TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Climate change is an urgent and global crisis and we recognise the part we play in mitigating its effects.

We set out below our climate-related financial disclosures consistent with all the TCFD recommendations and recommended disclosures. By this we mean the four TCFD recommedations and the 11 recommeded disclosures set out in Figure 4 of Section C of the report entitled 'Recommendations of the Task Force on Climate-related Financial Disclosures' published in June 2017 by the TCFD.

GOVERNANCE

As part of our ESG programme, Delivering Value Responsibly (DVR), we have an established governance structure in which the Board has ultimate oversight of, and responsibility for, climate-related risks and opportunities (CRROs). The Group's Executive Directors, who are both members of the Group DVR Steering Committee, are responsible for the delivery of the Group's DVR strategy (which includes the management of CRROs) and are the sponsors of its 2045 net zero ambitions.

We have a fully embedded risk management framework, which is overseen by the Board and the Group CFO, and includes the analysis of CRROs and their materiality to the Group.

They are supported in this by:

COMMITTEE	FREQUENCY	RESPONSIBILITIES
Executive Committee	Fortnightly updates Biannual 2-day strategic meeting	Overseeing and agreeing the Group's approach to identifying and managing CRROs. Updated as needed by Group Sustainability Director. In-depth coverage of DVR and CRROs at strategic meetings.
DVR Steering Committee	Monthly performance meeting Quarterly strategic meeting Biannual Governance meeting	Members include the Group CEO, CFO and Sustainability Director. It sets the Group's DVR strategy, framework and governance, and oversees reporting, performance and development, including the net zero and emissions reduction strategies and performance. During the year, it led the climate-related modelling, analysis and review of principal CRROs. Governance meeting attendees include Executive Team and Sector Management. Review progress of strategic objectives, targets and initiatives, and emerging trends and relevant risks and opportunities.
Senior Leadership team (SLT)	Quarterly update	Comprised of the business MDs and key senior leaders. The SLT drives local performance against climate-related metrics and targets, and identifies and mitigates against local CRROs.
Local DVR committees and networks	Varies	Share resources and best practice and build local knowledge and expertise. Annual workshops with Group on DVR initiatives, targets and strategy.

MORE INFORMATION

See our DVR Governance structure on page 87

Review our Risk Management framework on page 42

GOVERNANCE CONTINUED

The Board is kept informed on all relevant matters, including climate-related issues, in a number of ways, including: monthly reporting packs, covering financial and non-financial performance; regular Board meetings, which include CEO updates on DVR and climate-related strategy and performance; an annual, in-depth DVR update from the Group Sustainability Director; annual deep-dive reporting on macroeconomic trends, including the risks of climate change; quarterly climate risk updates, including a review of the Group's climate risk management.

The Board considers climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets and business plans as well as setting the organisation's performance objectives, monitoring implementation and performance and overseeing major capital expenditures, acquisitions and divestitures.

The Board has practical experience in implementing ESG strategies. They supplement this with external expertise. During the year we engaged external consultants to support on emissions reporting, including Scope 3, net zero target setting, and qualitative risk scenario modelling.

MORE INFORMATION

More information on our Board and Committee attendance on page 80

Information on Board activity and focus areas can be found on page 79

Read more about the Board's skills and experience on pages 83–84

RISK MANAGEMENT

Our businesses have in-depth knowledge of their customers, industry, products and services, and our decentralised model empowers them to manage and make decisions locally. We consult our businesses and Sector management in identifying and assessing all risks, including CRROs, supported by expertise and knowledge from relevant functions and Group departments.

In FY23, we undertook a qualitative scenario analysis to identify principal CRROs. We involved operational, business and functional leaders across the Group, supported by external, independent expert consultants. The CRROs were assessed using a Probability-Impact Matrix to consider the likelihood of the CRRO materialising over the different timeframes, and the potential impact and materiality to the Group.

Following the identification of key CRROs, we considered the materiality of their impact on the Group over time (short, medium and long-term horizons). We assess materiality against climate-related risks on a 'net basis' after consideration of mitigating factors or actions.

- Short to medium-term risks: materiality determined at higher than 5% of the Group's adjusted Profit Before Tax (in line with our Financial Statement audit methodology) in the respective year of the most recent long-term strategic plan. Short-term refers to the time period up to 2030, medium-term refers to the time period between 2030–2040.
- Long-term risks: we apply 2x the materiality levels of short to medium-term risks. This reflects likely continued growth of the Group, greater uncertainty over time, and time available for mitigation planning. Long term refers to the time period between 2040–2050.

