FALCON COFFEES

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

2024 TCFD REPORT

FOR THE FISCAL YEAR JANUARY - DECEMBER 2023

FALCON COFFEES

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INTRODUCTION

Falcon Coffees is a green coffee trader that sources coffee from twenty producing countries on behalf of over one thousand coffee roasters worldwide. Our mission is to change the way coffee is traded for good, shifting economic values from short-term profiteering to long-term sustainability through collaboration. This mission is compelled by the idea that participating in and preserving coffee supply chains has the potential to drive enormous socio-economic change, while supporting environmental stewardship across the geo-political landscape of coffee-growing regions on which our industry relies.

We lead operations from our headquarters in Lewes, UK with regional offices in the US, Germany, Peru, Malaysia, and Ethiopia. Our key operations include sourcing, export, logistics, transportation, and distribution. We believe deeply in the preservation of coffee-growing communities and taking responsibility for our impact on them and the ecological environments where they live and farm. We seek to build and foster equitable supply chains for mutual profit and positive outcomes. These principles guide all our endeavours within the pillars of environmental stewardship, social upliftment, and good governance.

"As members of Conservation International's Sustainable Coffee Challenge, we are committed to implementing time-bound targets to direct the reduction of our supply chain emissions."

In 2023, we supported fifteen different impact initiatives globally, spanning our countries of sourcing activity and including climate-smart coffee processing practices, carbon sequestration, gender equity, and much more. Impact metrics (KPIs) and details on several of these initiatives can be found on our website.

As members of Conservation International's Sustainable Coffee Challenge, we are committed to implementing time-bound targets to direct the reduction of our supply chain emissions. We are further committed to achieving net zero greenhouse gas emissions by 2050 and are in the process of developing this transition plan, which will further guide our strategy and focus for years to come.

IN THIS REPORT

The Taskforce on Climate-related Financial Disclosures (TCFD) was created in 2015 to improve and increase reporting of climate-related financial information. The TCFD developed a framework to help public companies and other organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

Starting in 2023, Falcon Coffees publishes a report following the TCFD framework each year. We hope this publication provides enlightening guidance on our approach to our climate-related risks and opportunities and gives greater insight into how we are tackling the realities of climate change within the coffee industry.

The following information covers Falcon's fiscal year January to December 2023.

KONRAD BRITS
- CEO and Founder

HELEN MARSHALL
- CFO

AGNIESZKA KRASUSKA - COO

MATT HORSBRUGH
- Chief Trading Officer

GOVERANCE

Board Oversight on Climate-Related Risks & Opportunities

Falcon's Executive Team consists of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operational Officer (COO), and Chief Trading Officer (CTO) who all report to our Board of Directors. Falcon's CEO, CFO and COO also sit on the Board of Directors.

Climate-related risk and opportunity are managed at the highest governance level in the company, by Falcon's CEO. Our CEO's climate responsibility includes Falcon's sustainability strategy, oversight of our management of climate-related risk, and the approval of major climate-related innovations. Falcon's Director of Sustainability reports directly to our CEO. Falcon's Board receives quarterly updates from our executive team, which include high-level financial, business, and strategic updates.

Falcon's Director of Sustainability delivers our quarterly climate-related risks and opportunities report, which may include updates on climate issues, budgets, targets, value chain engagement, updates on climate-related R&D and new projects, as well as strategic recommendations.

As an agricultural commodity, our business of trading and importing green coffee is inextricably linked to climate and climate change. As Falcon looks ahead toward a low-emissions operating model, climate mitigation activities and major expenditures may become an increasingly meaningful aspect of our financials and, as a result, we feel strongly that CFO engagement is also key to achieving our climate goals. Falcon's CFO works closely with our Director of Sustainability on annual forecasting and budgeting toward our climate risks and opportunities.

Climate-Related Opportunity

In partnership with the University of Brighton and Innovate UK, Falcon's team has developed a new methodology and efficient tools for measuring emissions in coffee farming.

