

Second-Party Opinion

Arcos Dorados Sustainability-Linked Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the Arcos Dorados Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2021. This assessment is based on the following:

- Selection of Key Performance Indicators (KPIs)** Arcos Dorados Sustainability-Linked Financing Framework includes two KPIs: KPI 1 absolute GHG emissions reduction (scopes 1 and 2 in tCO₂e) and KPI 2 GHG emissions intensity reduction (scope 3 in tCO₂e/ tonne of food and packaging) (see Table 1). Sustainalytics considers KPI 1 to be adequate given its limited scope of application (under 10% of total emissions), whereas KPI 2 is considered strong given its extensive scope of applicability (over 90% of total emissions). Furthermore, both KPIs are considered to be a measurement on a material issue.
- Calibration of Sustainability Performance Targets (SPTs)** Sustainalytics considers the SPTs to be aligned with the issuer's sustainability strategy. Sustainalytics further considers SPT 1 to be ambitious and SPT 2 to be moderately ambitious based on the lack of historical performance, alignment with industry peers, and where possible alignment with science-based targets.
- Security Characteristics** Arcos Dorados will link the financial characteristics of any security issued under the Sustainability-Linked Financing Framework ("Framework") to the achievement of the SPTs, namely a coupon step-up in case: (i) KPI 1 or KPI 2 has not been achieved by the observation date of the respective SPTs or (ii) the Company fails or is unable to provide satisfactory notification in accordance with the financial instrument's documentation.
- Reporting** Arcos Dorados commits to report on an annual basis on its progress on the KPIs in its corporate sustainability report or similar report on its website. Arcos Dorados commits to disclose relevant information that affect KPI performance. The reporting commitments are aligned with the SLBP.
- Verification** Arcos Dorados commits to have external limited assurance conducted against the performance of each SPT and for each KPI at least once a year and whenever relevant leading to a potential coupon adjustment, which is aligned with market expectations.

Evaluation Date	April 1, 2022
Issuer Location	Montevideo, Uruguay

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
Absolute GHG emissions scopes 1 and 2 (tCO ₂ e)	2021	SPT 1.1 Reduce absolute GHG emissions to be equal to or lower than 302,774 tCO ₂ e by year-end 2025 SPT 1.2 Reduce absolute GHG emissions to be equal to or lower than 284,963 tCO ₂ e by year-end 2026 SPT 1.3 Reduce absolute GHG emissions to be equal to or lower than 227,971 tCO ₂ e by year-end 2030	Adequate	Ambitious
GHG emissions intensity scope 3 (tCO ₂ e/ tonne of food and packaging)	2021	SPT 2.1 Reduce GHG emission intensity to be equal to or lower than 7.46 tCO ₂ e per tonne of food and packaging by year-end 2025 SPT 2.2 Reduce GHG emission intensity to be equal to or lower than 7.29 tCO ₂ e per tonne of food and packaging by year-end 2026	Strong	Moderately Ambitious

		SPT 2.3 Reduce GHG emission intensity to be equal to or lower than 5.72 tCO ₂ e per tonne of food and packaging by year-end 2030		
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Scope of Work and Limitations

Arcos Dorados Holdings Inc. has engaged Sustainalytics to review the Arcos Dorados Sustainability-Linked Financing Framework and provide an opinion on its alignment of the Framework with the Sustainability-Linked Bond Principles (SLBP)¹ and the Sustainability-Linked Loan Principles (SLLP).²

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent³ opinion on the alignment of the Framework with the SLBP, as administered by ICMA, and SLLP, as administered by LSTA.

As part of this engagement, Sustainalytics exchanges information with various members of Arcos Dorados Holdings Inc.'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 Framework. Arcos Dorados Holdings Inc.'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 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 Arcos Dorados Holdings Inc.. 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.⁴ The measurement and reporting of the KPIs is the responsibility of Arcos Dorados. 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 Arcos Dorados Holdings Inc. 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 benchmarks⁵ 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 SPTs or the materiality of the KPIs.

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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 The Sustainability-Linked Loan Principles (SLLP) were launched by LSTA in May 2021. They are administered by the LSTA and are available at: https://www.lma.eu.com/application/files/8416/2210/4806/Sustainability_Linked_Loan_Principles.pdf

³ 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.

⁴ Sustainalytics has provided an opinion based on the understanding that the financial characteristics of instruments issued under this Framework will be tied to the achievement of SPTs corresponding to each of the KPIs included in the Framework.

⁵ Benchmarks refers to science based benchmarks.

Introduction

Arcos Dorados Holdings Inc. (“Arcos Dorados”, “AD” or the “Company”) is an independent franchisee owner and operator of McDonald’s service restaurants in Latin America and the Caribbean. The Company owns, operates and grants more than 2,200 McDonald’s-branded restaurant franchises in 20 countries and territories in Latin America and the Caribbean, which together employ above 70,000 people.

Arcos Dorados intends to issue Sustainability-Linked Instruments (SLIs), namely sustainability-linked bonds and sustainability-linked loans, where the variable financial characteristics will be tied to the achievement of SPTs for KPIs as described in the documentation for the specific transaction.

