

Second-Party Opinion Nemak S.A.B. de C.V. Sustainability-Linked Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Nemak S.A.B. de C.V. Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- Selection of Key Performance Indicators (KPIs)** Nemak's Sustainability-Linked Bond Framework includes one KPI: Absolute Scope 1 and Scope 2 Greenhouse Gas ("GHG") Emissions (see Table 1). Sustainalytics considers the KPI chosen to be adequate given that it is relevant and material to Nemak, is a direct measure of its operational carbon performance, is calculated in line with the GHG Protocol Corporate Standard, and therefore supports benchmarking, and is applicable to approximately 30% of Nemak's total emissions.
- Calibration of Sustainability Performance Targets (SPTs)** Nemak has defined two SPTs in relation to its KPI. Sustainalytics considers the SPTs to be aligned with the Issuer's sustainability strategy and further considers the SPTs to be ambitious given that they present a material improvement compared to past performance, they stand out positively within the auto parts industry, and they present a GHG reduction plan aligned with a well-below 2°C scenario.
- Bond Characteristics** Nemak will link the bond's financial/ structural characteristics to the achievement of at least one of the SPTs, which involves a premium payment such as, but not limited to, a step-up in the bond coupon margin upon non-achievement of one of the SPTs. The disclosures regarding bond characteristics are aligned with the SLBP.
- Reporting** Nemak commits to report on an annual basis on its performance on the KPI in its Sustainability-Linked Instrument Report as a part of its annual sustainability reporting on its website. Nemak S.A.B. de C.V. commits to disclose relevant information that affects the KPI performance, such as (i) the performance of the KPI and progress towards the SPTs, (ii) verification assurance certificate for KPI calculation and (iii) any other relevant information enabling investors to monitor progress towards the SPTs. The reporting commitments are aligned with the SLBP.
- Verification** Nemak commits to have external limited assurance conducted on its KPI performance, with the first verification covering 2018 to 2021 data provided before December 2022, and annually thereafter until the SPT deadline and in the event of any trigger events specified in the Bond documentation, which is aligned with market expectations.

Evaluation Date	June 15, 2021
Issuer Location	García, Mexico

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPTs	Strength of the KPI	Ambitiousness of SPT
Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)	2019	18% reduction in absolute Scope 1 and 2 GHG emissions by 2026	Adequate	Ambitious
	2019	28% reduction in absolute Scope 1 and 2 GHG emissions by 2030		Ambitious

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Scope of Work and Limitations

Nemak S.A.B. de C.V. (“Nemak”, the “Company”, or the “Issuer”) has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles (SLBP).¹

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent² opinion on the alignment of the reviewed SLB Framework with the Sustainability-Linked Bond Principles 2020, as administered by ICMA.

As part of this engagement, Sustainalytics exchanges information with various members of Nemak S.A.B. de C.V.’s management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the SLB Framework. Nemak S.A.B. de C.V.’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of issuer to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics’ opinion of the Bond Framework and should be read in conjunction with the Bond Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Nemak S.A.B. de C.V. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure the KPIs’ performance. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Nemak S.A.B. de C.V. 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 benchmarks³ against which targets were set;
- (2) A material corporate action (such as material M&A or change in business activity) which has a bearing on the achievement of the SLBs or the materiality of the KPI.

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

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

³ Benchmarks refers to science based benchmarks

Introduction

Nemak S.A.B. de C.V. (“Nemak” or the “Issuer”) is a global automotive parts solutions provider specializing in the production of complex aluminum components for powertrain, e-mobility and structural applications. Headquartered in García, Nuevo León in Mexico, it has global operations across 15 countries, including the U.S., Mexico, Brazil, Spain, Germany, Poland, Russia, India and China. In 2020, it had a revenue of USD 3.2 billion and employed around 22,000 people across 38 facilities worldwide.⁴

Nemak intends to issue Sustainability-Linked Bonds (SLB) where the financial characteristics of the bond(s) are tied to the achievement of the Sustainability Performance Targets for a KPI related to Nemak’s Scope 1 and Scope 2 Greenhouse Gas (“GHG”) Emissions.

Nemak has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the bond framework with the Sustainability-Linked Bond Principles (SLBP).⁵

The KPIs and SPTs used by Nemak are defined in Tables 1 and 2 below.