This innovation will allow both Falcon and its supply chain partners greater visibility to generated emissions, opening the door for more targeted mitigation and sequestration efforts. Completed in 2024, Falcon has leveraged this work across three origins for the benefit of producers and customers alike.

Falcon's research in this field was recognized by the *Journal of Environmental Conservation* in 2024. Chasing net zero: critical uncertainties in coffee emissions calculations was published based on Falcon's findings from the pilot study in Jaén, Peru and the complications discovered on calculating emissions during the project.

[Journal of Environmental Conservation 2024:1-9]

STRATEGY

As an agricultural commodity, green coffee is inherently linked to climate and climate change. Climate change has the potential to create material risks and opportunities for Falcon over the short, medium, and long term.

Each year, Falcon submits a comprehensive climate disclosure to CDP, a nonprofit which runs a "*global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts*". Our annual report provides detail around the ways in which Falcon assesses and responds to climate risk.

Two general types of risk are relevant to Falcon's ongoing assessments: transition risk and physical risk. Transition risks are those related to shifts in the regulatory, technological, and social landscapes that are likely to occur in the transition to a low carbon economy. Physical risks are those related to the acute or chronic impacts of climate change. Much of Falcon's content is publicly accessible, including examples of each of these types of risk and their impact to Falcon's business. For an in-depth reading, please see our CDP report. Two examples of this content can be found on the following pages.

STRATEGY

Transition Risk: The EU Deforestation Regulation

As part of the European Union's (EU's) December 2019 approval of the "Green Deal," a deforestation regulation, "EUDR" (Regulation 20-23/1115), came into effect in 2023. Starting December 30, 2025, the regulation bans the import and export of several commodities that are not deforestation-free, including coffee. Importers must prove to European authorities that their products do not contribute to deforestation.

Primary financial effect of the risk

Increased compliance costs. With approximately 30% of the world's coffee consumption being within the EU, we anticipate that this risk impacts Falcon and its industry peers fairly evenly.

Time horizon over which the risk is anticipated to have a substantive effect on the organization

Short and Medium Term

Likelihood of the risk having an effect within the anticipated time horizon

Virtually certain

Anticipated effect of the risk

The inability to achieve compliance for EUDR could create a number of effects, including fines for the importer of record, loss of customers within the EU, or loss of market access and therefore revenue.

Response to risk

Falcon's response to EUDR takes three forms.

First, we are developing the systems, tools, and processes we need to achieve compliance and generate the records required.

Second, Falcon supports their upstream partners with guidance, information, and assistance with geolocation data collection where possible.

Third, Falcon is acting as a resource for downstream customers, providing the documentation they, too, may require for EUDR compliance and in the development of customer systems and processes.

For additional detail, please see Falcon's 2024 CDP disclosure, here.

STRATEGY

Physical Risk: Changing precipitation patterns in Ethiopia

Ethiopia ranks fifth in global coffee production, and the sourcing and sale of high-quality Ethiopian coffees is an expertise of Falcon's. The results of climate change in Ethiopia to date have been significant.

The Carbon Consult Group (CCG) has reported that average temperatures have increased by 1.0°C since 1960 and the average number of 'hot days' (the hottest 10% of days annually) increased by 20% from 1960 to 2003. The increase in temperature lies in stark contrast to the decrease in precipitation, with the south-central part of the country experiencing a 20% decline in rainfall since 1960.

The decline in rainfall is joined by an increased lack of predictability season-to-season and year-to-year, altering traditional rainfall patterns and increasing drought.

The south-central area of Ethiopia most impacted by a decrease in rainfall is also the region home to some of the most notable areas of coffee production, including Djimmah, Limu, Sidama and Yirgacheffe.

While precipitation issues can be challenging to combat, they are exacerbated by the coffee production model that dominates Ethiopia, where smallholder farming households account for approximately 95% of agricultural production. For coffee, farms operate in a largely subsistence farming model, which has little ability to efficiently combat decreased rainfall.

