

5. Delivering value responsibly

Our DVR programme is built on five, material focus areas and positioning ourselves for commercial growth with a positive impact on society and the environment. Embracing DVR is key to executing our strategy, fulfilling our purpose and scaling and managing our business sustainably.



By aligning our businesses with our five focus areas and positioning ourselves for commercial growth with a positive impact on society and the environment, we can play a meaningful role in building a more sustainable world.

Delivering for our People



Our people are our success. It is our priority to engage our colleagues and retain talent in our businesses. We also have a duty to keep our colleagues safe, champion diversity, and create an inclusive and equitable working environment where all of our colleagues are able to fulfil their potential.



Delivering for the Environment



Our role as a distributor gives us the opportunity to have a meaningful impact. We must leverage our relationships with key suppliers to tackle waste, packaging and emissions. This will improve operational efficiency and deliver value for our customers, suppliers and colleagues.



Delivering a Positive Impact



Many of our products and services have end uses that positively impact the environment and our society – whether safeguarding first responder communications, supporting the transition to renewable energy, or providing life-saving solutions.



DVR PROGRESS DURING THE YEAR

A step-change in momentum. Business-driven initiatives are creating improvement across the Group.

Read about our performance in each of our focus areas on pages 36-47.

Our businesses have established DVR committees and appointed persons responsible for performance and progress against targets.

Read more about our DVR metrics and targets on page 53.

Our DVR governance structure and policies are key to how we deliver value responsibly. We have improved reporting with metrics now embedded and targets to drive progress in FY23.

Read about our DVR governance, responsible business practices, and policies and procedures on pages 50-57.

DELIVERING VALUE RESPONSIBLY

DIPLOMA DELIVERS FOR OUR COLLEAGUES



Our colleagues are the foundation of our business. They deliver value-add to our customers, execute against our strategy and are essential to our ongoing success.

Our decentralised Group employs ca. 3,000 colleagues across multiple businesses, geographies and communities. This year, we welcomed ca. 500 new colleagues through acquisitions. The safety, wellbeing and engagement of those colleagues is our primary concern and central to how we deliver value.

Developing, attracting and retaining talent in an equitable and inclusive environment will support our journey to scale, and is an important differentiator in a challenging labour market. Protecting our agile and accountable culture as we grow underpins our performance and helps us attract high-quality acquisitions.

89%

of our colleagues are proud to work for their business

Brilliant leadership

Our decentralised model means that our Senior Leadership Team (SLT) plays a key role in progressing the culture and strategy of the Group, as well as the performance of their businesses and Sectors. Our SLT – comprised of our Executive team, the Managing Directors of our businesses and key Group roles – has demonstrated brilliant leadership during FY22, continuing to look after and support our colleagues, serve our customers and show great agility and resilience despite geopolitical and economic uncertainties.

In June this year, we brought together

75

members of the SLT in Chicago to celebrate their hard work and discuss our strategy. This was the SLT's first time meeting in person since the pandemic and a key opportunity to strengthen networks, build our culture and integrate new senior leaders

Building engaging and fulfilling careers

We continue to evolve our culture and support colleague engagement across the Group. We acquire new businesses every year and give careful consideration to how we onboard colleagues that join us through acquisition.

Group internal communication is a powerful tool for us – our CEO updates our colleagues directly through quarterly videos and information is shared across businesses and Sectors through our internal newsletter. This year we introduced a learning management system, which is currently being rolled out across the Group.

Development of talent supports our strategy, deepens engagement and is important at every level of our business. Many of our colleagues undergo on-the-job training, whether through apprenticeships or external certification. Through our DVR programme, we have started to develop networks that facilitate knowledge sharing across certain functions such as Health & Safety, Supply Chain Management, and HR.

Mental health and wellbeing

We are mindful of the potential impact that working environments and practices have on our colleagues. During the year we continued to hold wellbeing and resilience workshops with businesses and provided resources to mark World Mental Health Day, which was celebrated across the Group.

We are also acutely aware of external factors – Covid-19, political instability, the cost-of-living crisis – that may further impact our colleagues' wellbeing and mental health. We have worked hard to reassure existing colleagues, as well as those that join the Group through acquisition, and are pleased that 86% of colleagues feel that their job is secure, according to our engagement survey.

Further assistance is offered through our Employee Assistance Programme, which covers all existing businesses. Acquisitions are brought onto the programme during onboarding. Counselling is also offered to businesses where colleagues have suffered a bereavement or tragic event.