Table 1: KPI Definitions

KPI	Definition
Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)	<p>Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent) calculated in line with the GHG Protocol Corporate Standard.</p> <p>KPI covers 99% of the Company’s GHG emissions inventory and includes all relevant subsidiary emissions. The calculation uses a blend of market-based and location-based approaches (depending on data availability in certain geographies) to account for Scope 2 emissions.</p>

Table 2: SPTs and Past Performance

KPI	2018	2019 (baseline)	2020	SPT 1 - 2026	SPT 2 - 2030
Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)	1,520,900 tCO2e	1,418,978 tCO2e	1,161,724 tCO2e	Reduce Scope 1 and 2 tCO2e emissions by 18% in 2026 from the 2019 baseline ⁷	Reduce Scope 1 and 2 tCO2e emissions by 28% in 2030 from the 2019 baseline

⁴ Nemak, “About Us”, at: <https://investors.nemak.com/encrypted-node/7711>

⁵ The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

⁶ Nemak has chosen 2019 as the baseline year because it is the first year with robust data collection. Furthermore, 2020 is considered an outlier due to the industry-wide global disruption caused by the COVID-19 pandemic.

⁷ The SPT 1 is based on a linear interpolation of our Goal to reduce absolute scope 1 and 2 GHG emissions by 28% by 2030 from the 2019 baseline which is validated by the Science Based Targets Initiative to be aligned with a well-below 2°C scenario

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Nemak S.A.B. de C.V. Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

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



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

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

The Sustainability Accounting Standards Board (SASB)⁸ identifies Energy Management as a relevant topic to track and disclose by the Auto Parts industry based on the substantial amount of energy consumed by auto parts manufacturers in their production processes. The use of electricity and fossil fuels drives the primary direct and indirect emissions of GHGs for most companies in the sector. Hence, energy usage can contribute significantly to climate change if not managed sustainably by the Auto Parts industry.⁹

Sustainalytics considers the KPI, Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO₂ equivalent), to be material and relevant based on the following:

- i. Nemak's materially assessment identified the Company's top ESG material aspects, including (i) energy efficiency, (ii) climate change and emissions strategy and (iii) environmental management. Nemak is committed to addressing these key ESG issues by focusing its efforts on decarbonizing its production operations.
- ii. Scope 1 and 2 emissions accounted for 29.6% of Nemak's GHG emissions in 2019.¹⁰ The Company's Scope 1 emissions are primarily driven by natural gas consumption. Nemak also uses other fossil fuels like LPG (liquefied petroleum gas), gasoline, diesel and fuel oil. At the same time, natural gas-based electricity is Nemak's largest contributor to Scope 2 emissions.
- iii. Sustainalytics considers this a direct KPI as it measures Nemak's operational performance related to the energy used and purchased electricity associated with its manufacturing processes and production facilities.

In terms of applicability, Sustainalytics notes that the KPI covers only Scope 1 and 2 emissions, 29.6% of its total emissions, and does not cover Scope 3 emissions that cover roughly 70% of the Company's overall emissions

⁸ The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. The SASB Foundation's mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors. SASB Standards identify the subset of environmental, social, and governance issues most relevant to financial performance in each of 77 industries.

⁹ SASB, Auto Parts Industry Standard, 2018, at: <https://www.sasb.org/standards/download/>

¹⁰ Data for 2020 has been provided, however, Nemak has indicated that this year may represent an outlier in the data due to conditions arising from global conditions and market factors.

(Scope 1, 2 and 3).¹¹ Nevertheless, it is noted that Nemak is committed to mitigating absolute Scope 3 GHG emissions from Purchased Goods, which covers 81% of its overall reported Scope 3 emissions profile.¹² While not included as a KPI within Nemak’s Sustainability-Linked Bond Framework, Sustainalytics positively notes the inclusion of the Scope 3 emissions target under the Science Based Targets initiative (“SBTi”) and considers the Company addressing its main sources of value chain GHG emissions in line with best practice.

Sustainalytics also notes that Nemak’s GHG accounting does not include emissions from the use of its products (eg. downstream emissions). Despite Nemak’s efforts to support the transition towards sustainable mobility through a focus on lightweighting and components for low-emissions vehicles (see Section 2), at the current time, a substantial share of the Issuer’s outputs is used in carbon-intensive products, namely internal combustion engine vehicles.