Continued....

Primary financial effect of the risk

Decreased revenues due to reduced production capacity. Arguably, climate change risk related to Ethiopian coffee production may impact Falcon to a larger degree than its industry peers due to the expertise Falcon has in Ethiopia and the resulting percentage of our total volume sourced from Ethiopia.

Time horizon over which the risk is anticipated to have a substantive effect on the organization

Long Term

Likelihood of the risk having an effect within the anticipated time horizon.

Likely

Anticipated effect of the risk

The overall impact of this issue is a constrained and less predictable supply chain. As soil moisture and precipitation decrease, coffee yields decline, and beans produced can be physically smaller and of poorer quality. Meanwhile, higher quality coffees continue to demand higher prices, and spikes in the commodities price over the course of a season can increase the likelihood of contract defaults, wherein producers choose to break contracts given the higher incremental earnings offered. This can strain Falcon's operations and test Falcon's risk management.

Response to risk

Falcon's response to the increases in Ethiopia's temperature and decreased precipitation is to invest in risk reduction activities that combat the issues facing production and quality brought on by climate change. Falcon supported multiple initiatives in climate-smart agriculture in Ethiopia in 2023.

Each year, Falcon provides agronomy training to its strategic supply chains, which includes training on boosting coffee productivity in the current climate, improving coffee quality, and in selecting coffee varietals that are adaptable to climate change, withstanding disease, and provide the flavor and profile the market demands.

Our agronomists also provide training and support for planting indigenous shade trees in coffee farms, which sequester carbon and can improve soil health and encourage biodiversity.

For additional detail, please see Falcon's 2024 CDP disclosure, here .

STRATEGY

A TCFD Framework Limitation: Climate Scenario Analysis

The scenario analysis (CSA) models that have been explored by Falcon have not yet, to date, provided outputs that would have a significant impact on Falcon's strategy. This is mostly due to Falcon's existing high adoption of renewable energy, all-around low Scope 1 and Scope 2 energy use, and its low number of office or operational locations. It would not be pragmatic to invest the time and resources required to do an analysis with a model like the International Energy Agency's (IEA's) Sustainable Development Scenario (SDS). However, Falcon's understanding of the potential impacts of climate change on its operations is growing and it is understood that these climate-related impacts could be significant. For these reasons, it is important that a model with relevant outputs is found or developed. Our team continues to consider and investigate options.

In absence of a relevant CSA, Falcon partnered with impact investing firm ResponsAbility and the Consortium of International Agricultural Research Centers (CGIAR) in 2023 on the development of an in-depth analysis of Falcon's top six coffee growing origins by revenue. As described by ResponsAbility, "The initial assessment focused on medium to long term changes between 2021-2040. Annual mean temperatures and precipitation for the selected regions were derived from three different global circulation models (MRI-ESM2; CANESM5 and MIROC6) under the SSP 245 scenario at 2.5 arc seconds resolution. EcoCrop was used to model the future suitability of selected commodities under projected changes in climate for 2021-2040. To assess short-term suitability, temperature and precipitation outputs from HighResMIP of the selected models mentioned above were derived for coffee wet and dry seasons. The derived HighResMIP outputs were compared to that of the optimal precipitation and temperature requirements, to derive a suitability metric for each season for the next 5 years". The report analyzed both short and long-term climate suitability for coffee, which extended into existing and potential interventions that Falcon can promote to further Climate Smart Agriculture (CSA). A summary of this work can be found on the next page.

Based on CGIAR's assessment and analysis, Falcon and ResponsAbility co-invested in and initiated a three-year project in Peru in 2024, geared toward expanding access to climate-smart agricultural training and services, with the intention of increasing productivity and mitigating GHG emissions.