Arcos Dorados has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the Framework with the SLBP and SLLP.

The KPI and SPTs used by Arcos Dorados are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Absolute GHG emissions scopes 1 and 2 (tCO ₂ e)	The KPI measures absolute GHG emissions as the total scope 1 and 2 emissions in tonnes of CO ₂ e per year. Scope 1 and 2 emissions are calculated according to the GHG Protocol Standard. ⁶
GHG emissions intensity scope 3 (tCO ₂ e/tonne of food and packaging)	KPI 2 accounts for GHG emissions intensity as annual scope 3 emissions (tCO ₂ e), divided by the total annual tonnes of food and packaging across Arcos Dorados operations. ⁷ Scope 3 emissions are calculated according to the GHG Protocol Standard. ⁸

Table 2: SPTs and Past Performance

KPI	2021 (baseline)	SPT 2025	SPT 2026	SPT 2030
Absolute GHG emissions scopes 1 and 2 (tCO ₂ e)	356,204	302,774	284,963	227,971
GHG emissions intensity scope 3 (tCO ₂ e/ tonne of food and packaging)	8.29	7.46	7.29	5.72

⁶ The GHG Protocol Corporate Standard defines scope 1 and scope 2 emissions as follows: “Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.” at: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

⁷ The KPI calculation applies to (i) 100% of the countries in which Arcos Dorados operates, (ii) the Company’s owned and operated restaurants, and (iii) only stores that are open and operational. As of 31 December 2021, Arcos Dorados counted a total of 1,579 operated stores.

⁸ The GHG Protocol Corporate Standard defines scope 3 emissions as all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. At: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Arcos Dorados Sustainability-Linked Financing Framework with the Sustainability-Linked Bond Principles

Sustainalytics is of the opinion that the Arcos Dorados Sustainability-Linked Financing Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP) and the Sustainability-Linked Loan Principles 2021 (SLLP).



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 environmental or social issues, and ii) to what portion of impact the KPI is applicable.

KPI 1: GHG emissions scopes 1 and 2 (tCO₂e)

Sustainalytics considers KPI 1: GHG emissions scopes 1 and 2, to be material and relevant given the following:

- i. Sustainalytics' ESG Risk Rating identifies "Carbon – Own Operations"⁹ as a material ESG issue (MEI) for companies in the "Restaurants" industry. It is estimated that restaurants use about five to seven times more energy per square foot than other commercial buildings.¹⁰
- ii. Sustainalytics considers this a direct KPI as it directly measures GHG emissions related to the energy sources associated with Arcos Dorados' operations, including restaurants' electricity consumption, purchases of food and paper, franchises and logistics.
- iii. The Sustainability Accounting Standards Board (SASB) identifies "Energy Management" as a material topic for restaurants,¹¹ which are considered to have high energy intensity from the use of commercial kitchen appliances and temperature-controlled dining areas for customers.

In terms of applicability, Sustainalytics notes that KPI 1 addresses approximately 5.69% of the Company's total GHG footprint through its coverage of scope 1 and 2 emissions. Sustainalytics therefore considers the KPI to have limited scope for impact on the Company's overall emissions.

KPI 2: GHG emissions intensity scope 3 (tCO₂e/annual tonne of food and packaging)

Sustainalytics considers KPI 2 to be material and relevant given the following:

- i. Scope 3 GHG emissions represent approximately 93.29% of Arcos Dorados' total emissions.
- ii. SASB identifies "Supply Chain Management & Food Sourcing" as a material issue for the "Restaurants" industry. Arcos Dorados sources ingredients and products from a wide range of suppliers and therefore needs strong supply chain management to maintain a consistent level of quality across its operations. Furthermore, demand related to its operations drives and shapes agricultural production and the related carbon footprint and waste generated. In this context, reporting and mitigating the GHG emissions associated with food and packaging across the Company's operations are relevant.

⁹ Sustainalytics' "Carbon – Own Operations" MEI refers to a company's management of risks related to its own operational energy use and GHG emissions (scope 1 and 2). It also includes parts of scope 3 emissions, such as transport and logistics. It does not include emissions in the supply chain or during the use phase/end-of-life cycle of a product.

¹⁰ Energy Star, "Energy Star for Small Business: Restaurants", at: https://www.energystar.gov/buildings/resources_audience/small_biz/restaurants

¹¹ SASB, Restaurants Sustainability Accounting Standard, 2018, at: <https://www.sasb.org/standards/download/>

In terms of applicability, Sustainalytics positively notes the inclusion of scope 3 GHG emissions, demonstrating that Arcos Dorados is addressing all sources of GHG emissions. Given KPI 2 represents the large majority of emissions, Sustainalytics considers the applicability of the KPI to be high.

KPI Characteristics

Sustainalytics in its assessment of the KPIs’ 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.¹²

KPI 1: GHG emissions scopes 1 and 2 (tCO₂e)

Sustainalytics considers Arcos Dorados’ definition and methodology to calculate KPI 1 performance to be clear and consistent based on the guidelines from the GHG Protocol’s Corporate Reporting Standard, and notes that the Company’s methodology excludes carbon offsetting and applies a market-based approach.¹³ Sustainalytics considers KPI 1 to be a direct measure of the Company’s performance on material environmental issues and to be benchmarkable. However, the KPI has a limited scope for impact on the Company’s overall emissions. Although the scope of KPI1 is relatively low, the Company has communicated to Sustainalytics that KPI 1 will always be accompanied by KPI 2, as a result of which all KPIs and SPTs for all SLIs will address almost all of the Company’s GHG emissions.