KPI Characteristics

Sustainalytics in its assessment of the KPI characteristics considers i) whether a clear and consistent methodology is used, ii) whether the issuer follows an externally recognized definition, iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.¹³

Sustainalytics considers Nemak’s definition and methodology to calculate the KPI to be clear and consistent, highlighting the transparency around reporting quantitative emissions that are directly linked to its operational performance.

In addition, Nemak calculated its Scope 1 and 2 emissions according to the GHG Protocol Corporate Standard, a commonly used external reference in the industry and can therefore be benchmarked against external carbon trajectories and peer performance. Additionally, the calculation uses a blend of market-based and location-based approaches (depending on data availability in certain geographies) to account for Scope 2 emissions.

Overall Assessment

Sustainalytics overall considers the KPI Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent) to be Adequate given that it is: (i) relevant and material to Nemak; (ii) a direct measure of its operational carbon performance; (iii) calculated in line with the GHG Protocol Corporate Standard, and therefore supports benchmarking; (iv) applicable to approximately 30% of the Company’s total emissions.

Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)	Not Aligned	Adequate	Strong	Very strong
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Calibration of Sustainability Performance Targets (SPTs)

Alignment with Issuer’s Sustainability Strategy

Nemak has set the following SPTs for its KPI:

- SPT 1: Reduce Scope 1 and 2 tCO2e emissions by 18% in 2026 from the 2019 baseline
- SPT 2: Reduce Scope 1 and 2 tCO2e emissions by 28% in 2030 from the 2019 baseline

¹¹ According to Nemak’s Sustainability-Linked Bond Framework, acceses in June 2021.

¹² This target, which requires Nemak to reduce its Scope 3 GHG emissions from Purchased Goods by 14% by 2030 from a 2019 baseline has been validated under the SBTi.

¹³ 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.

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

Additionally, Nemak is committed to specific environmental outcomes by addressing its GHG Scope 1 and 2 emissions, setting ambitious science-based targets that are material to its business. In February 2021, the Science Based Targets Initiative ("SBTi") approved and validated Nemak's targets (i) to reduce Absolute Scope 1 and 2 GHG emissions 28% by 2030 from a 2019 base year, and (ii) to reduce absolute scope 3 GHG emissions from purchased goods and services 14% over the same timeframe.

Furthermore, the Company's climate change commitments include the long-term goal of carbon neutrality by 2050. Strategy to Achieve the SPTs

Nemak intends to achieve the SPT through the following strategies:

- Purchase of renewable energies and self-generation of renewable energies: Nemak's highest priority is purchasing long-term Power Purchase Agreements (PPAs) and virtual PPAs (vPPAs) that will extend beyond 2030. However, such PPAs may require substantial time to establish. Regulatory constraints are expected to limit their potential availability in certain markets such as Mexico, Asia and other regulated countries in Europe. As such, Nemak intends to use Energy Attribute Certificates (EACs) as a temporary solution. Additionally, Nemak plans to advance its renewable power production by solar (photovoltaic and thermal) and wind power self-generation. The Company is in the process of evaluating market deregulation and space availability conditions to identify the most promising plants for siting renewables. Plans for a solar car park system are currently underway at its location in Dillingen, Germany.
- Energy efficiency measures and energy source change: Nemak plans to implement energy efficiency solutions to optimize and lessen energy use, including lighting upgrades, the use of IoT (Internet of Things), and Industry 4.0 technologies.¹⁴ The Company intends to continue implementing international standards such as ISO 50001 across its operations. As of June 2021, 33% of its facilities are ISO 50001 compliant. Furthermore, Nemak plans to enhance low-carbon production technologies by investing in the electrification of manufacturing processes - currently reliant on natural gas.
- Nemak has sustainability awareness programs for key customers and employees. In addition, Nemak engages actively with its suppliers on sustainability and has requested them to sign a Letter of Commitment to its climate goals. Nemak also intends to establish sustainability criteria for all new investment projects to track their alignment to the SPTs.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers whether the SPTs go beyond business as usual trajectory, ii) how the SPTs compare to targets set by peers, iii) and how the SPTs compare with science.¹⁵

Nemak has set 2019 as the baseline year for the SPTs as this was the first year with robust data collection, which included Scope 3 emissions profiles, at the time of the publication of its Sustainability-Linked Bond Framework.¹⁶

SPTs: Sustainalytics was able to use the following benchmarks to assess ambitiousness: past performance, peer performance, and SBTi approved targets.