Engaging our Colleagues

Our vision is for all of our colleagues to be highly engaged

2022 Highlights

- 86% response rate
- 79% colleague engagement index
- 70% of Group colleagues are active on our new learning management system

86%

response rate

79%

engagement index

KPI

Engagement Index
(an externally benchmarked score from our annual engagement survey)

Target

Maintain an engagement index of 70%+

Ongoing Focus

- Build out our learning management system
- Continued focus on wellbeing and mental health
- HR network to support best practice
- Continued leadership development

Engaged colleagues perform better. Our colleagues have great technical expertise and in-depth knowledge of their products and markets. In a challenging labour market, engagement helps us to hold onto that talent, knowledge and expertise.

Our turnover remains consistent at 24.4% (2021: 22.8%), reflecting a restructure in Australian Healthcare and International Seals, increased automation at our Louisville facility, and a challenging talent market.

Our Colleague Engagement Survey is key to understanding how engaged our workforce is and helps us to identify themes and areas of improvement or focus. We have set a relatively modest target to maintain an engagement index of 70%+, which keeps us focused on understanding the real picture, improving engagement, and encouraging open and honest responses.

Action during 2022

Following the Engagement Survey, our businesses set up listening groups to focus on key themes from their survey and put engagement plans in place for the year ahead. They are supported by Group HR, which assists the businesses in understanding and responding to their results and shares key Group themes and best practice.

“It’s really important to us that we continue to prioritise and engage our colleagues across the Group. Earlier this year we held our second engagement survey. The engagement index was 79% with over 2000 colleagues taking part.”

Jill Tennant,
Group HR Director



We've also started to roll out our learning management system across the Group. This provides a central hub for Group internal communications, policies and documents, and offers courses and information to support best practice and DVR.

Our engagement score remains high at 79% and we were able to increase the response rate across the Group. Importantly, engagement scores are consistent across the Group, ranging from 75%–85%.

75%+

all of our businesses achieved an engagement index within a range of 75-85%

90%

of our colleagues believe that their work is meaningful, according to our engagement survey

88%

of our colleagues believe that their manager empowers them, according to our engagement survey

We scored very strongly against themes relating to our colleagues' roles and management: 90% of respondents find their work meaningful, 89% of colleagues are proud to work for their business, and 88% believe that their manager empowers them and gives them the authority to do their job.

Following the FY21 engagement survey, we identified three areas of focus: leadership style, learning and development and wellbeing. All of these areas have shown an improvement in the last year and reflect the initiatives in place at many of our businesses.

Leadership style

75% +2%

2022	75
2021	73

Learning and development

70% +4%

2022	70
2021	66

Wellbeing

79% +1%

2022	79
2021	78

Learning and development and wellbeing continue to be ongoing areas of focus across the Group. We provide resources and guidance to businesses on development planning and performance feedback. We will continue to actively support businesses and colleagues on stress management, resilience and wellbeing.

CASE STUDY

M Seals UK Employee Working Group



M Seals UK set up an Employee Working Group in 2021 in response to their first Group Colleague Engagement Survey.

The Employee Working Group is still going strong and meets quarterly. It includes colleagues from across the business and from every management level, department and site.

"I like that I can act on behalf of my colleagues to voice their concerns or issues. I also like that we develop a plan or response to each issue right there in the meeting so it gets sorted straightaway. It's a great way to communicate as all the branches of the business are there together at the meeting – whether it's a finance issue, a management issue, or a warehouse issue."

Sati Sing,
Warehouse Operative and
member of the Employee
Working Group at M Seals UK

Ensuring Health & Safety

Our vision is that no one is harmed at work

2022 Highlights

- Continuing to build a proactive Health & Safety culture
- More robust reporting
- Reduced severity rate
- Improvement in potential hazard reporting
- Improved governance at business and Sector level

10.6

LTI rate

44%

reduction in severity rate

KPI

Lost time incident (LTI) Rate (number of lost time incidents per 1,000 employees)

FY23 Target

5% year-on-year reduction in LTI rate

Ongoing Focus

- Build positive mental health and wellbeing
- Continuous improvement and focus on Health & Safety culture
- Ensure process in place to reduce risks identified by potential hazard reporting

Keeping our colleagues healthy, safe and well is a prerequisite to doing business. We have a duty of care to any person who is working remotely, working at, or visiting a Diploma business.