KPI 2: GHG emissions intensity scope 3 (tCO₂e/ tonne of food and packaging)

Sustainalytics considers Arcos Dorados’ definition and methodology to calculate KPI 2 performance to be clear, consistent and, in terms of the numerator, to be based on the guidelines from the GHG Protocol’s Corporate Reporting Standard. Sustainalytics considers KPI 2 to be a direct measure of performance and Sustainalytics further notes that only stores that are open and operational will be considered in the KPI calculation and that the KPI metric, tCO₂e/annual tonne of food and packaging across Arcos Dorados operations, is not benchmarkable.

Overall Assessment

Sustainalytics overall considers KPI 1, absolute GHG Emissions (scope 1 and 2), to be adequate given that: (i) it measures performance on a relevant and material ESG issue for the Company, (ii) it directly measures its operational carbon footprint, and (iii) the calculation methodology is aligned with the GHG Protocol. The KPI, however, has limited scope for impact considering its low applicability.

Sustainalytics overall considers KPI 2 to be strong given that: (i) it measures performance on a relevant and material ESG issue for the Company, (ii) it directly measures its operational carbon footprint, (iii) the calculation methodology, in term of the numerator, is aligned with the GHG Protocol, and it is applicable to 98.98% of the Company’s scope 3 emissions which represent 93.29% of total GHG emissions.¹⁴ The KPI, however, is not comparable to an external contextual benchmark.

Absolute GHG emissions reduction scopes 1 and 2 (tCO₂e)	Not Aligned	Adequate	Strong	Very strong
GHG emissions intensity scope 3 (tCO₂e/annual tonne of food and packaging)	Not Aligned	Adequate	Strong	Very strong

¹² 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.

¹³ A market-based method reflects emissions from electricity that companies have purposefully chosen (or their lack of choice). It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation, or for unbundled attribute claims. See more at: https://ghgprotocol.org/sites/default/files/Scope2_ExecSum_Final.pdf

¹⁴ Approximately 1.02% of Arcos Dorados total 2021 emissions are related to refrigerants, such as R-22, which are not included in the Kyoto Protocol and thus are excluded from the KPI Boundary.



Calibration of Sustainability Performance Targets (SPTs)

Alignment with Issuer's Sustainability Strategy

Arcos Dorados has set the following SPTs for its KPI:

- (1) SPT 1.1 Reduce absolute GHG emissions to be equal to or lower than 302,774 tCO₂e by year-end 2025
 SPT 1.2 Reduce absolute GHG emissions to be equal to or lower than 284,963 tCO₂e by year-end 2026
 SPT 1.3 Reduce absolute GHG emission to be equal to or lower than 227,971 tCO₂e by year-end 2030
- (2) SPT 2.1 Reduce GHG emission intensity to be equal to or lower than 7.46 tCO₂e per tonne of food and packaging by year-end 2025
 SPT 2.2 Reduce GHG emission intensity to be equal to or lower than 7.29 tCO₂e per tonne of food and packaging by year-end 2026
 SPT 2.3 Reduce GHG emission intensity to be equal to or lower than 5.72 tCO₂e per tonne of food and packaging by year-end 2030

In assessing alignment of the SPT to the Issuer's overall strategy, Sustainalytics analysed Arcos Dorados' sustainability strategy and notes the Company has identified GHG emissions as a material topic and one of its core pillars in its action plan to address climate change. Arcos Dorados did its first inventory for scope 1 and 2 emissions in 2019, and in 2021 for scope 3 emissions. In 2020, Arcos Dorados set the goals to decrease by 36% its GHG emissions from its restaurants and offices and 31% from its supply chain by 2030. Sustainalytics considers the SPTs to be aligned with Arcos Dorados' sustainability strategy (please refer to Section 2 for an analysis of the credibility of Arcos Dorados' sustainability strategy).

Strategy to Achieve the SPTs

Arcos Dorados intends to achieve the SPTs through the following strategy:

- Arcos Dorados plans to install LED lighting, energy-efficient kitchen equipment and high-efficiency air conditioning systems with R410A refrigerants.
- Arcos Dorados intends to increase the renewable energy mix by contracting and purchasing direct and virtual long-term power purchase agreements (PPAs). Since 2021, Arcos Dorados has initiated a process looking for long-term contracts to increase its energy supply from wind and solar farms. The Company expects the PPA to be negotiated under a take-or-pay clause.
- The Company is committed to working closely with its suppliers to reduce GHG emissions from its supply chain. Initiatives include working with regional beef, chicken, beverages and packaging companies by evaluating the adoption of sustainability policies and practices and collecting data about their initiatives.
- The Company's ESG and Supply Chain teams evaluate joint initiatives to incentivise and help some of its small- and medium-sized suppliers implement new ways to reduce their GHG emissions.
- To reduce its emissions from travel, Arcos Dorados intends to devise strategies to reduce commuting and improve remote working infrastructure.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers 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.¹⁵

Arcos Dorados has set the baseline for the SPTs at 2021, given that it was the most recent and complete year of operational data. The Company's GHG emissions inventory was prepared by South Pole and audited by Ernst & Young, and it represents the first year that the Company mapped out the emissions from 100% of its supply chain, employees air travel, logistics and external services.