In terms of past performance, Nemak's disclosure on Scope 1 and 2 emissions are available only since FY2018. Furthermore, Nemak disclosed that 2020 emissions results include atypical reductions in Scope 1 and 2 GHG

¹⁴ Industry 4.0 refers to the digital transformation of manufacturing/production and related industries and value creation processes, at: <https://www.i-scoop.eu/industry-4-0/>

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

¹⁶ At the time of the publication of its Sustainability-Linked Bond Framework, Nemak had not finalized its estimate for Scope 3 emissions for 2018.

emissions caused by impacts of the COVID-19 pandemic.¹⁷ Therefore, due to the limited information available on historical GHG emissions, Sustainalytics was not able to properly assess against historical performance data.

In comparison to its peers in the auto-parts industry, Nemak’s SPTs are relatively strong with respect to Scope 1 and 2 emission reduction. Six out of the eight companies in a peer group analyzed by Sustainalytics¹⁸ have not established quantitative time-bound targets for absolute GHG emission reductions. Only one other peer committed to reducing absolute Scope 1 and 2 GHG emissions and absolute Scope 3 GHG emissions by 2030 from a 2018 base year; this company set more aggressive targets than Nemak. Including Nemak, only two companies out of the eight analyzed have committed to reducing their operational emissions with clear deadlines. Based on this, Sustainalytics recognizes that Nemak’s SPT is relatively strong in terms of peers’ GHG emissions targets.

Sustainalytics notes that Nemak’s target to reduce its absolute Scope 1 and 2 emissions by 28% by 2030 from the 2019 baseline meets the minimum ambition for well below 2°C pathway, as assessed by the SBTi using the absolute contraction approach.

Overall Assessment

Sustainalytics considers the SPTs to align with Nemak’s sustainability strategy and considers Nemak’s SPTs to be Ambitious given that they present a material improvement compared to the past performance, they stand out within the auto parts industry, and they present a GHG reduction well-below a 2°C scenario.

Reduce Scope 1 and 2 tCO2e emissions by 18% in 2026 from the 2019 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
Reduce Scope 1 and 2 tCO2e emissions by 28% in 2030 from the 2019 baseline	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious



Bond Characteristics

Nemak has disclosed that the financial characteristics of its sustainability-linked instrument issuances, under its Sustainability-Linked Bond Framework, will be linked to at least one of the SPTs. If such SPT has not been achieved by the target observation date, Nemak would be subject to a premium payment which could include, but is not limited to, a step-up in the bond coupon margin.¹⁹ Nemak also commits to the premium payment if the performance level against the SPT cannot be calculated or reported with a verification assurance certificate from an independent auditor, or if Nemak is unable to publish the relevant verification assurance certificate within the timeframe prescribed in the issuance.

Sustainalytics notes that not all SPTs may be linked to the financial characteristics of each sustainability-linked instrument issued under its Framework. The Issuer intends to disclose more details related to financing characteristics to the investors at the time of issuance, and specifically that the structure of the premium payment will be disclosed in the issuance documentation.

¹⁷ According to Nemak’s Sustainability-Linked Bond Framework, 2020 is considered an outlier due to the industry-wide global disruption caused by the COVID-19 pandemic. Historic shutdowns during the first half of 2020 led to a 21% year-over-year decrease in Nemak’s production volume. These shutdowns resulted in a GHG emissions reduction of ~17% and ~20% respectively in Scope 1 and 2 emissions relative to 2019. During 2020, Nemak initiated the first steps towards meeting its science-based targets and expects to see improvements in energy efficiency starting to materialize from 2021 onwards.

¹⁸ Sustainalytics compared Nemak to Auto Parts companies focused primarily on manufacturing metallic components and structural applications that supply the global auto industry. The group doesn’t include automobile manufacturers (carmakers).