Table 1. *Potential climate suitability, hazards and CSA interventions for climate-resilient coffee production in Ethiopia, Rwanda, Honduras, Brazil, Colombia, and Peru.*

Country	District	Long-term suitability (2021-2040)	Potential short-term climate hazards (2023-2029)			Suggested additional CSA interventions for minimizing climate hazards**
			Severity of impacts on rainfall and temperature*	CSA interventions in place	Negative impacts on crop production	
Peru	**Cusco** **Junin**	Reduced suitability	Lower total rainfall in wet season Higher total rainfall in dry season Higher mean annual temperatures	Agroforestry, crop residue management and use of manure	Potential	Agroforestry, integrated nutrient and pest management, improved infrastructure and drainage systems, coffee tolerant varieties, legume incorporation, diversify production.
Brazil	**Patrocinio**	Mostly suitable	Lower mean annual temperatures Lower total rainfall in dry season	NA	Unlikely	Efficient irrigation systems, mulching, shade management, cover cropping, use of Biochar, use of certified seeds, coffee seedlings grafting.
Ethiopia	**Guji** **Jima**	Mostly suitable	Higher total rainfall variation wet season Higher mean annual temperatures Lower total rainfall in wet/dry season	Agroforestry, composting, and crop residue management	Unlikely	
Honduras	**Cortes** **Copan** **Ocotepeque**	Mostly suitable	Lower total rainfall in wet season Lower total rainfall in wet season Lower annual mean temperatures	Agroforestry, crop residue management and use of manure	Unlikely	
Colombia	**Antioquia** **Caldas**	Likely suitable	Higher total rainfall in dry season Higher total rainfall wet/dry season	NA	Likely	Agroforestry, crop residue management and use of manure (ISFM), contour terracing and water management, diversification, adopting more climate resilient coffee varieties
Rwanda	**Gatsibo** **Ngoma** **Karongi** **Nyamasheke**	Likely suitable	Higher mean annual temperatures Higher total rainfall in the wet/dry season	NA	Likely	

*Short-term hazard severity on:

Changes in rainfall

Low: Change in total rainfall by 500-1000 mm in the wet and dry seasons of the year

Medium: Change in total rainfall by 1000-1500 mm in the wet and dry seasons of the year

High: Change in total rainfall by >2000mm in the wet and dry seasons of the year

Changes in temperature:

Low: <3°C difference in comparison to the optimal (18-21 °C);

Medium: 3-6°C difference in comparison to the optimal (18-21 °C);

High: > 6°C difference in comparison to the optimal (18-21 °C)

**Subjected to further on-the-ground analysis.

CGIAR

responsAbility

RISK MANAGEMENT

As a trader of specialty coffees, a significant part of Falcon's value lies in our ability to identify, assess, and respond to risks and opportunities across our value chain. We have a comprehensive, multi-disciplinary, company-wide approach to managing climate-related risks and opportunities throughout the calendar year.

I. Identifying Risks and Opportunities

Falcon identifies climate-related risks and opportunities primarily through two channels.The first channel is a team of Falcon's origin and trade experts, who are each dedicated to operations in key regions spanning five continents. This team is responsible for collecting and aggregating upstream and downstream intelligence about climate-related issues and opportunities within their regions that have the potential to impact coffee supply chains. These risks and opportunities are largely short and medium term and can include both acute and chronic weather, pests, disease, and more. Much of this raw data is aggregated by our trade experts in a fortnightly report that is shared both internally and, selectively, externally. The second channel is through our sustainability team, who collect data on our climate risks and opportunities from an array of sources including academic and governmental resources, internal research, and industry partnerships. Largely medium and long term, the risks and opportunities identified may be based not only on climate intelligence, but also on the shifting regulatory landscape.

II. Assessing Risks and Opportunities

Climate-related risks and opportunities are assessed at Falcon based upon both their financial and strategic impact. We may assess these risks and opportunities against both their likelihood but

also their potential impact to revenue or margin. Frequently, however, the assessments focus on the strategic impact. Once identified, risks and opportunities are assessed in two ways.