In line with our decentralised model, our Managing Directors are accountable for Health & Safety in their businesses. Each business works to build a strong Health & Safety culture, driven by the Managing Director and upheld by all colleagues.

Our Group CEO holds ultimate responsibility for Health & Safety across the Group, including ensuring good governance and provision of a safe working environment for all colleagues.

Businesses are responsible for developing and implementing procedures and frameworks to suit their specific circumstances and risk level. However, we expect all businesses to comply with the standards and requirements of our Group policy.

We have outlined a vision that no one should be harmed at work. In order to achieve this, we will focus on risk mitigation and a proactive Health & Safety culture. We see potential hazard reporting and awareness as good indicators of that culture.

To further support our long-term vision, we have set an LTI reduction target of 5% year-on-year to support us in reducing incidents.

Action during 2022

For the first time, our businesses reported monthly Health & Safety data for a full financial year. This allowed us to identify and act upon Group themes and risks quickly and share knowledge across the Group.

As a result, we have asked businesses to be more proactive in reducing risks associated with driving vehicles, renewed our focus on mental health and wellbeing, and introduced an immediate reporting protocol for all LTIs. These have been reflected in our updated Health & Safety Policy for the year ahead.

We were pleased that Health & Safety culture is starting to embed across the Group with 86% of colleagues feeling that their business takes Health & Safety seriously. Health & Safety will continue to be a key consideration for acquisitions and their onboarding.

86%

of colleagues feel that Health & Safety is taken seriously in their business, according to our Colleague Engagement Survey

Ahead of the Policy update, we held Health & Safety workshops with colleagues who are responsible for Health & Safety at their business or facility. The purpose of these sessions was to support our businesses in embedding the Policy updates, ensure alignment with our targets and focus areas for FY23, and share best practice between Health & Safety managers.

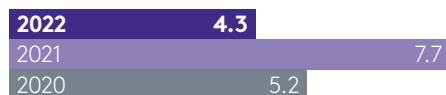
We are also pleased that we have started to develop a wider network of Health & Safety colleagues. This network has brought Health & Safety managers together to share best practice and ideas on Health & Safety culture, as well as sharing experience and learnings on external certification, such as ISO qualification, for businesses preparing for review.

Group performance stats

LTI rate



Severity rate



Potential hazards



During the year, our LTI rate increased to 10.6 (2021: 10.1) – an increase on the prior year of two incidents. However, we feel this reflects more robust reporting across the Group and were pleased that LTIs were less severe than in 2021, with the severity rate dropping from 7.7 to 4.3.

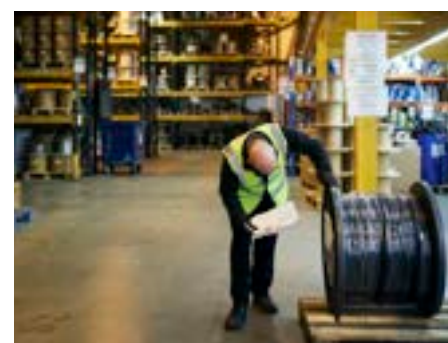
The primary cause of LTIs across the Group continues to be slips and trips. Our most severe injury was a sprained ankle which resulted in 24 days of lost time as the person could not perform the duties of their active, warehouse role.

Potential hazard reporting increased across the Group to 572, for the year with improved consistency of reporting across the businesses. We will continue to focus on ensuring that potential hazard reporting results in mitigating actions.

There were no fatalities during the year.

CASE STUDY

North American Seals



During the year, our North American Seals businesses created a Health & Safety network to share best practice and resources on Health & Safety.

In FY22, their injury days were 59% lower than the prior year and their number of LTIs decreased by 66%.

Promoting Diversity, Equity & Inclusion

Our vision is to build a diverse workforce, where all of our colleagues feel able to bring their full selves to work and fulfil their potential.

2022 Highlights

- New Group Diversity, Equity & Inclusion Policy
- Unconscious bias workshops
- Training for Senior Leadership Team on inclusive leadership
- Ethnicity reporting

27%

of the Senior Management Team are women

KPI

% of women on the Senior Management Team

FY30 Target

Women represent 40%+ of Senior Management Team

Ongoing Focus

- Succession planning
- Implementing the Diversity, Equity and Inclusion Policy across the Group
- Further learning and knowledge sharing

We remain committed to better representation across our Group and businesses, particularly in management and leadership positions.

