



TCFD REPORT

CLIMATE CHANGE RISKS AND OPPORTUNITIES

JULY 2021

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1. Purpose and context of this report

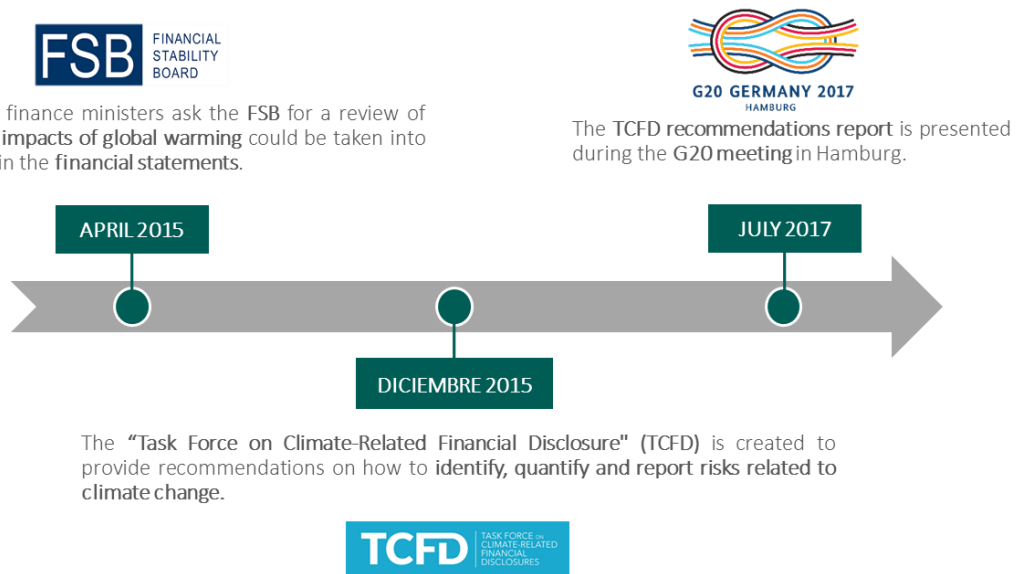
The **Task Force on Climate-related Financial Disclosures** (TCFD) was created in 2015 by the Financial Stability Board to define a framework for the **identification and reporting of risks and opportunities** derived from climate change and to protect global financial stability, which may be affected by insufficient attention to climate change from companies and financial institutions. This framework currently contains **recommended guidelines** for companies to inform their stakeholders, especially their financiers and investors, about risks and opportunities related to climate change and how the companies manage them.

The key features in the TCFD are summarised below:

1. **Voluntary reporting framework applicable to any company or industry**
2. **Recommendations for management related to the risks and opportunities associated with climate change**
3. Recommendations focus on **four strategic areas**: *governance*, *strategy*, *risk management* and *metrics and targets*
4. TCFD divides climate-related risks into **physical risks** and **transitional risks**

This document aims to illustrate the work carried out by Meliá to apply TCFD recommendations and also presents the **progress** the Company has made in the areas of corporate governance, strategy, climate risk management and the use of metrics and targets. At the same time, it also presents the **commitments** made by Meliá to continue to enhance the integration of these recommendations.

Below is a chart that summarises a number of global milestones related to the development of the TCFD recommendations report.



2. Background. Climate change and the tourism industry

Combatting climate change is one of the greatest challenges faced by humanity. It will have important **economic consequences** which nobody involved (governments, companies, regulators, the general public, etc.) can ignore. Since the signature of the **Paris Agreement** at the COP21 Climate Conference in December 2015 by the 195 member countries, ratified by more than 55 countries in 2016 which generate more than 55% of greenhouse gas emissions, the fight against climate change has gained even great relevance.

The **governments and institutions** committed to the agreement have set **decarbonisation targets** and defined regulations for companies and financial entities to align with the **objective** of limiting the increase in average global temperature compared to pre-industrial levels to **1.5°C or 2°C**.