This process will be refreshed annually to ensure that the material climate-related risks and opportunities continue to be relevant and appropriate to the Group.

CRROs are managed in line with our decentralised culture and DVR and Risk Governance frameworks. Climate risk management is fully integrated into our risk management process.

MORE INFORMATION

Read about our decentralised culture on page 9

Risk management framework on page 42

DVR governance framework on page 87

Relevant committees, responsibilities and frequency of updates on page 81

Group risk management framework on page 42

STRATEGY

In order to identify relevant CRROs, we considered the following scenarios, which allowed us to consider the impacts of likely physical and transitional outcomes. We considered the impact of climate regulation and physical impacts across our key geographies and sites, including those of our suppliers. We considered changing markets and the impact on our customers and suppliers.

RCP SCENARIO	FOSSIL-FUELLED GROWTH	STEADY PATH TO SUSTAINABILITY
Description	More extreme weather events due to extremely limited decarbonisation efforts	Globally coordinated decarbonisation to achieve net zero by 2050
Mean temperature rise by 2100	4 degrees celsius	2 degrees celsius

Fossil-fuelled growth scenario – overview
Global collaboration is focused on mitigation, rather than reducing climate change, resulting in an increase of extreme weather events as the current warming rate continues unabated. Temperatures exceed the warming rate of 4 degrees by the end of the century, as projected by the IPSS's worst case RPC 8.5 scenario.

Steady Path to Sustainability scenario – overview
Globally coordinated efforts to reduce emissions to net zero by 2050. This limits the global temperature increase to 2 degrees above pre-industrial levels, as projected by the Intergovernmental Panel on Climate Change's (IPCC) RCP2.6 scenario.

FOSSIL-FUELLED GROWTH SCENARIO

We assumed a range of extreme weather events occurring with increasing frequency across the short, medium and long term, and the potential damage to our distribution centres and offices due to flooding, extreme heat, wildfires and storms. We reviewed 10 of our most significant locations, covering ca. 60% of the Group's total revenue. Mitigation – such as property or business interruption insurance and buffer stockholding in place – would significantly reduce any financial impact.

We identified the highest physical risk and impact would be due to hurricanes at our Hercules Aftermarket site, located in Louisville. However, there are preventative disaster recovery plans and insurance in place to mitigate against those risks.

The financial impact of the risks identified in this scenario would not be material due to:

- The broad geographical spread of the Group;
- Diversified physical assets, customers and suppliers, with low commercial dependencies (largest customer and supplier represent 1% and 5% of revenue respectively);
- Our distribution centres are not typically located in high-risk areas. Whilst there may be very short-term disruptions on a very localised basis, it would only affect a few, small locations with insufficient frequency to have a material financial impact, post-mitigation.

We will continue to monitor the impact physical risks have on our operations as part of our future financial planning.

STEADY PATH TO SUSTAINABILITY SCENARIO

We considered the risk of changing regulation and/or customer demand, in the context of the Group's 2045 net zero target. This scenario identified our most relevant CRROs, which we have outlined below, including their impact on the Group's business, strategy and financial planning. We have performed a quantification of the financial impacts to the Group based on the relevant timeframes. Whilst our assessments show that the financial impacts of these CRROs are low, our financial statements and viability assessments nevertheless reflect our best estimate of the impact of climate change on future business performance and the carrying values of our tangible and intangible assets, based on currently available information and taking into account the planned mitigation measures. We have also considered the resilience of the Group's strategy against these CRROs, including potential mitigations as well as actions to capitalise on the material climate-related opportunities.