¹⁵ We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.

SPT 1: Sustainalytics relied on peer comparison and science-based trajectories to assess ambitiousness. Sustainalytics notes that the SPT is broadly aligned with targets set forth by subindustry peers. Sustainalytics analysed historical performance but notes that there are constraints regarding the comparability of data given the impact of the COVID-19 pandemic during 2020. With respect to science-based trajectories, the SPT is aligned with the SBTi’s 2°C warming scenario using an Absolute Contraction Approach.¹⁶

SPT 2: Sustainalytics mainly relied on peer comparison to assess the Company’s ambitiousness.

Sustainalytics notes that the SPT is broadly aligned with targets set forth by subindustry peers. Sustainalytics notes that Arcos Dorados started measuring its scope 3 emissions in 2021.

Overall Assessment

Sustainalytics considers the SPTs to align with Arcos Dorados’ sustainability strategy. The Company’s SPT 1 is considered to be ambitious given it is aligned with peers and with a 2°C scenario. SPT 2 is considered to be moderately ambitious given that is broadly aligned with subindustry peers and there is no historical comparable data.

<p>SPT 1.1 Reduce absolute GHG emissions to be equal to or lower than 302,774 tCO₂e by year-end 2025</p> <p>SPT 1.2 Reduce absolute GHG emissions to be equal to or lower than 284,963 tCO₂e by year-end 2026</p> <p>SPT 1.3 Reduce absolute GHG emissions to be equal to or lower than 227,971 tCO₂e by year-end 2030</p>	Not Aligned	Ambitious	Ambitious	Highly Ambitious
<p>SPT 2.1 Reduce GHG emission intensity to be equal to or lower than 7.46 tCO₂e per total annual tonne of food and packaging by year-end 2025</p> <p>SPT 2.2 Reduce GHG emission intensity to be equal to or lower than 7.29 tCO₂e per total annual tonne of food and packaging by year-end 2026</p> <p>SPT 2.3 Reduce GHG emission intensity to be equal to or lower than 5.72 tCO₂e per total annual tonne of food and packaging by year-end 2030</p>	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Security Characteristics

Arcos Dorados has disclosed that it will link the financial characteristics of any security issued under the Framework to the achievement of the SPTs. Furthermore, Arcos Dorados has disclosed to Sustainalytics its intention to use both SPTs for all SLIs issued under this Framework. The financial characteristics may include a step-up or step-down adjustment of the coupon, as applicable, if: (i) the KPIs do not reach the respective SPTs on the relevant target observation dates, 31 December 2025, 31 December 2026 and 31 December 2030 as applicable, (ii) the Company fails to provide a verification of KPIs against the SPTs by the notification date, or (iii) the Company fails to provide reasonable notice as of the notification date. Each SPT will trigger a separate adjustment in the coupon.

Specific details on the financial characteristics selected for each financial instrument will be specified in the Company’s respective transaction documentation. Sustainalytics notes positively that all SPTs need to be met to

¹⁶ The absolute contraction approach is a method for companies to set emissions reduction targets that are aligned with the global, annual emissions reduction rate that is required to meet the 1.5°C or well-below 2°C targets.

avoid a coupon step-up, however, it does not opine on the adequacy of the penalty imposed for not achieving the set SPTs.



Reporting

Arcos Dorados commits to report on an annual basis on its performance of the KPIs in its corporate sustainability report or similar report published on its website. The report will also include a verification assurance report outlining the performance against SPTs, the related impact and its timing, impact on the instrument's characteristics as applicable, and other information enabling investors to monitor the level of ambition of the SPTs. Based on the feasibility, Arcos Dorados may also disclose explanations on the contribution of main factors to the evolution of KPIs, positive sustainability impacts of the performance improvement, and re-assessments of KPIs or restatement of SPTs. Arcos Dorados may voluntarily disclose additional information related to the use of proceeds such as their allocation and eligibility criteria. The reporting commitments are aligned with market expectations.



Verification

Arcos Dorados commits to obtain a limited assurance from an independent and external auditor for the assessment of KPIs against SPTs that may lead to a potential coupon adjustment, which is aligned with the SLB Principles on verification.