The impacts of climate change on the **tourism industry** involve **physical risks** (extreme weather events, higher frequency of such events, rising sea level, etc.) that affect tourism, and **transitional risks**, that cause **changes in consumer behaviour**, and also the **new expectations in society** or preference for **more sustainable products and services**.

Within the industry, the **hotel sector has seen important progress** in responding to this greater social awareness (more products and services that reduce the environmental footprint and water consumption, actions to raise awareness among customers, etc.) while also **implementing measures** to help mitigate the effects of climate change (energy efficiency in operations, asset protection, optimization of logistics, etc.).

3. Meliá Hotels International's commitment

Meliá Hotels International (hereinafter, Meliá or the Company) is a hotel company which has had a firm commitment to **sustainable development** for over a decade. In **2008**, the Company published its first **Sustainability Master Plan**, and from **2012** sustainability became a permanent factor in the following **Strategic Plans of the Company**.

Since then, the Company has evolved to a business model that **fully integrates sustainability as a key driver** to boost the transformation in the whole value chain, defining medium and long-term objectives, which are supervised by the highest governing body of the Company.

Meliá is a **market leader in the way it understands hotel management** based around the principles of sustainability. This firm commitment has led to extensive **external recognition** for the Company's responsible and sustainable management model:

- Since 2018, Meliá has voluntarily taken part in the **S&P Global Corporate Sustainability Assessment**, becoming the leader in its industry in 2019 and currently categorised as "**Silver Class**" in the Sustainability Yearbook 2021. In particular, in recent years the Company has achieved the **highest score** in the section related to "**Climate Strategy**".
- Since its first participation in 2011 in the **Carbon Disclosure Project (CDP)**, Meliá has constantly improved its position in the ranking and have made progress in its management model, reducing its carbon footprint and achieve an **A- rating** in the latest edition.

- On the other hand, Meliá has participated in the **CDP Water Security** since 2019, with the aim of improving its water footprint, a key resource for the tourism sector. In 2021, Meliá has obtained a **B rating**, the best score in the European ranking of the industry.

4. Meliá’s performance compared to TCFD recommendations

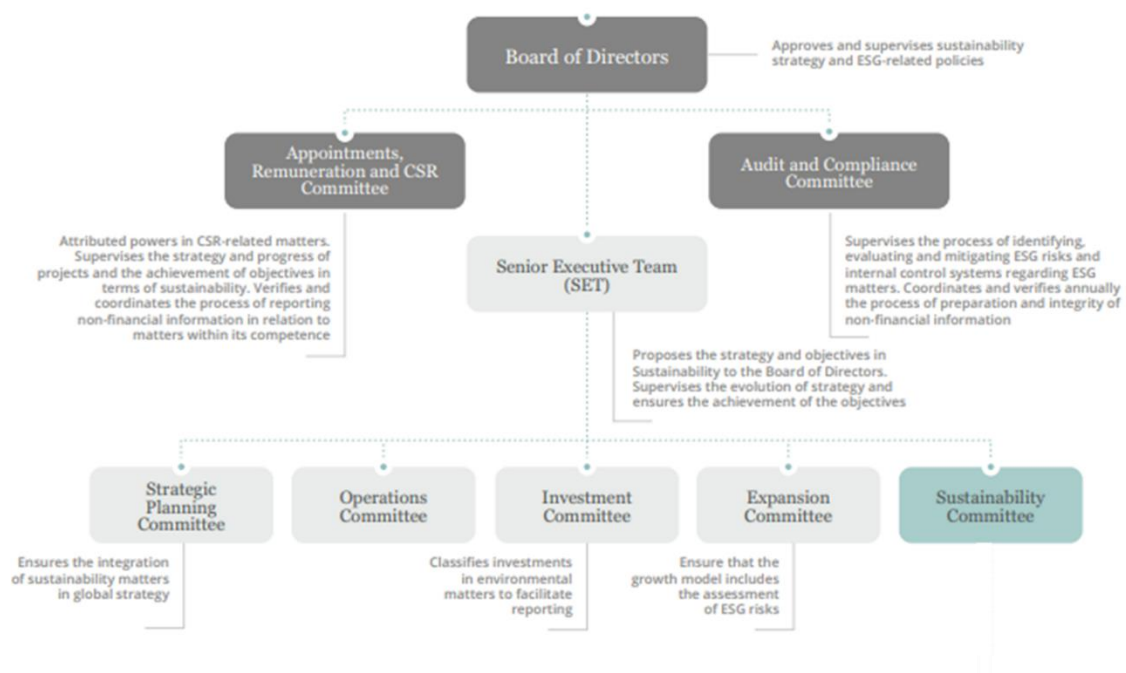
The TCFD recommendations are structured around four thematic areas: **governance**, **strategy**, **risk management** and **metrics and targets**. Below is an analysis of Meliá’s commitments and performance in each of these areas.