DELIVERING VALUE RESPONSIBLY
TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

STRATEGY CONTINUED
Identified risks and impact (Steady Path to Sustainability Scenario)

TRANSITIONAL RISK	MATERIALITY OF RISK	MITIGATION
Policy & Legal / Market: **Product decarbonisation due to stricter climate policies and market shifts**	Timeframe: **medium term** Financial impact: **low**	
As a global company, we will likely face differing and localised environmental policies and legislation across our key geographies. We also expect them to be introduced and implemented at a different pace. Meeting these higher standards is extremely important to ensure we can successfully and compliantly operate in those geographies. One specific identified risk in product decarbonisation is the EU's proposed ban on synthetic chemicals such as polyfluoroalkyl substances (PFAS), which is relevant to our Seals business, where ca. 6% of the Group's revenue is generated from seals that include PFAS. From a market perspective, a significant proportion of our downstream market is subject to considerable emissions scrutiny. It is therefore likely that we will be expected to reduce the carbon intensity of our sold products to support our customers in meeting their own sustainability goals. As a consequence, it will become vital to obtain emissions data and encourage product decarbonisation from our suppliers, especially in less sustainability-focused countries, given our role as a value-added distributor.	The fragmented product decarbonisation policy landscape also has the knock on impact of making products more expensive and uncompetitive in less environmentally ambitious markets, whilst posing a potential risk if suppliers lack regional decarbonisation incentives. The EU's proposed ban on PFAS may have the impact of increasing the cost of seals that incorporate raw material alternatives to PFAS to be sold into the EU market, but also seals that originate from the EU to be more expensive in other territories that have not imposed the PFAS ban. The failure to adapt our products would mean a reduced ability to sell certain products into jurisdictions where demand for sustainable goods is high, potentially reducing revenue and affecting our competitiveness.	As a global Group, we benefit from knowledge sharing – those businesses that have navigated stricter or faster-moving legislation will enrich the Group experience and provide case studies and learnings that will benefit other businesses. As a decentralised Group, our businesses are close to their customers, have the technical expertise to specify compound materials, and enjoy long-term, meaningful relationships with their suppliers. We expect them to pivot and adapt in line with legislation. We have seen examples of this already, with North American Seals businesses promoting and identifying PFAS-free products to customers. Our Group has set net zero targets, including against Scope 3 emissions. We expect our businesses to incorporate this into their value-add offering and see this as a competitive advantage for customers that wish to decarbonise their supply chain. Given that many of our businesses are small-to-medium sized, few of their competitors have the same access and resources to analyse and progress against emissions reduction targets.

STRATEGY CONTINUED

Identified risks and impact (Steady Path to Sustainability Scenario)

TRANSITIONAL RISK	MATERIALITY OF RISK	MITIGATION
Policy & Legal **Decarbonisation costs**	Timeframe: **short, medium and long term** Financial impact: **low**	
A shift towards decarbonisation could see increased operating costs particularly in relation to purchased inventory as well as logistics costs. This could largely be influenced by the tightening of environmental laws and regulations in relation to carbon pricing globally. Carbon pricing instruments can take many forms, with the most common being carbon taxes, taxes on fuels and trading schemes or levies.	The risk of new regulation manifesting in the EU via the carbon border adjustment mechanism (CBAM) for example, could see product costs increasing. There is also a risk that products will increase in cost as raw materials such as precious earth metals become more expensive to procure due to scarcity, increased demand and government regulation. Inbound and outbound logistics cost is ca. 34% of our Scope 3 emissions. There could be increased costs associated with carbon freight taxes and low-carbon technologies implemented through either government regulation or investments by our logistics partners in sustainable alternatives.	The Group has previously navigated rising supply chain costs by successfully passing costs on to the customer.

DELIVERING VALUE RESPONSIBLY
TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

STRATEGY CONTINUED
Identified risks and impact (Steady Path to Sustainability Scenario)