We continue to build awareness around Diversity, Equity and Inclusion (DEI) and during FY22, we held workshops on unconscious bias with colleagues across our businesses.

Our inclusive leadership webinars were attended by all business MDs and other members of the Senior Leadership Team. We also have resources available on our learning management system.

During the year, we developed and published our Group DEI policy, which provides guidance and standards for our businesses to follow, including requesting diverse shortlists from recruiters. We held workshops on the new policy with colleagues responsible for progressing DEI in their business, including senior management and HR.

During these sessions, we shared the key points of the Policy, our DEI targets and our focus areas for FY23. This also gave attendees the opportunity to ask questions, share best practice and build networks.

40%

of external hires into the Senior Management Team during the year were women

% of women on SMT

2022	27%
2021	24%

Gender diversity (as at 30 September)

	Male	Female	Total
Board	4	3	7
Executive team	6	2	8
SMT	95	36	131
All employees	1,998	910	2,909

We have set an FY30 target for the Senior Management Team (SMT) to be at least 40% women. We have made some progress towards that during the year with 40% of external recruitment into the SMT being women. However, the influence of acquisitions remains a challenge, with just 9% female representation amongst those that joined the SMT through acquisitions during FY22.

We also remain focused on improving the gender diversity of those joining the SMT through internal recruitment by building a gender-balanced pipeline of talent. Beyond the SMT, our ambition is to achieve gender balance across our workforce.

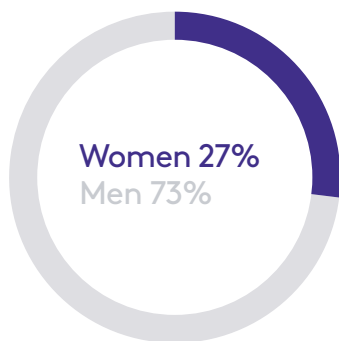
Ethnic diversity (as at 30 September)

	Non-minority	Ethnic minority	Prefer not to say	Total
Board	7	0	0	7
SMT	98	13	20	131

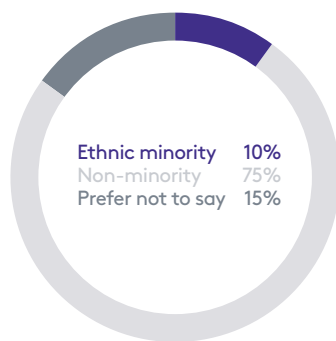
We have also started to measure ethnicity for the SMT. We have found that the percentage of the SMT that identify as belonging to an ethnic minority has increased slightly on the prior year (FY21: 7%). As with gender, this is largely due to external hires into the SMT during the year.

Diversity of our Senior Management Team

Gender diversity

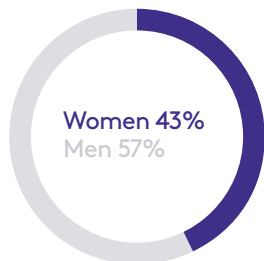


Ethnic diversity

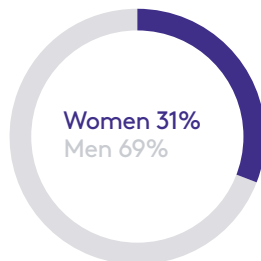


Gender diversity across the Group

Board



All employees



CASE STUDY

International Women's Day



International Women's day was celebrated by businesses across the Group on 8th March 2022.

Businesses brought their teams together at lunches, discussion groups and through fundraising events to discuss bias and the challenges faced by women in the workplace.

All colleagues were also given the opportunity to attend a #BreakTheBias workshop, which highlighted examples of unconscious bias and the role that we can all play in tackling it at work.

DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS FOR THE ENVIRONMENT

We are a Group whose businesses, supply chain and end users stretch across the globe. As a distributor, our operational emissions are relatively modest, and the vast majority of our emissions will sit in Scope 3.

Calculation of our Scope 3 emissions is a complicated undertaking in a decentralised Group, such as ours. We are working to do this ahead of submitting a net zero target to the Science-Based Targets Initiative (SBTi) during FY23.

The climate crisis is urgent and global, we recognise the impact of our wider footprint and the narrowing window of opportunity to make a positive contribution in tackling this crisis. Beyond the moral obligation that we feel, we also see the contribution to the long-term value creation and growth of our businesses.