4.1. Governance

4.1.1. Composition and Bodies

The Company’s organisational structure and **governance** assigns ESG responsibilities to the different executive bodies and Delegate Committees of the Board of Directors in addition to all aspects related to climate change. This governance structure is aligned with the most advanced recommendations on corporate governance and the TCFD.

The **Board of Directors** approves and supervises ESG and climate strategy, and delegates their internal control to its Delegate Committees in addition to defining incentives for the achievement of objectives.

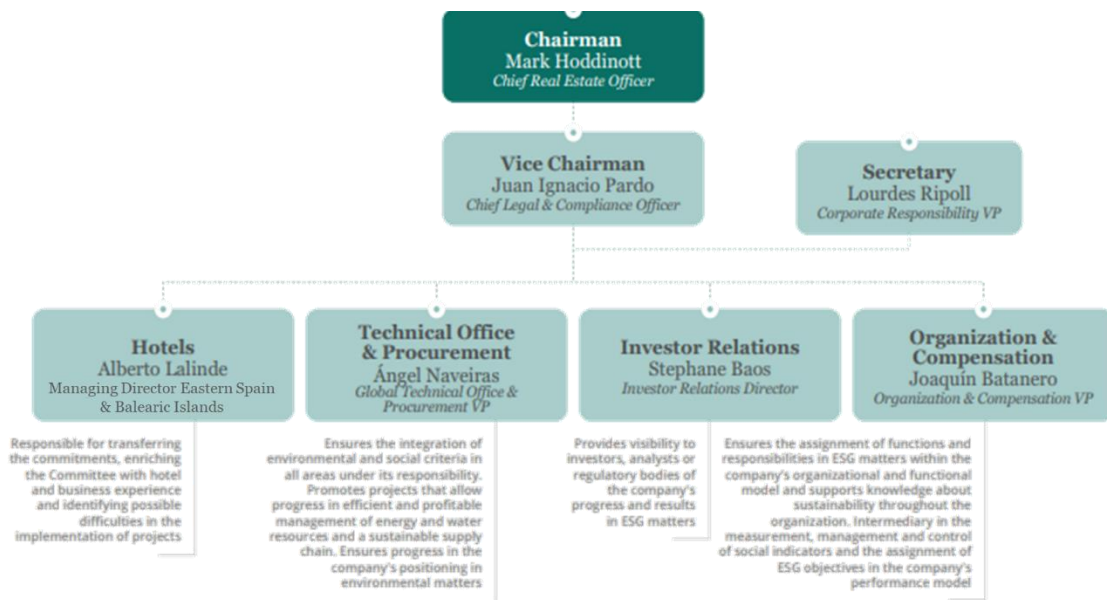


To reinforce the integration of sustainability as part of our business strategy and throughout our value chain, in 2020 Meliá created a **Sustainability Committee**. The main objective of this new

governing body is to support the development and implementation of projects that ensure value creation in all three dimensions (environmental, social and governance) in the face of social change and global challenges, as well as to promote the recognition and reputation of Meliá as a **responsible and sustainable Company** in the long term.

Mission

Ensure the integration of sustainability at all levels of the organisation, ensuring that the roadmap contributes to complying with the **public commitments** made on ESG and facing the main challenges of the **2030 Agenda**.



