Climate change - Risks and Opportunities

Detailed Review for 2024

Coca-Cola HBC

(1a) Climate Financial Risks: Transition Risk

Based on the climate risk and opportunity assessment we have quantified the following transition risk to our business:

Managing our carbon footprint

In detail:

- We estimated Scope 1 & 2 emissions based on our updated carbon reduction glidepath to meet NetZeroby40 commitment
- We engaged an external consultant specialising in risk assessments to provide carbon cost estimates through to 2040 under multiple climate scenarios, including RCP1.9 (Paris Ambition), RCP4.5 (Stated Policy) and RCP8.5 (Current Policy)
- In the disclosed calculation of risk, we used projected carbon costs under the RCP4.5 (Stated Policy) scenario to 2030 and 2040, as we consider this the most likely trajectory
  - Scope 1 carbon cost: €38.4/ tCO_2 in 2030 and €53.8/tCO_2 in 2040
  - Scope 2 carbon cost: €35.1/ tCO_2 in 2030 and €48.6/tCO_2 in 2040
  - Weighted average scope 1 & 2 carbon cost: €36.9/ tCO_2 in 2030 and €51.4/tCO_2 in 2040
- We used projected carbon costs as a proxy for increased cost of managing our carbon footprint. Other potential cost drivers were considered market-driven, not directly linked to climate change and were therefore considered out of scope for this analysis
- Under a Stated Policy (RCP4.5) scenario, we have estimated that the additional direct annual carbon cost for scope 1 and 2, will reach €10.8 million (293,418 tCO_2 * €36.9/tCO_2) by 2030, reducing to €2.8 million (54,539 tCO_2 * €51.4/tCO_2) by 2040.
- The future annual risk is represented as the average of the above two amounts:

Risk >> (€10.8m + €2.8m)/2 = €6.8 million per year

Mitigation Actions:

a) We have public sustainability commitments to reduce carbon emissions in our own operations (Scope 1 & 2) and to increase the use of renewable energy and electricity. We also have an internal target for the reduction of energy use ratio per litre of beverage produced. These commitments are under close monitoring and performance tracking.

b) We have SBTi validated and approved climate targets for 2030 and NetZeroby40, covering the entire value chain (Scope 1 & 2 & 3).

c) In 2024, we invested €26.0 million to implement energy saving programs and solutions in our plants and €11.4 million for green buildings and fleet. In addition, we paid €0.5 million to source renewable electricity for our operations.

Mitigation cost >> €26.0m + €11.4m + €0.5m = €37.9 million per year

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(1b) Climate Financial Risks: Transition Risk

Based on the climate risk and opportunity assessment we have quantified the following transition risk to our business:

The cost and availability of sustainable packaging

In detail:

- Packaging accounts for over 30% of our emissions, linked to the upstream part of our value chain. We estimated packaging driven emissions based on our SBTi approved carbon reduction glidepath to meet our NetZeroby40 commitment.
- We reviewed key drivers to this risk, including rising prices of packaging materials (e.g., rPET, aluminium), low collection rates, limited access to quality feedstock and increasing regulatory pressure, particularly under new EU packaging and plastics legislation.
- We engaged an external consultant specialising in risk assessments to provide carbon cost estimates through to 2040 under multiple climate scenarios, including RCP1.9 (Paris Ambition), RCP4.5 (Stated Policy) and RCP8.5 (Current Policy).
- In the disclosed calculation of risk, we applied the RCP4.5 (Stated Policy) scenario, as we considered it the most likely (average carbon cost of packaging: €72.5/tCO_2 in 2030 and €80.3/tCO_2 in 2040) and used projected carbon costs as a proxy for increased cost exposure. Other potential cost drivers were considered market-driven, not directly linked to climate change and were therefore considered out of scope for this analysis.
- Based on the RCP4.5 carbon cost scenario and in line with the NetZeroby40 emissions roadmap, we estimate that the annual cost of packaging will increase by €84.6 million in 2030 (1,166,755 tCO_2 * €72.5/tCO_2) and by €12 million in 2040 (149,622 tCO_2 * €80.3/tCO_2)
- The future annual risk is represented as the average of these two amounts

Risk >> (€84.6m + €12m)/2 = €48.3 million per year

Mitigation Actions:

a) Our Package Mix of the Future strategy, which aims to develop a profitable packaging strategy while reducing our environmental impact, supports long-term climate resilience and emissions reduction

b) We focus on key actions to meet our NetZeroby40 commitment, including the expansion of returnable (reusable) formats, the higher use of recycled packaging materials, supported by the in-house rPET production capabilities, the replacement of hard to recycle secondary packaging and the elimination of unnecessary packaging.

c) In 2024, we invested €59 million in returnable containers and €9.5 million in returnable glass production lines. We also invested €30 million in COGS (cost of goods sold) driven by the higher cost of recycled PET compared to virgin PET, as we pursue our strategic objective to reach 35% rPET by 2025, positively influencing both the reduction of our scope 3 emissions and the transition to a circular economy.