The first is via a strategic team including trade, operations, finance, and risk management. Meeting at least monthly, this group assesses intelligence from our fortnightly reporting as well as other sources. Their assessment may be made based on the anticipated timeframe of a physical condition (e.g., drought) as well as a risk or opportunity's scope (e.g., regionally isolated or country-wide) or prevalence (e.g., intermittent or widespread). Assessments may also include impact to supply (e.g., short or long-term reduction, shifts in harvest timeframes based on climate change), impact on quality, or impact on price volatility. The second is led by the sustainability team, who assesses their identified risks and opportunities based upon their financial and strategic impact, both through an annual review cycle and as key risks and issues arise.

III. Responding to Risks and Opportunities

Falcon's response to climate-related risks and opportunities varies and may reflect a classic risk management framework of acceptance, avoidance, transference, or reduction. Falcon may accept, for example, a reduction in the coffee quality from a producer partner due to a short term, acute, climate-related issue if the long-term producer partnership is of such strategic value that supporting it with revenue is deemed of more value than damaging the relationship by avoiding business through an entire annual harvest. Those downstream implications may include reduced margins. Alternatively, Falcon may choose to reduce their risk in a region with long-term, chronic, widespread climate-related issues, such as coffee tree disease, by in part reducing their overall volume purchased from that region and seeking volume from other regions as an alternative.

Alternatively, the response to climate-related opportunities can often occur through deepening upstream or downstream partnerships by making climate-focused investments in coffee origins Our response to risks and opportunities may impact the current sustainability roadmap and our budgeting and reforecasting cycle, which is developed annually and evaluated at least every quarter.

METRICS AND TARGETS

Falcon has been measuring its emissions since 2019 and have disclosed these and other metrics in a CDP disclosure for the past three years. Falcon's emissions boundaries are currently operational control, though we continue to explore the data available to expand our calculations further upstream.

Metrics	**2023**	**2022**	**2019 Base Year**
Total Scope 1 emissions (MT CO^2eq)	**8.05**	**12.31**	**6.47**
Total Scope 2 emissions (MT CO^2eq) (location-based)	**12.72**	**8.01**	**9.59**
Total Scope 2 emissions (MT CO^2eq) (market-based)	**2.49**	**1.72**	**1.47**
Total Scope 3 emissions (MT CO^2eq)	**4207.06**	**5976.08**	**7574.83**
Scope 1 and 2 intensity (MT CO^2eq per MT)	**0.000314**	**0.000466**	
Scope 1 and 2 intensity change from previous year	**32.52**	**18.75**	
Total energy consumption (MWh)	**91.21**	**90.62**	
Renewable energy consumption (MWH/%)	**46.11%**	**25.25%**	
2022 Emissions reduction initiative (MT)		**-79.00**	

Standards:
The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)
The Greenhouse Gas Protocol Agricultural Guidance: Interpreting the Corporate Accounting and Reporting Standard for the Agricultural Sector
The Greenhouse Gas Protocol: Scope 2 Guidance

LOOKING AHEAD

Falcon sees four opportunities to progress on our assessment and management of climate risk in line with the TCFD Framework.

1. Articulation of clear reduction targets: Our high adoption of renewable energy, all-around low Scope 1 and Scope 2 energy use, and low number of operational locations has made the development of reduction targets within our current reporting scope (operational control) more challenging. We anticipate the development of additional targets in 2025 and beyond.

2. Upstream Scope 3 reporting: Some studies estimate that over 30% of total coffee supply chain emissions occur prior to export, which makes the inclusion of these emissions and the accuracy of their measurement vital to the understanding of mitigation and reduction efforts. Falcon continues to develop its upstream emissions datasets, acknowledging that the inclusion of all upstream Scope 3 emissions would be a valuable step forward.

3. Development of a formal transition plan: Falcon currently has ambitions to complete a formal transition plan by the end of 2027.

4. Selecting an impactful Climate Scenario Analysis: While we anticipate that the selection of an appropriate CSA would provide outputs with an impact on Falcon's long-term climate strategy, reduction targets and transition planning have been determined as more impactful at this time.

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