¹⁹ SPT 1 observation date is December 31, 2026, while SPT 2 observation date is December 31, 2030



Reporting

Nemak commits to report on an annual basis on its performance on the KPI, and expects to include the relevant data in a Sustainability-Linked Instrument Report as part of its annual sustainability reporting on its website. Nemak further commits to disclose relevant information such as (i) the performance of the KPI and progress towards the SPTs, (ii) verification assurance certificate for KPI calculation and (iii) any other relevant information enabling investors to monitor progress towards the SPTs.



Verification

Nemak commits to having an external verifier provide limited assurance on the published KPI performance figures, with the first verification covering 2018 to 2021 data provided before December 2022, and annually thereafter until the SPT deadline and in case of any trigger events specified in the Bond documentation



Section 2: Assessment of Nemak's Sustainability Strategy

Credibility of Nemak Sustainability Strategy

Nemak is a signatory to the UN Global Compact since 2020²⁰, and its 2020 Annual Report is written in accordance with the Global Reporting Initiative Guidelines.²¹ In 2020, Nemak set up a dedicated sustainability team to improve its global collaboration on sustainability. A member of Nemak's Board of Directors is responsible for integrating sustainability across all its business strategies. Nemak also has a Sustainability Steering Committee, comprised of managers from various functional areas, responsible for implementing sustainability measures, and a Climate Task Force responsible for developing and implementing a roadmap to net zero.²²

Nemak conducted its first materiality analysis in 2015 to identify 12 material ESG issues²³, and since then, it has invested over USD 50 million in ESG-related initiatives.²⁴ As a result, Nemak has identified climate change and emissions reductions, energy efficiency, environmental management and resource management among the most material issues for its stakeholders. The three areas of focus in its environmental strategy include: (i) Green Production through renewable energy and energy efficiency, (ii) Green Products by increasing the use of recycled and end-of-life material in its products and (iii) Green Sourcing through active engagement with its suppliers.²⁵ In recognition of the broader environmental challenges faced by industrial processes, Nemak has conducted water risk assessments to identify water-stressed zones across its global operations, identifying two locations in Mexico and India which account for around 8% of the Company's total water withdrawals.²⁶ The Company also has a water management strategy to reduce water consumption through recycling, treatment and green landscaping measures that improve stormwater quality.²⁷

Sustainalytics notes that Nemak aims to reduce its operational carbon footprint by setting targets for emissions reductions. Additionally, in the same year, Nemak has implemented emission control systems targeting air pollutant reduction, lighting upgrades and Internet of Things based energy efficiency systems.²⁸ As of 2020, 33% of its facilities were ISO 50001 compliant, with plans to implement the standard across all its global facilities.²⁹ Nemak also plans to increase the share of renewable energy in production processes, with energy from non-carbon sources accounting for 12% of the energy across all operations in 2020.³⁰

The Issuer has communicated in the Framework that purchased goods and services accounted for 81% of its Scope 3 emissions in 2019, within which aluminum alloys and scrap alone account for 72% of the emissions. Additionally, the Company's long-term strategy to reduce carbon emissions from this segment involves expanding the use of secondary alloys made from recycled materials. As of 2020, around 80% of its products are made from recycled aluminum.³¹ Nemak addresses its downstream Scope 3 emissions through its electric mobility and structural applications business, supporting customers on structural and battery pack applications for electric vehicles.³² The Company's internal life cycle analysis shows that its lightweight solutions that are more energy efficient when compared with traditional existing options, and manufactured using 100% end-of-life material can lead to a nearly 90% reduction in its products-related carbon footprint.³³ This strategy is also in line with Nemak's corporate purpose, which it defines as a "commitment to support the automotive industry's shift towards a more sustainable mobility".³⁴

Based on the above, Sustainalytics considers Nemak to have a strong sustainability strategy and considers that the SLBs will further support the Nemak sustainability strategy.