Mitigation cost >> €59m + €9.5m + €30m = €98.5 million (annually)

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(2) Climate Financial Risks: Physical Risk

Based on the climate risk and opportunity assessment we have quantified the following physical climate risk:

The impact of climate change on the cost and availability of water

In detail:

- Availability and quality of clean water is fundamental to our own operations, as well as to our suppliers and the local communities in which we operate.
- Climate change can impact water availability and usage across our operations. We have identified that 20 of our plants are located in water stress areas.
- The financial impact of climate change on water availability is calculated using an own-developed methodology, considering several inputs, such as: data from Aqueduct Water Risk Atlas to assess impact of climate change on water stress in the areas where our plants are located under RCP4.5 (Stated Policy), which we view as the likeliest trajectory, and RCP8.5 (Current Policy) climate scenarios; current water sources capacity, forecast production volume increases, water stress increase in the watersheds and the local economic value of water (i.e., the true cost of water).
- Our analysis uses projected water source utilisation as a proxy to assess future exposure. While we do not expect climate change to materially increase annual operational water costs, increasing water stress combined with higher production volume demand is expected to place pressure on existing sources. Therefore, the primary exposure relates to infrastructure requirements to ensure sufficient water availability for production.
- To ensure future production needs are met under climate stress conditions and to also replenish watersheds for local communities in water priority areas, we estimate the need for up to €68.4 million in additional capital expenditure by 2030. Under the same RCP4.5 scenario, we expect to accelerate further investments, with an estimated €99.3 million required by 2040. These investments will focus on expanding water infrastructure, including the development of new water sources, pipelines, storage capacity and upgraded treatment systems.

Risk >> (€68.4+€99.3)/16 = €10.5 million per year

Mitigation Actions:

a) As per our Mission 2025 strategy, we are committed to delivering 20% water reduction in plants located in water-risk areas and to helping secure water availability for all our communities in water risk areas.

b) In 2024, we invested €5.2 million of Capex for projects related to water optimization and wastewater treatment upgrades, with the largest projects in Egypt, Italy and Ireland. We also allocated around €0.5 million on Opex to cover the ISO 46001 certification of 20 production sites, to perform Source Vulnerability Assessments (SVAs) and to support water stewardship and water community projects.

Mitigation cost >> (€5.2+€0.5)=€5.7 million (annually)

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Climate Financial Risks: Summary

	Brief description of the risk	Estimated financial implications of the risk before taking action	Estimated risk mitigation annual cost
1a	**Transition risks driven by changes in regulation:** a) Own operations - Effect of changes in GHG regulations on the costs of managing our carbon footprint	**6.8 million Euro** Carbon emission tax applied to Scope 1 & 2 emissions	**37.9 million Euro** Capital investments for energy reduction/ optimization/ innovative solutions and renewable electricity/ energy sourcing via GoO/ iRECs
1b	b) Upstream value chain – effect of changes in GHG regulations on cost and availability of sustainable packaging	**48.3 million Euro** Carbon emission tax applied to packaging related Scope 3 emissions	**98.5 million Euro** Capital investments for returnable containers and relevant production lines upgrades and annual cost for rPET premium
2	**Physical climate risk driven by change in physical climate parameters or other climate-change related developments:** Own operations – Water availability and usage	**10.5 million Euro** Climate change impact related to Water usage	**5.7 million Euro** Capital investment for water related sustainability projects
	TOTAL	**65.6 million Euro**	**142.1 million Euro**

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(3) Climate Financial Opportunity

Based on the climate risk and opportunity assessment we have identified the following opportunity arising from climate change:

Energy efficiency at our production plants

In detail:

- We have SBTi validated and approved climate targets for 2030 and NetZeroby40, covering the entire value chain (Scope 1 & 2 & 3). Our climate transition plan, first developed in 2021, is as per the 1.5 degree scenario, approved by the SBTi. We also have an internal target for energy use ratio per litre of beverage produced. These goals and objectives are under close monitoring and performance tracking.
- One of the main pillars of our transition plan, is manufacturing, focusing on implementing and accelerating energy-efficiency projects in our plants (deployment of energy saving projects, old equipment modernization, and installation of heat pumps & electrification), on improving the CO_2 yield in the plants and on accelerating the usage of renewable energy.
- The implementation of the transition plan requires significant investments, but it also generates opportunities for cost savings across our production plants.
- As part of the broader transition plan exercise, we have calculated the future production cost savings linked to the investment plan. The calculation takes into account the specifications of each project per production location. Based on our long-time experience in implementing energy saving initiatives, we estimate that the cumulative costs savings for the six years to 2030 will fall within a range of x1.0 to x1.4 of the investments done in the same period.
- In 2024, we invested €26 million to implement energy efficiency and renewable energy solutions in our plants. If we project to 2030, investments will reach €156 million (€26m x 6 years)
- Hence, the cumulative cost saving for 2025-2030 is calculated to approximately €187 million [(1.0+1.4)/2] x €156 = €187.2 million

Opportunity >> €187.2/6 **=** €31.2 million per year (on average)

Annual costs associated with developing this opportunity:

- The cost related to this opportunity is embedded in our Net Zero transition plan.
- In 2024, we invested €26 million to implement energy efficiency and renewable energy solutions in our plants.

Cost associated with developing the opportunity >> €26 million (on average annually)

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Climate financial opportunities calculations

	Description of the opportunity	Estimated annual financial implication of the opportunity	Estimated annual cost associated with developing this opportunity
3	**Climate change related opportunity:** Own operations – Energy efficiency in our production plants	**31.2 Million Euro** *Benefit from lower energy consumption and improving CO_2 yields in production*	**26.0 million Euro** *Investing in projects related to energy efficiency and CO_2 yield improvements*

(4) Internal carbon price for 2024

The internal carbon price that we have applied for 2024, is €65.45/MT of CO_2