Section 2: Assessment of Arcos Dorados' Sustainability Strategy

Credibility of Arcos Dorados' Sustainability Strategy

Arcos Dorados' sustainability strategy reflects its position as one of the largest operators of fast-food restaurants in the Americas, enabling it to leverage its size and scale in addressing ESG issues that are relevant in communities where it operates. The strategy is made in accordance with the targets outlined in the McDonald's Corporation's Impact Strategy & ESG Reporting, which are aligned with the SBTi's 1.5°C decarbonization pathway. Since 2007, the Company has implemented a range of sustainability programmes and initiatives on product quality and nutrition and responsible supply chain.¹⁷ More recent initiatives include working with organizations such as the Collaboration for Forests and Agriculture which aim for deforestation-and-conversion-free supply chains and responsible sourcing of raw materials supported by relevant certifications, such as FSC for packaging materials and RSPO for palm oil.¹⁸ The Company's Social Impact and Sustainable Development Committee, comprising the Executive Chairman and other senior managers, oversees the development and monitoring of the Company's sustainability initiatives. The Company's most recent sustainability strategy established in 2020 focuses on five pillars: (i) youth opportunity, (ii) climate change, (iii) packaging and recycling, (iv) sustainable sourcing and (v) commitment to families.¹⁹

Of these five pillars, "climate change" is most relevant to the KPIs and SPTs in the Framework while "sustainable sourcing" can also have significant environmental implications. To demonstrate its commitment to reduce the impact of its operations on the environment, Arcos Dorados intends to reduce GHG emissions from its restaurants and offices by 36% by 2030 compared to 2015 and from its supply chain by 31% by 2030.²⁰ Arcos Dorados plans to achieve these targets by undertaking several initiatives to decarbonize its operations, including energy efficiency measures within its restaurants, enhancing monitoring of its operations' carbon footprint and that of its suppliers, and transitioning to renewable energy.²¹ Additionally, Arcos Dorados has adopted a sustainable restaurant construction policy that promotes the use of recycled construction materials, enhances buildings' water and energy efficiency and provides for sorting recyclable waste.

The decarbonization and sustainable management of its supply chain presents a more challenging issue for Arcos Dorados given the size and scale of its operations, although the same factors – size and scale – give it leverage to implement decarbonization

¹⁷ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (2021), at: <https://www.arcosdorados.com/wp-content/uploads/2015/12/ARCO-2020-Social-Impact-and-Sustainable-Development-Report-English.pdf>

¹⁸ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.68)

¹⁹ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.15-16)

²⁰ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.15)

²¹ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.69-73)

initiatives within its supply chain. A focus area of these initiatives is the potential deforestation from the activities of its suppliers that provide meat-based ingredients, coffee, palm oil and fibres for packaging.²² Arcos Dorados' initiatives in this area involve dialogues with relevant organizations and participating in governing bodies, such as the Brazilian Roundtable on Sustainable Livestock (Grupo de Trabalho da Pecuária Sustentável - GTPS) that aims to achieve a more sustainable beef supply chain in Brazil.²³

Sustainalytics considers Arcos Dorados to have a strong sustainability strategy and that the instruments under the Framework will further support ADR's sustainability strategy.

Arcos Dorados' Environmental and Social Risk Management

Sustainalytics recognizes that Arcos Dorados' defined targets are impactful, but acknowledges that achieving the SPTs bears environmental and social risks. Sustainalytics' ESG Risk Rating methodology identifies risks related to "Product Governance", "Environmental and Social Impact of Products and Services" and "Human Capital" as material for the Company's subindustry.

Sustainalytics comments below on Arcos Dorados's ability to mitigate such potential risks.

- Arcos Dorados has implemented its Standards of Business Conduct, which applies to its activities and outlines its overarching policy of conducting business responsibly and ethically. The code of conduct defines the Company's approach to risk management based on compliance with laws and regulations in the markets where it operates and responsible behaviour towards its stakeholders – customers, employees, communities and the environment.²⁴ The code of conduct outlines Arcos Dorados' commitment to environmental responsibility by reducing the environmental impact of its operations through sustainable business practices and responsible supply chain.²⁵ In relation to animal welfare, the Company has implemented an audit programme for animal protein suppliers that promotes humane and sustainable production practices in line with the Professional Animal Auditor Certification Organization (PAACO) guidelines.²⁶ Additionally, the Company has adopted a policy on deforestation-free procurement of beef in line with the Deforestation-Free Beef Procurement Policy of McDonald's launched in 2018.²⁷
- The Company mitigates product-related risks through its Integrated Management System covering operations in 20 countries to ensure food quality and safety, as well as compliance with the food quality policies set by McDonald's Corporation.²⁸ Arcos Dorados demonstrates its commitment to food safety by requiring suppliers to carry out analysis of potential hazards in the food supply chain to identify risks and contain them.²⁹ This is on top of the requirement for suppliers to satisfy the quality criteria set by the internal Social Workplace Accountability for food, packaging, distribution and refrigeration suppliers; Supplier Quality Management System (SQMS) for food suppliers; and Packaging Supplier Quality Management System Paper for packaging suppliers.³⁰ Additionally, with its Supplier Code of Conduct, the Company ensures that members of its supply chain observe ethical and responsible business practices.
- Regarding human resources risks, Arcos Dorados has established a Safe and Respectful Workplace Policy that looks after employee welfare, health, security and promotes diversity and non-discrimination within its workforce.³¹ The Company's diversity and inclusion policy upholds diversity across gender, age and sexual identities.³² Additionally, the Company demonstrates its commitment to enhancing its workforce's skills through various training and career development programmes³³. Many of these programmes focus on equipping young employees with skills to enhance their access to employment and social mobility.

²² Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.64)

²³ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.67)

²⁴ Arcos Dorados, "Standards of Business Conduct", at: https://www.arcosdorados.com/wp-content/uploads/2015/12/StandardsofBusinessConduct_ENG2.pdf

²⁵ Arcos Dorados, "Standards of Business Conduct" (p.20)

²⁶ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.63)

²⁷ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.65)

²⁸ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.60)

²⁹ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.62)

³⁰ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.60)

³¹ Arcos Dorados, "Safe and Respectful Workplace", at: <https://www.arcosdorados.com/wp-content/uploads/2015/12/Safe-and-respectful-workplace-policy.pdf>

³² Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.44)

³³ Arcos Dorados, "Social Impact and Sustainable Development Report 2020 Latin America and the Caribbean" (p.34)

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to AD. Overall, Sustainalytics considers that Arcos Dorados has strong management programmes and policies to mitigate risks that could arise in achieving the SPTs.

Section 3: Impact of the SPTs Chosen

Importance of reducing GHG emissions from the food service industry in Latin America and the Caribbean

The global food system is responsible for about one-third of global anthropogenic GHG emissions, with the majority of emissions attributed to agriculture and converting land for crop production or livestock raising.^{34,35} In particular, agricultural activities are the main contributor to human-caused methane (CH₄) emissions (45%-50%) and nitrous oxide (N₂O) emissions (75%-80%), mostly from livestock farming.^{36,37} In addition, land use changes directly linked to agriculture are estimated to account for 10% of annual anthropogenic CO₂ emissions.³⁸ Meanwhile, agricultural production is expected to increase by 50% from the current levels to meet the food demand of the growing global population,³⁹ which reinforces the need to reduce GHG emissions from the food system. For companies in the food service industry, such as restaurants, emissions from food or ingredient supply chain usually make up the largest component of their carbon footprint, followed by emissions from energy use in operation.⁴⁰

The Latin America and the Caribbean (LAC) region contributed approximately 10% of global GHG emissions in 2018, with the main sources of emissions coming from agriculture (23%) and land use change and forestry (19%), whilst the global average is 11% and 7% respectively.^{41,42} In LAC countries, agricultural emissions usually account for a large proportion of total national GHG emissions,⁴³ and deforestation can account for up to 83% of national emissions.⁴⁴ However, LAC countries still suffer from the loss and degradation of forests, driven by the expansion of agricultural land to meet the demand for livestock, feed and food crops.^{45,46} Moreover, the region is critically important in the global combat against climate change due to its large forest areas and carbon sinks.⁴⁷ Strong efforts to limit CH₄ and N₂O emissions, the intensification and transformation of farming and agricultural practices, as well as stopping deforestation and increasing afforestation are at the core of deep decarbonization pathways for the LAC region, according to the Deep Decarbonization Pathways in Latin America and the Caribbean (DDPLAC) project led by the Inter-American Development Bank.⁴⁸ All LAC countries have ratified the Paris Agreement, thus committing to net zero CO₂ emissions by 2050 and substantial reductions of CO₂ emissions by 2030,⁴⁹ and are committed to implementing programmes aimed at reducing emissions through investments in improved land use and productivity.⁵⁰

³⁴ Poore, J. et al. (2018), "Reducing food's environmental impacts through producers and consumers", Science, at: <https://science.sciencemag.org/content/sci/360/6392/987.full.pdf>

³⁵ Crippa, M. et al. (2021), "Food systems are responsible for a third of global anthropogenic GHG emissions", Nature Food, at: <https://www.nature.com/articles/s43016-021-00225-9>

³⁶ Lynch, J. et al. (2021), "Agriculture's Contribution to Climate Change and Role in Mitigation Is Distinct From Predominantly Fossil CO₂ Emitting Sectors", Frontiers in Sustainable Food Systems, at: <https://www.frontiersin.org/articles/10.3389/fsufs.2020.518039/full>

³⁷ McKinsey & Company, "Agriculture and Climate Change: Reducing emissions through improved farming practices", (2020), at: <https://www.mckinsey.com/~media/mckinsey/industries/agriculture/our%20insights/reducing%20agriculture%20emissions%20through%20improved%20farming%20practices/agriculture-and-climate-change.pdf>

³⁸ Lynch, J. et al. (2021), "Agriculture's Contribution to Climate Change and Role in Mitigation Is Distinct From Predominantly Fossil CO₂ Emitting Sectors".

³⁹ Science Based Targets Initiative (SBTi), "Forest, Land, and Agriculture Science Based Target Setting Guidance – Draft for Public Consultation January 2022", (2022), at: <https://sciencebasedtargets.org/resources/files/FLAG-Guidance-Public-Consultation.pdf>

⁴⁰ Lightspeed, "Restaurant Sustainability Guide: How to Reduce Your Carbon Footprint", (2019), at: <https://www.lightspeedhq.com/blog/restaurant-sustainability-guide-reduce-your-carbon-footprint/>

⁴¹ Inter-American Development Bank, "Getting to Net-Zero Emissions: Lessons from Latin America and the Caribbean", (2019), at: https://publications.iadb.org/publications/english/document/Getting_to_Net-Zero_Emissions_Lessons_from_Latin_America_and_the_Caribbean.pdf

⁴² Wellenstein, A. & Hickey, V., "10 key points on climate change impacts, opportunities and priorities for Latin America and the Caribbean", (2021), at: <https://blogs.worldbank.org/latinamerica/10-key-points-climate-change-impacts-opportunities-and-priorities-latin-america-and>

⁴³ For example, agricultural emissions in Argentina contribute about 30% to total national emissions (including LULUCF), and agriculture is responsible for around 50% of the country's emissions once the LULUCF sector is excluded. Climate Action Tracker, at: <https://climateactiontracker.org/>

⁴⁴ Inter-American Development Bank (IDB), "Getting to Net-Zero Emissions: Lessons from Latin America and the Caribbean".

