Overview of Melrose Group transition climate risks and opportunities

Technology

Risk description: Technology transition risks through increasing demand for lower carbon technologies that render current products obsolete. There are also potential risks from unsuccessful investment in new technologies.

Risks and Opportunities

Risk trends and impacts: The businesses are exposed to increasing technology risks over time under both the lower and higher carbon scenarios. This is due to rising pressure on their sectors and customers to develop and scale new lower carbon technologies to drive down emissions (for example, use of hydrogen, zero carbon aircrafts, increasing penetration of battery electric and plug-in hybrid electric vehicles).

Potential financial impacts include increased operating costs on research and development to respond to technology and market trends and increasing capex to invest in new and specialist machinery.

	Lower carbon scenario: Low	Lower carbon scenario: Medium	Lower carbon scenario: High	Higher carbon scenario: Low	Higher carbon scenario: Medium	Higher carbon scenario: High
2023		●		●		
2026		●			●	
2040			●		●	

How we are responding: Technology is a major strategic focus for the Group. Please see the Chief Executive's review on pages 8 to 9 for further details on our renewed focus on sustainable technologies.

The Melrose senior management team is continuing to engage with the businesses to support strategic investment into the development of products that will be key to the low carbon transition, and to consider the capital requirements to meet its decarbonisation objectives. Please see the Divisional reviews on pages 12 to 29 of our 2021 Annual Report and pages 10 to 21 of this Sustainability Report for details of how our divisions are investing in lower carbon technology and research and development.

Market

Risk description: Market risks from changing demand for products due to shifting customer sentiment towards lower carbon options.

Risks and Opportunities

Risk trends and impacts: This risk is intricately linked with Technology risks and Sector reputation risks. Under the lower carbon scenario, market risk exposure remains a stable medium across all time horizons. Under the higher carbon scenario, the risk exposure does not manifest until 2040.

Potential impacts to revenue due to changing product demand (for example, reduced demand for internal combustion engine parts and increasing demand for electric vehicle parts in the automotive sector).

	Lower carbon scenario: Low	Lower carbon scenario: Medium	Lower carbon scenario: High	Higher carbon scenario: Low	Higher carbon scenario: Medium	Higher carbon scenario: High
2023		●		●		
2026		●		●		
2040		●			●	

How we are responding: The businesses are acutely aware of, and responding to, the changing market demands for low carbon products. Please see the Divisional reviews on pages 12 to 29 of our 2021 Annual Report and pages 10 to 21 of this Sustainability Report for details on how our divisions are adapting to changing market demand for lower carbon solutions.

Carbon policy and regulations

Risk description: Risks from carbon policies and regulation, including taxes and bans on specific products and processes. This also includes carbon pricing on carbon intensive materials such as steel and plastic.

Risks

Risk trends and impacts: Due to the energy intensive nature of manufacturing, the divisions are exposed to increasing carbon policy and regulatory risks in short, medium and long-term horizons, particularly under the lower carbon scenario. The higher carbon scenario assumes less near-term regulatory intervention and as such, risk exposure does not begin to manifest until 2040.

Potential impacts to operating cost and revenue due to carbon taxes and regulatory interventions. Potential impacts due to increasing cost of the raw components in manufacturing.

	Lower carbon scenario: Low	Lower carbon scenario: Medium	Lower carbon scenario: High	Higher carbon scenario: Low	Higher carbon scenario: Medium	Higher carbon scenario: High
2023		●		●		
2026			●	●		
2040			●		●	

How we are responding: Melrose has a Group-level priority to drive the decarbonisation in its businesses' sectors and has set Group-level emissions reduction targets to support this. Please see pages 16 to 19 for more detail on how our businesses support the decarbonisation of their sectors and pages 6 and 14 for our climate-related targets and metrics.

Sector reputation

Risk description: Risk that high-emitting, hard to decarbonise sectors are exposed to increased sector stigmatisation. This may affect the attractiveness of investments in companies exposed to carbon intensive industries, including within the aerospace sector and other manufacturing sectors.

Risks and Opportunities

Risk trends and impacts: Reputation risks were found to be low in the short-term under the low carbon scenario but expected to increase in the medium and long-term. Reputation risk was the only climate risk that was found to be higher under the higher carbon scenario. This is due to assumptions around increased stakeholder pressure to the limited carbon policies assumed in this scenario.

Potential impacts include reduced access to capital due to investor preference for companies less exposed to high emitting activities.

	Lower carbon scenario: Low	Lower carbon scenario: Medium	Lower carbon scenario: High	Higher carbon scenario: Low	Higher carbon scenario: Medium	Higher carbon scenario: High
2023	●				●	
2026		●			●	
2040		●				●

How we are responding: The Board oversees and challenges the management of the Group's sustainability strategy. Further details are provided throughout this Sustainability Report including on page 47. The Board also monitors ESG ratings to ensure continuous improvement across ESG issues that are important to investors, and to ensure that the Group is in line with market and key stakeholder expectations.