²⁰ Nemak, "2020 Annual report", at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>

²¹ Nemak, "Nemak GRI Index 2020", at: https://www.nemak.com/media/2105/eng_ai_nemak-2020_gri_v2.pdf

²² Nemak, "2020 Annual report", at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>

²³ Nemak, website "Nemak Sustainability Model", at: <https://www.nemak.com/sustainability/?sc=0#sustainabilityMateriality>

²⁴ Nemak, "2020 Annual report", at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>

²⁵ *Ibid.*

²⁶ *Ibid.*

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ *Ibid.*

³⁰ *Ibid.*

³¹ *Ibid.*

³² *Ibid.*

³³ *Ibid.*

³⁴ Nemak, "Nemak Sustainable Purchasing Policy", at: <https://www.nemak.com/media/2169/sustainable-purchasing-policy.pdf>

Nemak's Environmental and Social Risk Management

According to Sustainalytics' ESG Risk Ratings framework, Nemak has a medium exposure to ESG risks - in line with most firms in the Auto Parts subindustry. Sustainalytics also recognizes that while Nemak's defined targets are impactful, achieving the SPT bears environmental and social risks related to (i) occupational health and safety, (ii) waste management and wastewater discharge, and (iii) supply chain risks related to human rights, responsible business practice, and environment and compliance.

In the following section, Sustainalytics comments on Nemak's ability to mitigate such potential risks.

- Nemak has a Health, Safety and Environment ("HSE") Policy, developed in 2018 and implemented through its Global HSE Management System. The policy provides guidelines on ensuring accountability, setting and maintaining expectations and engaging employees, contractors and visitors regarding HSE issues.³⁵ In 2020, Nemak's Total Recordable Incidents Rate was at 1.57 per 100 employees, with the number of cases decreasing by 50% from 2019. Its Lost Time Case Rate was 0.5 per 100 employees, with the number of cases seeing a similar halving in 2020.³⁶
- To manage waste streams from its processes, Nemak has programs for waste reduction (for paper, cardboard, steel, wood, lubricants etc.) and recycling of aluminum and plastics.³⁷ The total waste generated from its operations decreased by about 20% in 2020 compared to 2019. Over 40% of the total waste generated was recycled and recovered in 2020.³⁸ All wastewater is treated on-site or in municipal wastewater treatment plants off-site, in compliance with applicable regulations. Nemak is also investing in wastewater treatment plants (in addition to the 23 existing ones), increasing water recycling and substituting material pollutants.³⁹
- Nemak's Global Business Code for Suppliers (developed in 2019, last revised in 2021) outlines the basic principles for suppliers on business practice, ethics and compliance, environment and product safety, human rights and working conditions. Compliance with the code of conduct is ensured through audits and corrective action plans.⁴⁰ It also has a Sustainable Purchasing Policy, which provides guidelines for the responsible sourcing of raw materials in compliance with applicable policies and regulations, considering economic, social, environmental and ethical practices. The policy also outlines Nemak's commitment to set annual objectives for sustainability practices of both Nemak and its suppliers, assess its supplier base on sustainability topics (such as waste management, carbon footprint, water consumption, human rights, community well-being and ethical business practices) and implement supplier risk management processes.⁴¹

In addition to the above, Sustainalytics notes that it has found no evidence of any major environmental or social controversies related to Nemak. Overall, Sustainalytics considers that Nemak has strong management programs and policies to mitigate risks that could affect the achievement of the SPTs.

³⁵ Nemak, "Health, Safety and Environment Policy" at: <https://www.nemak.com/media/1645/nemak-global-health-safety-and-environment-hse-policy.pdf>

³⁶ Nemak, "2020 Annual report", at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>

³⁷ Nemak, "Nemak's Sustainability Model", at: <https://www.nemak.com/sustainability/?sc=0#sustainabilityData>

³⁸ Nemak, "2020 Annual report", at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>

³⁹ *Ibid.*

⁴⁰ Nemak, "Global Business Code for Suppliers", at: <https://www.nemak.com/media/2168/nemak-business-code-for-suppliers.pdf>

⁴¹ Nemak, "Nemak Sustainable Purchasing Policy", at: <https://www.nemak.com/media/2169/sustainable-purchasing-policy.pdf>

Section 3: Impact of the SPTs Chosen

Importance of reducing GHG emissions in the Auto-Parts industry

Globally, the transportation sector accounts for nearly a quarter of energy-related emissions.⁴² In recent years, efficiency improvements, electrification and the greater use of biofuels have helped reduce global transport emissions, with 2019 seeing only a marginal annual increase of less than 0.5% in global GHG emissions.⁴³ However, such reductions are also offset by increased vehicle ownership⁴⁴, especially in segments such as sports utility vehicles, which in 2019 accounted for nearly half of all cars sold in the U.S and one-third of car sales in the E.U.⁴⁵ Currently, 65 to 80% of the lifetime emissions of internal combustion engine vehicles come from the exhaust from burning fuel, with the emissions from the production of materials accounting for around 18-22%. Achieving the Paris Agreement climate goal to reach net-zero emissions by 2050 would require close to 100% penetration of electric vehicles by 2040. In such a scenario, estimates suggest that over 50% of automotive lifecycle emissions will come from materials by 2040.⁴⁶