4.1.2. Responsibilities for the identification and management of risks and opportunities

Meliá’s Senior Executive Team (SET) regularly supervises performance with regard to the sustainability and climate change strategies and ensures compliance with the targets defined.

The **Sustainability Committee** is responsible for defining and proposing to the SET the roadmap, commitments and objectives for ESG and climate change, and for monitoring and reporting on progress and achievements.

The **Risk Control & Compliance** area of the Company is responsible for updating the **Corporate Risk Map**, including climate-related risks. The **Corporate Risk Catalogue** currently contains 103 identified risks, of which 20 are related to climate change.

The **Corporate Responsibility, Energy & Environment, Risk Control & Compliance** and **Hotel Operations Departments** also assist in the process of identifying risks and opportunities related to climate change and in assessing their impact, probability of occurrence, severity and time horizon as part of the annual review of the Corporate Risk Catalogue.

4.2. Strategy

4.2.1. Identification and assessment of climate risks and opportunities in the short, medium and long term

The Meliá Risk Map includes climate-related risks and is the starting point for a more exhaustive analysis of the risks related to climate change that could potentially affect Meliá's business activity and, in particular, four regions selected on the basis of their present and future strategic relevance: **Spain, Mexico, the Dominican Republic and the United Kingdom.**

This analysis has four stages:

- **Definition of the Meliá value chain** to identify specific activities and/or processes that may be affected by potential risks or open up new opportunities.
- **Preparation of an inventory of risks and opportunities** using information sources such as the TCFD inventory, the Intergovernmental Panel on Climate Change (IPCC), the European Sustainable Finance Taxonomy or the Spanish Ministry for Ecological Transition and Demographic Challenges (MITECO).
This information is analysed and adapted to Meliá's business activity in line with the processes in its value chain defined in the previous stage.
- **Choice of climate scenarios**: Application of a methodology which imagines four different climate scenarios, one of which is selected as a priority.
- **Climate risk and opportunity assessment**: An exercise carried across the entire Company and involving members of the Sustainability Committee, executives from each country and members of the strategic planning, risk management, sustainability, environment, investor relations and human resources teams. The risks and opportunities in the inventory are evaluated based on the selected scenario.
Every risk and opportunity is rated according to three variables: time horizon, impact and probability of occurrence. The regional Operations VPs have validated the selection and assessed the quality of existing controls to manage risks and take advantage of opportunities.

4.2.2. Impact of climate risks and opportunities on financial planning and strategy

To understand the specific impacts of climate change on Company activity, a methodology is used that represents and simplifies the **value chain and Company activities**. This involves three different areas:

- ✓ Supply chain
- ✓ Infrastructure management
- ✓ Delivery of services

For each area in each location, the impact on financial results that each risk and opportunity may potentially have has been evaluated.

Operating Costs and Revenues	Relevant variations in direct costs, personnel costs and revenue, among others
Costs and Capital Allocation	The most relevant financial implications are an increase in material, technology or operational investments
Assets and Liabilities	The value of the Company's assets and liabilities may vary due to climate change
Access to Capital	The effects of climate change may cause difficulties or create opportunities for the Company in gaining access to private/public funding

4.2.3. Climate scenarios used to define the organisation's strategy and financial planning

Following **TCFD recommendations**, an analysis of climate scenarios has been carried out taking into account different physical and socio-economic factors: Representative Concentration Pathway (RCP), Shared Socioeconomic Pathways (SSP), International Energy Agency (IEA), etc.

The analysis has led to the definition of **four climate scenarios** based on a combination of the RCP and SSP projections defined by the IPCC and used to analyse climate risks and opportunities in line with both the technical criteria of TCFD and the vision of the Company.

Of the four scenarios, the analysis of risks and opportunities has been prioritised for the scenario in which society achieves an intermediate level of sustainable development and manages to **limit temperature increases to 2°C or less** by the end of this century: **scenario SSP2 - RCP 2.6**.

