice from specialists on best practices in corporate governance, internal controls, progress and objective verification, and validation of the reasonableness of the reported information.
- Incorporation of ESG risks into the Internal Audit program.

Four steps are considered in the integration of risk reports:



ESG risks in the processes and reported to the Mexican Stock Exchange* include:

- Natural disasters, terrorist activities, episodes of violence and other geopolitical events and their consequences could adversely affect ALFA's business, financial condition, operating, and prospects.
- The cleanest or most renewable energy supply in some of the countries where its Business Units operate.
- Water supply in areas of water stress in Mexico and other regions.
- Any loss of personal password could adversely affect the business.
- Any deterioration in labor relations with employees.

*Annual Report available at (Spanish only):

<https://www.alfa.com.mx/wp-content/uploads/2023/05/infoanual2022.pdf>

1.4.3 Emerging risks

These factors and uncertainties are not the only ones that the Company faces and others that the Company is unaware of or that it currently considers to be of little importance could also affect its operations and activities. The materialization of any of the risks described below could have a significant adverse effect on the Company's operations, financial situation or results of operations. ALFA's more relevant emerging risks are the ones identified by its two main Business Units, ALPEK and SIGMA, which represent 97% of total ALFA's revenues.

	Emerging risk 1	Emerging risk 2
Name of the emerging risk	<p>ALPEK: Raw materials supply due to Ukraine-Russia conflict.</p> <p>SIGMA: Cybersecurity.</p>	<p>ALPEK: Emerging environmental taxes in México.</p> <p>SIGMA: New environmental regulations.</p>
Category	Other	Environmental
Description	<p>ALPEK: RAW MATERIALS SUPPLY DUE TO UKRAINE-RUSSIA CONFLICT: Due to the restrictions established by the European Union (EU) across Eastern Europe, there has been impacts in the purchase, import and transfer of Russian natural gas, petroleum and its derivative products. As a consequence, the supply of these products and materials are now being fulfilled, mostly, by American suppliers.</p> <p>SIGMA: Cybersecurity has become an emerging risk due to all technological advances and the possibility of not being able to respond to cyberattacks or threats.</p>	<p>ALPEK: EMERGING ENVIRONMENTAL TAXES IN MEXICO: Since 2021, entities in Mexico started establishing environmental taxes in regards of gas emissions to the atmosphere, stone material extraction, water pollution, among others. Nowadays, 12 of the 32 federal entities in Mexico have implemented environmental taxes in their state. Currently, 3 of Alpek's Mexican facility sites are located on states with these tax initiatives, amounting to a cost risk for each metric ton of CO₂e emitted in these sites.</p> <p>SIGMA: Possibility of not being able to comply with new environmental regulations.</p>
Impact	<p>ALPEK: If the ban of russian gasoline on the EU persists, or if any additional countries join to this ban, it may have a potential impact in the long term to Alpek's availability of raw material, and production of Alpek's product portfolio could be limited, since most of Alpek's supply comes mostly from American suppliers.</p>	<p>ALPEK: Currently, 3 of Alpek's Mexican facility sites are located on states with these tax initiatives, amounting to a cost risk for each metric ton of CO₂e emitted in these sites.</p> <p>SIGMA: Increased costs to comply with new environmental regulations;</p>

	<p>Therefore, costs of petrochemical raw materials may increase in America and result on negative effects on its operating costs and overall competitiveness.</p> <p>SIGMA: Affectations to operations due to cyberattacks.</p>	<p>affectations on credit ratings, etc.</p>
<p>Mitigating actions</p>	<p>ALPEK: In order to manage this emerging risk, Alpek has started implementing actions as a response to possible future impacts of this event, such as, optimizing the portfolio by reducing the purchase of raw materials from North America and increasing the imports of Asian raw materials. However, long term, Alpek’s strategy consist in establishing strategic alliances with key producers, improve logistics practices to increase the storing capacity, as well as, expanding transportation routes. In addition, there is a weekly monitoring of indicators such as, opportunity cost of raw materials, gasoline inventories, Asian and American raw materials market prices, etc. in order to estimate tendencies of these indicators, be aware of the current and upcoming behavior of them and adapt a short-term strategy.</p>	<p>ALPEK: To help mitigate these risks, the company has developed a carbon reduction target, in line with the SBT initiative, and is currently working to reduce its CO2e emissions and limit its environmental impact. As a consequence, Alpek is expecting to curve any potential expenses due to the emission taxes. In addition, these sites have reinforced their environmental audits and their periodic rutinary revisions in order to identify potential improvements on the site’s environmental performance, as well as, guarantee the fulfillment of other environmental regulations and avoid fines and production disruptions.</p> <p>SIGMA: Work together with suppliers to assess our environmental impact and find new opportunities for collaboration. Continue to pursue environmental investments to meet or even exceed applicable regulations.</p>

SIGMA: Continuous training and keep updating its security tools.