⁴⁵ FAO, "The greatest potential for reducing carbon emissions in Latin America and the Caribbean lies in its forests", (2016), at: <https://www.fao.org/americas/noticias/ver/en/c/447226/>

⁴⁶ Inter-American Development Bank, "Getting to Net-Zero Emissions: Lessons from Latin America and the Caribbean".

⁴⁷ World Resources Institute, "Latin America and Caribbean Climate Week Is an Opportune Moment to Strengthen Regional Climate Action", (2019), at: <https://www.wri.org/insights/latin-america-and-caribbean-climate-week-opportune-moment-strengthen-regional-climate>

⁴⁸ Inter-American Development Bank, "Getting to Net-Zero Emissions: Lessons from Latin America and the Caribbean".

⁴⁹ Ibid.

⁵⁰ Reliefweb, "Promoting Climate Change Action in Latin America and the Caribbean", (2021), at: <https://reliefweb.int/report/world/promoting-climate-change-action-latin-america-and-caribbean>

Based on the above context, Sustainalytics is of the opinion that Arcos Dorados’ efforts to reduce its scope 1, 2 and 3 GHG emissions are expected to contribute to minimizing the carbon footprint of the food service industry and to achieving the climate change mitigation goals in the LAC region.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by the year 2030. The sustainability-linked bonds issued under the Framework are expected to help advance the following SDGs and targets:

KPI	SDG	SDG Target
Absolute GHG emissions reduction scopes 1 and 2 (tCO ₂ e)	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
GHG emissions intensity scope 3 (tCO ₂ e/annual tonne of food and packaging)	9. Industry, innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
	12. Responsible consumption & Production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources

Conclusion

Arcos Dorados Holdings Inc. intends to issue sustainability-linked bonds tying their coupon rate to the achievement of the following SPTs:

- (1) SPT 1.1 Reduce absolute GHG emissions to be equal to or lower than 302,774 tCO₂e by year-end 2025
- SPT 1.2 Reduce absolute GHG emissions to be equal to or lower than 284,963 tCO₂e by year-end 2026
- SPT 1.3 Reduce absolute GHG emission to be equal to or lower than 227,971 tCO₂e by year-end 2030
- (2) SPT 2.1 Reduce GHG emission intensity to be equal to or lower than 7.46 tCO₂e per tonne of food and packaging by year-end 2025
- SPT 2.2 Reduce GHG emission intensity to be equal to or lower than 7.29 tCO₂e per tonne of food and packaging by year-end 2026
- SPT 2.3 Reduce GHG emission intensity to be equal to or lower than 5.72 tCO₂e per tonne of food and packaging by year-end 2030

Sustainalytics considers KPI 1: GHG emissions reduction (scopes 1 and 2 in tCO₂e), to be adequate and KPI 2: GHG emissions reduction (scope 3 in tCO₂e/ tonne of food and packaging) to be strong. While both KPIs are considered material ESG issues for the Company and follow clear methodologies, Sustainalytics considers KPI 1 to be adequate given its limited scope of application (under 10% of total emissions), whereas KPI 2 is considered strong given its extensive scope of applicability (over 90% of total emissions). Sustainalytics considers SPT 1 to be ambitious based on alignment with industry peers and with the emissions reduction trajectory of a 2°C climate scenario. SPT 2 is considered to be moderately ambitious based on their overall alignment with subindustry peers.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers the Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2021, and the prospective achievement of the SPTs to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Arcos Dorados Holdings Inc.

Sustainability-Linked Bond ISIN:

Cusip	ISIN	
03965T AB9	US03965TAB98	144A
P04568 AB0	USP04568AB06	Reg S

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 1, 2022

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

Completion date of post issuance verification: N/A

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:

- | | |
|--|--|
| <input checked="" type="checkbox"/> assessed all the following elements (complete review) | <input type="checkbox"/> only some of them (partial review): |
| <input checked="" type="checkbox"/> Selection of Key Performance Indicators (KPIs) | <input checked="" type="checkbox"/> Bond characteristics (acknowledgment of) |
| <input checked="" type="checkbox"/> Calibration of Sustainability Performance Targets (SPTs) | <input checked="" type="checkbox"/> Reporting |
| <input checked="" type="checkbox"/> Verification | |
| <input checked="" type="checkbox"/> and confirmed their alignment with the SLBP. | |

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

- | | |
|--|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> 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)