This scenario is in line with the Meliá emission reduction targets under SBTi criteria (maintain the temperature increase below 2°C by 2100 and review our objectives, aligning them with the goal set at COP24 of not exceeding 1.5°C (currently pending validation of the new objectives by SBTi)

The **socio-economic characteristics** of the selected scenario (**SSP2**) are related to current social, economic and technological trends. Some countries will achieve remarkable progress while others will not meet expectations (uneven growth and development).

At the same time, institutions are committed to the **Sustainable Development Goals**, but progress is a little slow. Population growth is currently moderate and is expected to stabilise in the second half of the century.

The **physical characteristics of the selected scenario (RCP 2.6.)** assume an average temperature increase of 1°C for the period 2046 - 2100.

An average sea level rise of 0.24 m is expected for the period 2046 - 2064 and 0.4 m for the period 2081 - 2100.

Extreme rainfall phenomena over areas located in middle latitudes and in tropical regions will become increasingly intense and frequent.

4.3. Risks and Opportunities

This section describes the methodology and processes used in line with the TCFD in the **identification, assessment and management** of the risks and opportunities caused by climate change that may affect Meliá¹. It also describes how these risks and opportunities have been **integrated** with the Company's global risk management.

4.3.1. Processes to identify and assess climate risks and opportunities

As mentioned in section 4.2.1. "Identification and assessment of climate risks and opportunities in the short, medium and long term", the identification and assessment process consists of four stages:

1. **Definition and assessment of the Meliá value chain**
2. **Definition and classification of risks and opportunities:** Current and future regulatory requirements for the four selected countries have also been analysed.
3. **Selection of climate scenarios**
4. **Assessment of climate risks and opportunities:** depending on the impact, probability of occurrence and time horizon.

The **valuation scales and time horizons** have been defined to adapt to the terminology used in the Company's general risk assessment, and also to the timing of the expected impacts in the selected scenario and the useful life of Meliá infrastructure, with the **risk analysis limited to 2050**.

The valuation scales and time horizons used are therefore as follows:

PROBABILITY OF OCCURRENCE	IMPACT	TIME HORIZON
6 - Certain	6 - Catastrophic	Current
5 - Very likely	5 - Very serious	Short term (<= 5 years)
4 - Likely	4 - Severe	Medium term (6-15 years)
3 - Moderate	3 - Mild	Long term (16-20 years)
2 - Remote	2 - Insignificant	Unknown (>20 years)
1 - Unlikely	1 - No impact	N/A
0 - Unknown	0 - Unknown	
N/A - Not applicable	N/A - Not applicable	

After the technical analysis of the risks and opportunities, **results are validated** by different Company executives to ensure the map reflects the reality at Meliá and the controls and management processes in place.

To get a view of the **global impact** of the risks and opportunities, the assessments on a country level are aggregated. To do this, **values are weighted** for each country based on certain strategic

¹ The terminology used for Meliá's climate-related risks is aligned with the key risks described in the **Global Risks Report 2020** and **COVID-19 Risks Outlook - A Preliminary Mapping and Its Implications**, published by the World Economic Forum

and operational factors. This allows the creation of **risk and opportunity matrices at both the country level and global level.**

After analysing the risks, opportunities, results and conclusions, the Company will develop plans with specific measures to **mitigate the negative consequences of climate change and take advantage of any opportunities it creates.** Taken together, these measures will form part of the Meliá climate change **adaptation and mitigation plan.**

4.3.2. Integration of processes to identify, assess and manage climate-related risks into overall risk management

Meliá has a **Corporate Risk Map** which identifies the key risks the Company faces. Special attention has been paid to the **specific risks related to climate change** in the Risk Map in order to **analyse and develop them** in a more effective way. The map is **reviewed every year** and presented to the **Audit and Compliance Committee**, responsible, among other things, for the supervision of Risk Management Systems, including non-financial risks, and also to the **Board of Directors.**

4.3.3. Selection of climate scenarios

This section describes the methodology and processes involved in the selection of climate change scenarios. The methodology complies with the scenario requirements required by the TCFD.