SIGMA



Emerging risks management

2-12

We actively manage our exposure to major risks, provide recurring reviews, and take timely actions to mitigate them. Some of the **emergent risks** we have identified include:

Risk	Category	Probability	Potential impact	Mitigation actions
Cyberattacks	Technological	High	High	Continuous training and keep updating our security tools.
New environmental regulations	Legal	High	Medium	Work together with suppliers to assess our environmental impact and find new opportunities for collaboration. Continue to pursue environmental investments to meet or even exceed applicable regulations.

Risk oversight at the ALFA Board of Directors level

At ALFA, every subsidiary is responsible for identifying and managing risks, including ESG risks. This enables the company to ensure that the initiatives and mitigation strategies are optimized depending on the sector. Afterwards, ALFA consolidates the information for each Business Unit and communicates it to the Audit Committee of the ALFA Board of Directors for follow-up. Since 2021, the Audit Committee of ALFA’s Board of Directors includes ESG risks assessment in their regular meetings.

Sigma 2022 Sustainability Report, page 66:

<https://sustainability.sigma-alimentos.com/wp-content/uploads/2023/07/Sigma-Sustainability-Report-2022.pdf>

ALPEK

Risk ID	Risk	Risk Description
R1	Dependence on Mexico's raw material supply	Mexico's production decrease impacts the availability of raw material of some of Alpek's production processes.
R2	Raw materials and supplies shortage	Lack of availability of raw materials, utilities, and other supplies.
R3	Cyberattack	Business disruption due to cybercrimes such as loss of privacy, data theft and fraud, etc.
R4	Laws and stakeholder pressure due to plastic pollution	Institutions establishing policies to minimize plastic usage due to the environmental impact of the product.
R5	Business competitiveness against Asian market prices	Asian petrochemical products and raw materials with lower pricing.
R6	Business competitiveness against new Polypropylene plants	More competitors on the Polypropylene market.
R7	Petroleum pricing variation	Volatile prices of petroleum and its derivatives which are the main raw materials.
R8	Delays on permits of raw material imports	Delayed permits process with Custom Authorities for raw material importing.
R9	Pollution in raw material tanks	Possible accidents due to interaction between other substances and hazardous chemicals.
R10	Crucial industrial accident due to raw material handling	Some of the raw materials consists of hazardous chemicals, therefore the improper manipulation of them might result on fires, explosions, etc.

The risk heat map aligned to the COSO Framework shows Alpek's prioritization of the risks reported by the business units.

		IMPACT			
		Low	Moderate	High	Very High
LIKELIHOOD	Virtually Certain		R1, R4, R5		R6
	Likely			R7	R3, R2
	Rarely			R9	
	Unlikely			R8	R10

Alpek ESG Booklet, page 16:

<https://www.alpek.com/wp-content/uploads/2023/06/Alpek-ESG-Booklet-2022.pdf>

SOCIAL

3.1.5 Freedom of association

The percentage of employees represented by an independent trade union or covered by collective bargaining agreements was 26.8% in 2022.

3.2.1 Human rights commitment

ALFA has been a signatory of the UN Global Compact since 2006 and reinforces its commitment to Human Rights respect and safeguarding every year by reiterating the complying with its ten principles. It has also developed several policies and controls that allow the Company to fulfill this commitment. Through its Policy of Behavior Guidelines, Code of Ethics, and the compliance with the Psychosocial Risks Norm (NOM035), ALFA commits and ensures to respect and safeguard its employees and communities' human rights.

Statement of continued support by the Chief Executive Officer
(CEO; Owner or President in the case of small businesses)

05/31/2022

To our stakeholders:

I am pleased to confirm that ALFA S.A.B. de C.V. reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

In this annual Communication on Progress, we disclose our continuous efforts to integrate the Ten Principles into our business strategy, culture and daily operations, and contribute to United Nations goals, particularly the Sustainable Development Goals.