Decarbonization of the auto-parts industry can be done through initiatives such as (i) clean energy and energy efficiency in production, (ii) use of local suppliers to reduce emissions in transporting parts, (iii) reducing the carbon footprint of raw materials through recycling and remanufacturing, and (iv) good governance structures in place to integrate carbon-reduction in the business.⁴⁷ Estimates suggest that the automotive industry can abate emissions from material production for internal combustion engine vehicles by 66% and battery electric vehicles by 97% at no net increase in material costs by 2030 through the use of recycled aluminum, better smelting technologies and green electricity.⁴⁸

Additionally, Nemak’s production facilities and manufacturing processes drive its primary energy consumption through the use of natural gas, accounting for over 70% of its total direct and indirect energy consumption in 2020.⁴⁹ Hence, Nemak heavily relies on fossil fuel usage for its operations, and Sustainalytics notes that mitigating these emissions may require significant changes. Nemak has also communicated the need for technical breakthroughs, particularly for electrification of smelting processes as electric melting of aluminum at industrial scale is not yet well-established. In this context, Sustainalytics notes that Nemak’s strategies to enhance renewable energy, energy efficiency and material efficiency by using recycled raw materials can significantly reduce its operational carbon and support the auto industry moving to cleaner mobility.

Alignment with/contribution to SDGs

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

KPI	SDG	SDG Target
Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)	SDG 7: Affordable and Clean Energy SDG 9: Industry, Innovation and Infrastructure	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix. 7.3 By 2030, double the global rate of improvement in energy efficiency 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 acting in accordance with their respective capabilities

⁴² International Energy Agency, “Transport, Energy and CO2”, at: <https://www.iea.org/reports/transport-energy-and-co2>

⁴³ International Energy Agency, “Tracking Transport 2020”, at: <https://www.iea.org/reports/tracking-transport-2020>

⁴⁴ International Energy Agency, “Transport, Energy and CO2”, at: <https://www.iea.org/reports/transport-energy-and-co2>

⁴⁵ International Energy Agency, “Growing preference for SUVs challenges emissions reductions in passenger car market”, at: <https://www.iea.org/commentaries/growing-preference-for-suvs-challenges-emissions-reductions-in-passenger-car-market>

⁴⁶ World Economic Forum and McKinsey & Company, “Forging Ahead: A materials roadmap for the zero-carbon car”, at: http://www3.weforum.org/docs/WEF_Forging_Ahead_2020.pdf

⁴⁷ Wyman, O. (2020). “In Midst Of COVID-19, Auto Faces The Next Big Challenge – Carbon Neutrality”, at: <https://www.forbes.com/sites/oliverwyman/2020/05/27/mid-covid-auto-must-face-its-next-challenge-carbon-neutrality/?sh=5bbb039356ee>

⁴⁸ World Economic Forum and McKinsey & Company, “Forging Ahead: A materials roadmap for the zero-carbon car”, at: http://www3.weforum.org/docs/WEF_Forging_Ahead_2020.pdf

⁴⁹ Nemak, “2020 Annual report”, at: <https://investors.nemak.com/static-files/1c5cd0aa-84f8-49e0-9db3-76c8db98e68f>



Conclusion

Nemak intends to issue Sustainability-Linked Bonds, where a potential premium payment, not limited to a step-up in the bond coupon margin, will be tied to the achievements of one of the following SPTs:

- SPT 1: Reduce Scope 1 and 2 tCO₂e emissions by 18% in 2026 from the 2019 baseline,
- SPT 2: Reduce Scope 1 and 2 tCO₂e emissions by 28% in 2030 from the 2019 baseline,

Sustainalytics performed a review of Nemak's SLB information and considers the KPI to be relevant and material and aligned with the Company's sustainability strategy and has assessed it as Adequate based on its scope and applicability, and its clear and consistent definition. Nemak's SPTs are assessed to be Ambitious based on the Issuer's historical performance, performance against peers and external contextual science-based benchmarks. Furthermore, Sustainalytics considers the reporting and verification commitments to be aligned with market expectations and notes that the Issuer will disclose further detail on the bond characteristics in issuance documents.