A scenario describes a **hypothetical but possible path of development** leading to a particular outcome. They are not predictions or forecasts, but rather hypothetical **narratives**, designed to inform and challenge strategic thinking.

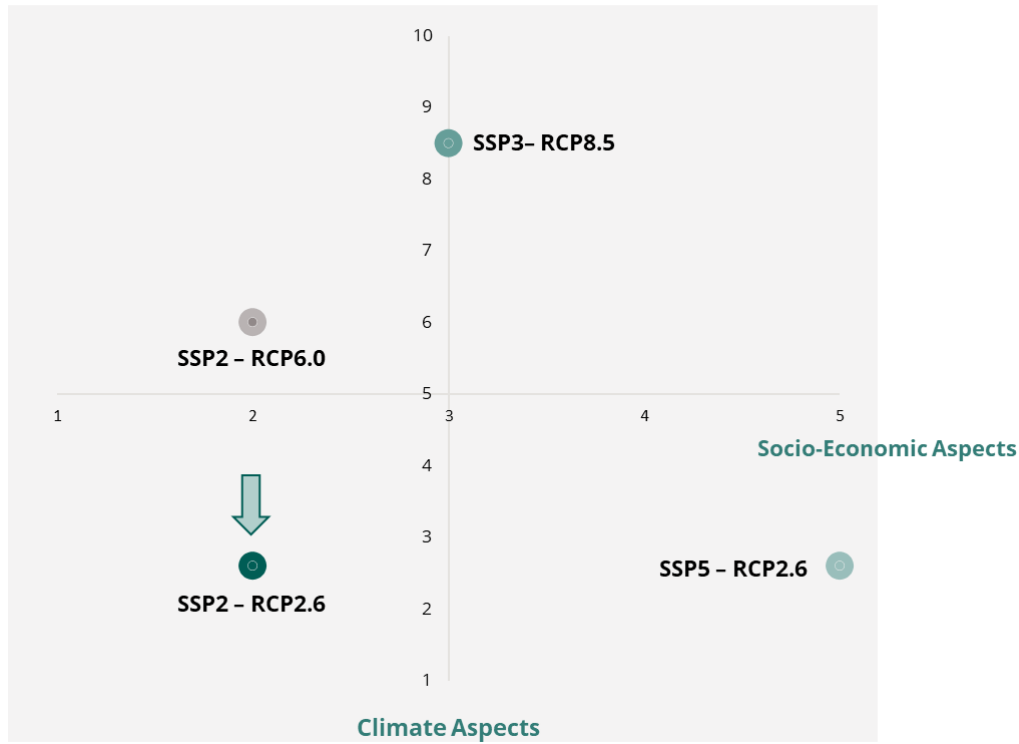
To choose a **climate scenario**, the first thing to determine is the **scenario framing** based on its advantages and disadvantages and the current situation which we are in, compared to the projections made at the time in the chosen scenarios.

From the IPCC studies, a combination has been selected with different **physical scenarios (RCP)**, containing different pathways for greenhouse gas concentrations, and **socio-economic scenarios (SSP)**, containing a description of how the world evolves based on socio-economic factors (technology transfer, global cooperation, etc.).

It is this combination of pathways (rather than the individual RCPs or SSPs themselves) that is used for analysis and to provide a more comprehensive vision.

In line with TCFD recommendations on the selection of scenarios, **4 different scenarios were proposed** (SSP3–RCP8.5, SSP2–RCP6.0, SSP2–RCP2.6 and SSP5–RCP2.6). The **SSP2–RCP2.6 scenario was selected as a priority** as it is aligned with current regulatory trends and the objective of **limiting the average global temperature increase to 2°C or less.**

RISK/UNCERTAINTY MATRIX



The different characteristics and requirements in the proposed scenarios described above are summarised below:

Scenario Types	The analysis is based on exploratory scenarios using different expectations for the future
Framework used	The scenarios defined by one of the agencies recommended by the TCFD: the IPCC
Diversity	Four scenarios spanning varying degrees of uncertainty
Scope	The scenarios allow a comprehensive analysis that covers the whole Company
Characteristics	The scenarios meet the requirements defined by TCFD: <u>plausible</u>, <u>distinctive</u>, <u>consistent</u>, <u>relevant</u> and <u>challenging</u>
Selected Scenario	A 2°C or less scenario was selected according to TCFD recommendations
Time Horizon	The scenarios span the entire 21st century , allowing enough time for possible important changes, but short enough to make each scenario plausible
Plausible	The narrative is in line with current political expectations and socio-economic development
Distinctive	It combines physical and socio-economic factors , with the possibility of including political aspects through the SPA (Shared Policy Assumptions)
Consistent	The scenarios follow a logic endorsed by the IPCC and international scientific community, ensuring it is consistent
Relevant	A 2°C scenario helps understand the financial implications and strategies of climate change in the coming years, both through the physical impacts and transitional impacts
Challenging	The chosen scenarios challenge traditional thought , defining situations that go beyond “business as usual” or the limitation to 2°C

4.4. Metrics and targets

4.4.1. Indicators to assess climate-related risks and opportunities

The monitoring and updating of the risk and heat maps and regulatory analysis provides Meliá with the tools needed to monitor the **evolution** of risks and opportunities and thereby define **metrics and targets**.

In recent years (except for the COVID-19 period), Meliá has made a **direct link** between **environmental metrics** and the **remuneration** of the CEO, the members of the Executive Committee, the leaders of business units and directors or managers in corporate offices on a global level.

Some of the objectives related to remuneration include reducing emissions, reducing energy consumption or the Company's performance in terms of sustainability. In its characteristic spirit, Meliá is also working on **incorporating low-carbon products** that help reduce the Company's current impact.

4.4.2. Greenhouse gas emissions (scopes 1, 2 and, if necessary, 3) and their related risks

Meliá publishes an **Annual Integrated Report** with all the data on its **carbon footprint** according to the **GHG Protocol methodology**.

The emissions by scope for 2020 are detailed below, an atypical year due to the loss of activity caused by COVID-19:

Scope 1: 35,884 TCO2 eq.	Scope 2: 166,981 TCO2 eq.	Scope 3*: 145,666 TCO2 eq.
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**6 categories are included: Materials & Services, Capex, Transport and Distribution, Waste, Business Travel and Commuting to the workplace*

In **2020** (compared to the base year 2018) Meliá achieved **corporate emission savings** of **51.2%** in **scope 1** and **51.9%** in **scope 2**.

In line with its sustainability strategy, Meliá has also defined **emission reduction targets** to help limit temperature increases to 2°C or less approved by the **Science-Based Target initiative (SBTi)**.

Below are the corporate targets compared to the 2018 base year:

- **Scope 1 & 2:** Target of **-13%** by **2023** and **-51%** by **2035**.
- **Scope 3:** Target of **-8%** by **2023** and **-21%** by **2035**.

5. Conclusion

The tourism industry will play a fundamental role in the **transition to a sustainable future** in environmental and social terms. Meliá will continue to internalise and integrate the different areas that the risks and opportunities of climate change may affect in its **corporate strategy and management model**.

Regarding the governance of climate change, the Company will continue to enhance in all of its governing bodies, but particularly in the **Sustainability Committee**, the monitoring and management of **risks and opportunities**, driving their integration with hotel operations with the same intensity it is currently applying.

The **Risk Control & Compliance** area will make this vision part of the **Company risk management model** and update and review it every year to present it to the different competent bodies.

Meliá will continue to apply the **methodology** for the identification, analysis, assessment and management of risks and opportunities derived from climate change, in training its corporate and business unit teams involved and raising awareness among its main stakeholders (suppliers, owners, partners, etc.)

The **monitoring** of metrics and achievement of objectives is a key aspect in climate change management at Meliá.

The publication of this report shows Meliá's **current and future commitment** to a **sustainable global transition** and **corporate transparency**.