Sincerely yours,

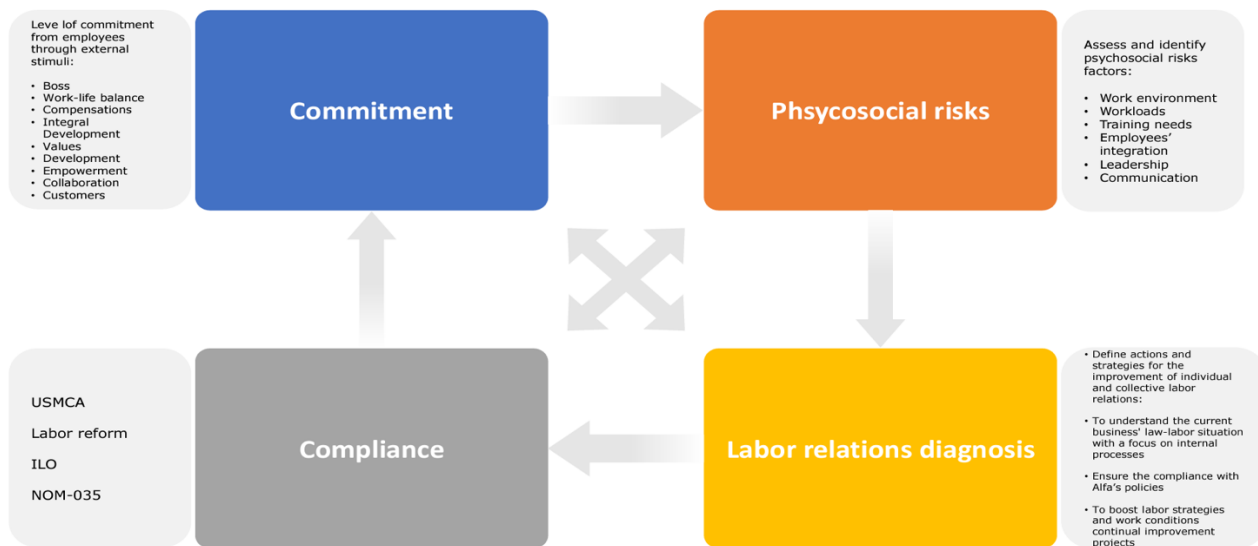
CEO's / Highest executive name: Álvaro Fernández

CEO's / Highest executive full title: President

Company Name: ALFA S.A.B. de C.V.

3.2.2 Human Rights Due Diligence Process

ALFA has a diagnostic system for labor practices called Cross Analysis that integrates **four lines** of evaluation:



Cross Analysis

1. Employee commitment

Degree of commitment of the collaborators with the Company through external stimuli.

- It is done through a virtual tool that includes questions with open and closed answers.
- Presents results graphically to identify areas of opportunity in each stimulus.

2. Psychosocial risks (NOM035)

Psychosocial risk factors are those characteristics of working conditions that affect people's health through psychological and physiological mechanisms called stress.

- **Objective** is to establish the elements to identify, analyze and prevent psychosocial risk factors, as well as to promote a favorable organizational environment in the workplace.
- **Field of application:** The entire national territory and applies to all work centers.

