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CONCESSION TITLES FOR THE
EXPLOITATION OF NATIONAL WATERS:
**RECOMMENDATIONS
FOR CONSERVING A
VALUABLE ASSET**

S+S INSIGHTS



According to the Mexican Constitution, the water found within the territory (including rivers, lakes, and aquifers) are considered property of the Nation. Therefore, its use and exploitation are subject to legal provisions that establish that in order to exploit national waters, it is necessary to hold a concession title issued by the National Water Commission ("CONAGUA").

Notwithstanding that access to water is a human right, due to the increasing droughts that took place in Mexico during 2022, access to water has been compromised.

As a result of these events, CONAGUA made it a high priority to verify that all of the concession title holders comply with the terms and conditions set forth in the concession titles issued for the use of water for industrial, agricultural, and other activities. In the event that during this

verification process, CONAGUA considers that there is a breach of the terms and conditions outlined in a concession title, it may order the suspension, cancellation, or revocation of said title. In this regard, during 2022, it was common for CONAGUA to expire volumes of water that were authorized in a concession title but were not being used. All of these actions were taken by CONAGUA to ensure that the water supply is available for human consumption.

Considering the above, we share a set of guidelines and recommendations intended to prevent any type of non-compliance with the terms and conditions set forth in a concession title for the exploitation of national waters that could result in the imposition of fines or the cancellation of the concession title, which could ultimately compromise water supply:



1. Avoid exceeding the volume of water authorized in the concession title. Using more water volume than the one originally authorized by means of the concession title is a non-compliance that could result in the imposition of fines and the revocation of the concession title.

2. Avoid the expiration of the concession title by paying guarantee fees or investing in water-saving technologies. Water volumes authorized in a concession title but not used for two consecutive years could result in CONAGUA expiring the volumes of water that were not used, canceling such volumes from the concession title. In this case, the concession title holder would lose the right to use the expired water volumes.

To avoid expiration, it is possible to pay a guarantee fee to CONAGUA, which is calculated based on the volume of authorized water used during the two-year period. This fee's objective is to notify CONAGUA that the concession title holder is interested in using this volume in the future.

Likewise, it is possible to carry out investments to implement projects whose purpose is saving and efficiently use of water, which shall be notified to CONAGUA before the end of the two years in which less water has been used.

It should be noted that these type of projects may also help comply with a company's ESG (environmental, social, and governance) policies.

3. Comply with the terms and conditions established in the corresponding concession title. Concessionaires must comply with the payment and operational obligations set forth in the concession title to avoid a breach of the concession title that could result in the suspension or revocation of the concession title, as well as the imposition of fines, updates, and surcharges. In addition to the issuance and administration of concession titles to use and exploit national waters, CONAGUA is legally authorized to verify the payment of fees for the exploitation of national waters. In the event of non-payment, it may impose fines, demand updates and surcharges, and ensure that water bodies are not overexploited.

4. Verify that the water meters are operating properly. Concession title holders shall measure their water consumption through the installation and use of water meters authorized by CONAGUA. In case the water meters are not working properly, the title holder shall notify CONAGUA immediately to avoid malfunctions in their water consumption records.

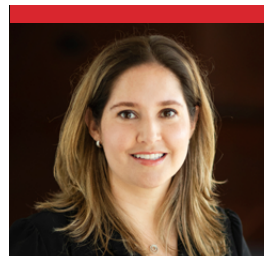
- 5. Keep water accounting.** Concession title holders shall submit declarations of their water consumption and pay fees for such consumption through the DECLARAGUA platform.
- 6. Use withdrawn water for the authorized use established in the concession title.** The concession title specifies the use of the withdrawn water. If the withdrawn water is used for different purposes than those authorized in the concession title, it is considered a breach of the concession title that could result in its revocation.
- 7. Request the extension of the concession title at least six months before the expiration of its term.** Unlike other authorizations that allow requesting their extension at any time prior to their expiration, concession title extensions shall be requested by the concession title holder at least six months prior to the end of their term.
- 8. Avoid supplying water to third parties.** Only the holder of a concession title may use the extracted water volume. To supply water to third parties (including related parties and subsidiaries), the title holder shall obtain authorization from CONAGUA. In case of failure to comply with the aforementioned may derive in the revocation of the concession title.
- 9. Verify that a concession title is in compliance prior to its acquisition.** Before acquiring a concession title for exploiting national waters in the water market, we recommend carrying out an audit process to verify that the terms and conditions set forth in the concession title are fulfilled. In the event that the title holder has not complied with the terms and conditions, the concession title's validity could be affected, resulting in CONAGUA's refusal to authorize its assignment.

Most activities require the use of water. Even with the increasing use of sustainable technologies to preserve and use water efficiently, some industries require large volumes of water for their operations or even compromise their operations if there is a lack of water. Therefore, concession titles for exploiting national waters are valuable assets that must be properly held to ensure efficient and continuous water supply.



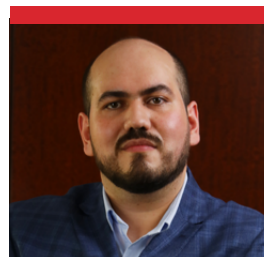
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