OPPORTUNITY	POTENTIAL BENEFIT
Policy & Legal / Market: **Product and market opportunities**	Timeframe: **short, medium and long term**
Prolonging product lifespans is at the core of the circular economy. With a significant portion of our products catering to repair, maintenance and refurbishment, we inherently contribute to our customers' machinery longevity. Circularity is a core part of our business model. The ability to manage, reuse and recycle waste products and by-products is a competitive advantage. As the global economy transitions to a low-carbon model (albeit at varying rates), there are opportunities to grow revenues across a range of new customer segments, including adaptation infrastructure and renewables. As economies decarbonise, new opportunities are likely to emerge.	Our recent acquisition of T.I.E. exemplifies how we are pivoting to more aftermarket and repair service opportunities. We will use T.I.E. and existing aftermarket businesses as a platform for further growth in this segment. The transition to a lower-carbon economy and its impact on industrial design should lead to significant opportunities for new customers and segments for the Group. We have a strong process to assess and capitalise on new market opportunities. In our budgeting and strategic planning process, all businesses identify transitioning industries and strategies to access these new markets. We are already seeing this growth in market segments with our Australian Seals business securing its largest service contract to remove, repair and reinstall pump equipment for a national water company.
Policy & Legal / Market: **Enhanced logistics efficiency**	Timeframe: **medium**
Through sustainable supply chain management we can simultaneously reduce costs through more efficient distribution and improve our reputation with customers who are increasingly interested in greener product deliveries. This can also enhance access to new customers looking for more sustainable distribution options, including those looking to reduce their Scope 3 emissions. Our aim is to pass on efficiencies to our customers and market our sustainable approach to customers interested in reducing their value-chain emissions. We have started to collect data on our inbound and outbound logistics and work closely with our customers and third-party couriers to reduce their emissions and improve efficiency. We are currently doing this by consolidating orders into less frequent shipments and driving model shifts where possible.	Lower transportation costs, including decreased fuel use, transport miles and associated emissions and taxes through route optimisation, reverse logistics, fuel efficiency, consolidated supply chains, a move to local suppliers, combined shipments and other efforts to decarbonise transport and logistics.

STRATEGY CONTINUED
Identified risks and impact (Steady Path to Sustainability Scenario)

Resilience of the Organisation's Strategy
Our strategy enables us to remain resilient to CRROs:

- Our decentralised model means that our businesses retain their in-depth product knowledge, understanding of local markets, and strong customer and supplier relationships. This enables us to respond quickly to changes in regulation, market and technology;
- Our low customer and supplier dependencies ensure that any identified risks are sufficiently diversified;
- Our value-add and pricing discipline allows us to pass on the impact of decarbonisation costs to protect our margins;
- Our organic growth initiatives capture opportunities relating to a decarbonising economy, supporting our transition away from markets that are at risk due to decarbonisation;
- DVR is embedded across our Group, ensuring that our businesses are aligned on our net zero target and are driving action and emissions reductions across every aspect of their business;
- Our low capital intensity model gives us the versatility to transition with little risk to asset values.

As part of our Supplier Code, we continue to work with our suppliers to align on our emissions reduction ambitions and intend to expand the Scope of our Supplier Code in order to drive Scope 3 emissions reductions with our product and logistics suppliers.

MORE INFORMATION

Read about our decentralised culture on page 9

See customer and supplier dependency on page 69

Read more about DVR on pages 54–66

Read about our material Scope 3 emissions on page 65

Read about our Supplier Code on page 61

METRICS & TARGETS
A summary of our Group emissions

The Group measures and monitors the following key metrics. Below we have outlined those that are relevant to our identified CRROs. A summary of the below metrics, KPIs and relevant targets can be found on pages 54–66.

Emissions
Reducing our absolute emissions is a key driver to achieving our 2045 net zero target.

Waste
Although waste does not represent a material proportion of our emissions footprint, we nevertheless see it as potentially significant in terms of business reputation, efficiency and circularity.

Supplier Code
We see supplier engagement and the future alignment of our Supplier Code to our Scope 3 targets, as fundamental to our net zero strategy.

Financial metrics
Financial performance targets are set as part of the budget, which incorporate the revenue, profit and cash flow impacts of CRROs. The financial performance targets form a material element of the short-term variable bonus schemes as well as the longer-term performance share plans.

We actively monitor revenue that comes from both the physical and transitional impacts of climate change – such as renewable energy generation, circularity or fugitive emissions – as well as our social impact.

In addition, the three-year strategic plan and the annual budget includes opex and capex investments related to our CRROs. All scaling projects are now scrutinised for their environmental impact, taking advantage of these projects to make step changes towards meeting our environmental targets and incorporates the respective financial investments required to enable this. A similar process is in place and applied to due diligence and business plan preparations for new acquisitions, e.g. T.I.E. and DICSA acquisitions in FY23.

More detail on these targets and the performance against them is set out on pages 54 to 66.

MORE INFORMATION

See pages 64–66 for our absolute Group Scope 1, 2 and 3 emissions; energy consumption; emissions intensity ratio (tonnes per £1m revenues); and net zero targets and strategy

See page 66 for total Group waste; waste intensity ratio (tonnes per £1m revenues)

See page 61 for further information on our supplier code; percentage of suppliers aligned to code; and next steps