3. Diagnosis of labor relations

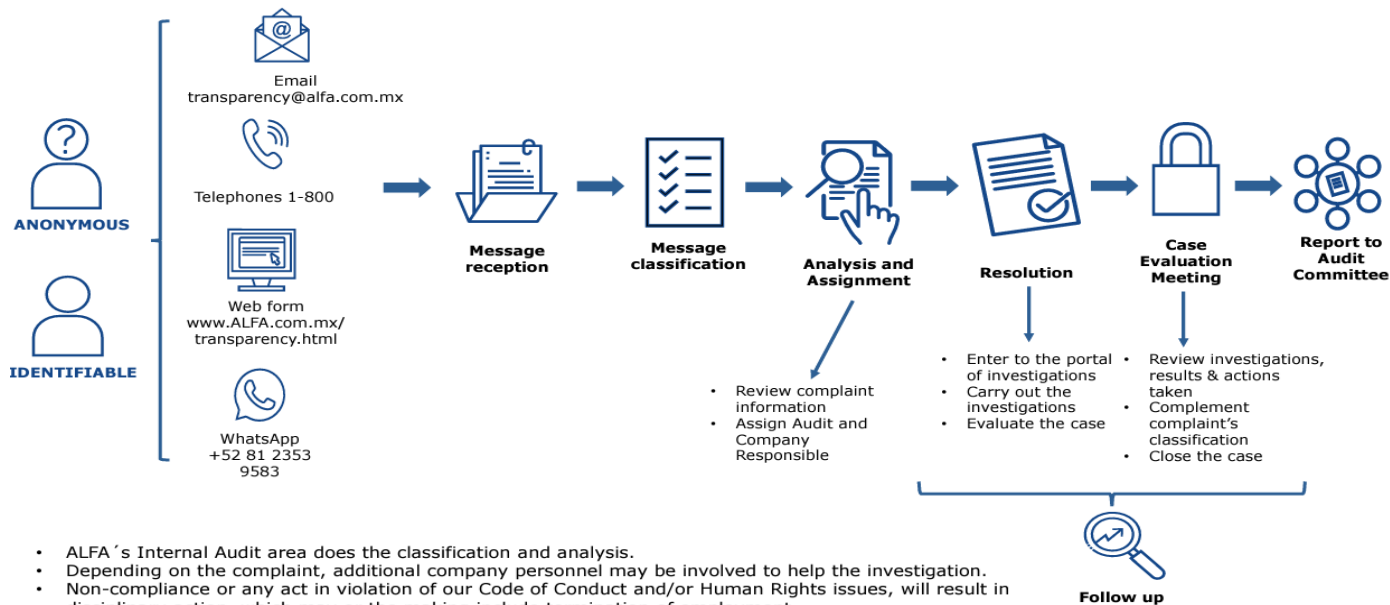
Defines actions and improvement strategies for individual, collective and environmental labor relations.

- **Objective:** Carry out labor legal compliance reviews of group companies and tertiary providers of key services for the operation of the Business.
- **Identify:**
 - Bad practices, areas of opportunity and strengths in the practices and structures of the companies.
 - Risks for joint and several liability in labor breaches that could have impacts from sentences as co-defendants in individual, collective, PTU lawsuits, tax deductibility, fines, product embargo, loss of preferential Export tariff and, above all, the Company's reputation.
 - Methodology:
 - Face-to-face or virtual sessions for interviews with those responsible for the corresponding areas.
 - Request for documents as evidence for analysis.
 - Elaboration of results.
 - Monitoring of action plans.

4. Law enforcement (Compliance) Methodology:

- Face-to-face or virtual sessions for interviews with those responsible for the corresponding areas.
- Request for documents as evidence for analysis.
- Elaboration of results.
- Monitoring of action plans.

For the timely detection, investigation and resolution of any case of non-compliance with these guidelines, the Company has a Transparency Helpline, through which internal and external complaints are received in a personal capacity or anonymously. The mailbox operates 24 hours a day, 365 days a year and is available via a website, e-mail, and 1-800 phone number in all countries where ALFA operates.



- ALFA’s Internal Audit area does the classification and analysis.
- Depending on the complaint, additional company personnel may be involved to help the investigation.
- Non-compliance or any act in violation of our Code of Conduct and/or Human Rights issues, will result in disciplinary action, which may or the making include termination of employment.

3.2.3 Human rights assessment

ALFA Policy Highlights

- We listen to complaints from all stakeholders.
- ALFA is committed to processing them with transparency, fairness, keeping information confidential and protecting the whistleblower.
- Complaints can be submitted by email, website, WhatsApp, and phone helplines.
- There is a minimum of information required for the complaint to be processed:
 - Name or anonymous
 - Person and company that is being reported
 - Date of the complaint
 - Details of the complaint
 - The companies will protect the identities of the participants and will hold and manage them confidentially.

All our companies are supported by the ALFA Integrity and Transparency Helpline

- ALFA’s Internal Audit department manages the Integrity and Transparency Helpline, as they have the proper operational processes and infrastructure required for its functioning.
- All complaints are monitored until their conclusion.
- It offers free and accessible multilingual communication channels to file complaints.
 - 1-800 Phone available in 31 countries
 - Emails received in any language
 - Website <http://www.alfa.com.mx/transparency.html> and <http://www.alpek.com/transparency-mailbox.html>
 - WhatsApp in various countries
- Integrity and Transparency Helpline communication and presence:
 - Internet: Websites of ALFA & subsidiaries
 - Pocket Calendars and Posters
 - Business documents: orders, requests, invoices, etc.
 - Annual company campaigns: Screensavers, mailing, videos, posters.