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

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Nemak S.A.B. de C.V.

Sustainability-Linked Bond ISIN: Not known at the time of publication.

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

Completion date of second party opinion pre-issuance: June 15, 2021

Independent External Review provider's name for post-issuance verification (section 4): Not known at the time of publication.

Completion date of post issuance verification: Not known at the time of publication.

At the launch of the bond, the structure is:

- a step-up structure a variable redemption structure

To be defined by the issuer in bond-specific documentation

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

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

The review:

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

Nemak intends to issue Sustainability-Linked Bonds, where a potential premium payment, not limited to a step-up in the bond coupon margin, will be tied to the achievements of one of the following SPTs:

- SPT 1: Reduce Scope 1 and 2 tCO2e emissions by 18% in 2026 from the 2019 baseline,
- SPT 2: Reduce Scope 1 and 2 tCO2e emissions by 28% in 2030 from the 2019 baseline,

Sustainalytics performed a review of Nemak’s SLB information and considers the KPI to be relevant and material and aligned with the Company’s sustainability strategy and has assessed it as Adequate based on its scope and applicability, and its clear and consistent definition. Nemak’s SPTs are assessed to be Ambitious based on the Issuer’s historical performance, performance against peers and external contextual science-based benchmarks. Furthermore, Sustainalytics considers the reporting and verification commitments to be aligned with market expectations and notes that the Issuer will disclose further detail on the bond characteristics in issuance documents.

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

Section 3. Detailed pre-issuance review

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

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable): Nemak’s Sustainability-Linked Bond Framework includes one KPI: Absolute Scope 1 and Scope 2 Greenhouse Gas (GHG) Emissions.

List of selected KPIs:

- Absolute Greenhouse Gas (GHG) Emissions - Scope 1 and 2 (in tonnes CO2 equivalent)

Definition, Scope, and parameters

- | | |
|--|---|
| <input checked="" type="checkbox"/> Clear definition of each selected KPIs | <input checked="" type="checkbox"/> Clear calculation methodology |
| <input type="checkbox"/> Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|--|
| <input checked="" type="checkbox"/> Credentials that the selected KPIs are relevant, core and material to the issuer’s sustainability and business strategy. | <input checked="" type="checkbox"/> 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 checked="" 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): Nemak has defined two SPTs in relation to its KPI. Sustainalytics considers the SPTs to be aligned with the Issuer’s sustainability strategy and further considers the SPTs to be ambitious given that they present a material improvement compared to the past performance, they stand out within the auto parts industry, and they present a GHG reduction aligned with a well-below 2°C scenario.

Rationale and level of ambition

- | | |
|--|---|
| <input checked="" 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 checked="" 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 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): Nemak will link the bond’s financial/ structural characteristics to the achievement of at least one of the SPTs, which involves a premium payment such as, but not limited to, a step-up in the bond coupon margin upon non-achievement of one of the SPTs.

Financial impact:

- variation of the coupon
- ...
- Other (please specify): a potential premium payment - not limited to a step-up in the bond coupon margin

Structural characteristic:

- ...
- ...
- Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable): Nemak commits to report on an annual basis on its performance on the KPI in its Sustainability-Linked Instrument Report as a part of its annual sustainability reporting on its website.

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> performance of the selected KPIs | <input checked="" type="checkbox"/> verification assurance report |
|--|---|

- level of ambition of the SPTs
- Other (*please specify*):

Frequency:

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

Means of Disclosure

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

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

Level of Assurance on Reporting

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

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

Section 4. Post-issuance verification

Overall comment on the section (if applicable): Nemak commits to have external limited assurance conducted on its KPI performance, with the first verification covering 2018 to 2021 data provided before December 2022, and annually thereafter till the SPT deadline and in case of any trigger events specified in the Bond documentation.

Information reported:

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

Frequency:

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

Material change:

- Perimeter
- KPI methodology
- SPTs calibration



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For more information, visit www.sustainalytics.com

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Named

2015: Best SRI or Green Bond Research or Rating Firm
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