Arcos Dorados Holdings Inc. intends to issue sustainability-linked bonds tying their coupon rate to the achievement of the following SPTs:

- (1) SPT 1.1 Reduce absolute GHG emissions to be equal to or lower than 302,774 tCO₂e by year-end 2025
 SPT 1.2 Reduce absolute GHG emissions to be equal to or lower than 284,963 tCO₂e by year-end 2026
 SPT 1.3 Reduce absolute GHG emission to be equal to or lower than 227,971 tCO₂e by year-end 2030
- (2) SPT 2.1 Reduce GHG emission intensity to be equal to or lower than 7.46 tCO₂e per tonne of food and packaging by year-end 2025
 SPT 2.2 Reduce GHG emission intensity to be equal to or lower than 7.29 tCO₂e per tonne of food and packaging by year-end 2026
 SPT 2.3 Reduce GHG emission intensity to be equal to or lower than 5.72 tCO₂e per tonne of food and packaging by year-end 2030

Sustainalytics considers KPI 1: GHG emissions reduction (scopes 1 and 2 in tCO₂e), to be adequate and KPI 2: GHG emissions reduction (scope 3 in tCO₂e/ annual tonne of food and packaging) to be strong. While both KPIs are considered material ESG issues for the Company and follow clear methodologies, Sustainalytics considers KPI 1 to be adequate given its limited scope of application (under 10% of total emissions), whereas KPI 2 is considered strong given its extensive scope of applicability (over 90% of total emissions). Sustainalytics considers SPT 1 to be ambitious based on alignment with industry peers and with the emissions reduction trajectory of a 2°C climate scenario. SPT 2 is considered to be moderately ambitious based on their overall alignment with subindustry peers.

Based on the above, Sustainalytics considers the Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the Sustainability-Linked Loan Principles 2021, and the prospective 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):
 Arcos Dorados Sustainability-Linked Financing Framework includes two KPIs. KPI 1 GHG emissions reduction (scopes 1 and 2 in tCO₂e) and KPI 2 GHG emissions reduction (scope 3 in tCO₂e/annual (see Table 1). Sustainalytics considers KPI 1 to be adequate given its scope and that it follows a clear methodology. KPI 2 is considered strong given its applicability and a measure on a material ESG issue.

List of selected KPIs:

- Absolute GHG emissions scopes 1 and 2 (tCO₂e)
- GHG emissions intensity scope 3 (tCO₂e/ tonne of food and packaging)

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

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | <input type="checkbox"/> Evidence that the KPIs can be benchmarked |
| | <input type="checkbox"/> Other (please specify): |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):
Sustainalytics considers the SPTs to be aligned with the issuer’s sustainability strategy. Sustainalytics further considers SPT 1 to be ambitious and SPT 2 to be moderately ambitious based on the lack of historical performance, alignment with industry peers, and where possible alignment with science-based targets.

Rationale and level of ambition

- | | |
|--|---|
| <input type="checkbox"/> Evidence that the SPTs represent a material improvement | <input checked="" type="checkbox"/> Credentials on the relevance and reliability of selected benchmarks and baselines |
| <input checked="" type="checkbox"/> Evidence that SPTs are consistent with the issuer’s sustainability and business strategy | <input checked="" type="checkbox"/> Credentials that the SPTs are determined on a predefined timeline |
| | <input type="checkbox"/> Other (please specify): |

Benchmarking approach

- | | |
|--|--|
| <input type="checkbox"/> Issuer own performance | <input checked="" type="checkbox"/> Issuer’s peers |
| <input checked="" type="checkbox"/> reference to the science | <input type="checkbox"/> Other (please specify): |

Additional disclosure

- | | |
|---|--|
| <input checked="" type="checkbox"/> potential recalculations or adjustments description | <input checked="" type="checkbox"/> issuer’s strategy to achieve description |
| <input checked="" type="checkbox"/> identification of key factors that may affect the achievement of the SPTs | <input type="checkbox"/> Other (please specify): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable):
Arcos Dorados will link the bond’s financial characteristics to the achievement of the SPTs, namely a coupon step-up in case: (i) KPI 1 or KPI 2 has not been achieved by the observation date of the respective SPTs or (ii) the Company fails or is unable to provide satisfaction notification in accordance with the financial instrument’s documentation.

Financial impact:

- variation of the coupon
- Other (please specify):

Structural characteristic:

- Step up or step down
- Other (*please specify*):

3-4 REPORTING

Overall comment on the section (if applicable):
 Arcos Dorados commits to report on an annual basis on its performance on the KPIs in its corporate sustainability report or similar report on its website. Arcos Dorados commits to disclose relevant information that affect the KPI's performance. The reporting commitments are aligned with the SLBP.

Information reported:

- performance of the selected KPIs
- level of ambition of the SPTs
- verification assurance report
- Other (*please specify*):

Frequency:

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

Means of Disclosure

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

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)*:

Information reported:

- | | |
|--|--|
| <input type="checkbox"/> limited assurance | <input type="checkbox"/> reasonable assurance |
| | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Material change:

- | | |
|---|--|
| <input type="checkbox"/> Perimeter | <input type="checkbox"/> KPI methodology |
| <input type="checkbox"/> SPTs calibration | |

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