Our colleagues are increasingly passionate about climate change and expect the Group to drive progress and support their initiatives. There is also the opportunity to deliver value to our customers by offering more sustainable products and solutions, building our knowledge and expertise, and working to be a more carbon-efficient business that can support their net zero goals.

Our positive impact revenue initiatives help us to position ourselves for commercial growth with a positive impact on society and the environment.

Sustainable Supply Chain Management

Our vision is for all of our key suppliers to be compliant with our Supplier Code.

2022 Highlights

- Active engagement with our suppliers on the environment
- Key suppliers identified and the process has started to align with our Supplier Code

59%

of our identified key suppliers are aligned with our Supplier Code

KPI

% of identified key suppliers aligned with Supplier Code

FY30 Target

80% of key suppliers are aligned with our Supplier Code

Ongoing Focus

- Continue to ensure alignment of key suppliers with Supplier Code
- Align our Supply Chain Policy and processes with our net zero targets
- Build our understanding of supplier emissions

Management of our supply chain is key to our broader social and environmental impact as a Group, and a key part of our strategy and commercial proposition. Our focus is to work with our suppliers to tackle climate change and reduce our own impact through more sustainable packaging, logistics and products.

Percentage of identified key suppliers aligned with our Supplier Code



FY22 was the first full year of implementing our Supply Chain Policy and engaging our suppliers on our Supplier Code. Our businesses have worked hard to engage their suppliers and ensure their alignment with the Supplier Code against a backdrop of supply chain disruption that was exacerbated by Covid-19.

During the year, our businesses have identified their key suppliers. These are categorised by the businesses but must account in aggregate for at least 50% of annual supplier spend. In addition, key suppliers may also include any high-volume supplier, critical component supplier, or non-substitutional supplier.

The standards of our Supplier Code ask our key supplier to commit to conducting their business according to high ethical, professional and legal standards including those relating to human rights, labour laws, anti-bribery and corruption and international trade laws and sanctions. We also ask that our suppliers work with us to reduce waste and emissions within our value chain.

In the first year of reporting against this metric, a total of 578 key suppliers were identified across the Group. Not all of the identified suppliers have been engaged on the Supplier Code – engagement is underway and so far, 59% of key suppliers have been engaged and are aligned with the Supplier Code. We will continue to engage the remaining identified key suppliers and assess new key suppliers on an ongoing basis.

We have also held workshops with supply chain roles across our businesses to help develop connections, share best practice and build understanding of the impact of our supply chain management on our emissions.

We will continue to build out this network and develop their knowledge of Scope 3 emissions, as this function and supply chain management will play a key role in our net zero strategy. We look forward to partnering with them on reducing emissions across our value chain.

Tackling Emissions and Waste

To be net zero across our operations by 2040 and net zero across our value chain by 2050 at the latest.

2022 Highlights

- Emissions flat, excluding the impact of new acquisitions during the year, despite strong organic growth
- Waste measured for the first time
- Business-driven initiatives

Total Scope 1 and 2 emissions

10,615

Tonnes CO₂e

Emissions KPI

% reduction of Scope 1 and 2 emissions (tonnes CO₂e) against FY22 baseline (10,615 tonnes CO₂e)

Waste KPI

% of total waste to landfill

FY30 Emissions Target

50% reduction of Scope 1 & 2 emissions on FY22 baseline

FY30 Waste Target

Less than 15% waste to landfill

Ongoing Focus

- Set SBTi net zero target
- Build internal knowledge of Scopes 1, 2 & 3
- Divert waste from landfill
- Set out a clear roadmap to our 2030 targets

We are committed to net zero emissions across our value chain by 2050 at the latest. We have set an interim 50% reduction target for our own operations by FY30. We are currently calculating our Scope 3 and will submit our net zero targets for verification by the SBTi in FY23.

We are hugely grateful to our businesses and the brilliant colleagues that have worked during the year to put sustainable initiatives in place at their facilities, including upgrading to LED lighting, introducing electric company car policies and reducing their waste.

We have worked with EcoAct, an Atos company (EcoAct), to review our Scope 1 & 2 emissions and set an FY22 base year for our SBTi-aligned target to reduce Scopes 1 & 2 by 50% by 2030.

This target puts us on track to achieve net zero emissions across our operations by 2040.

The majority of our emissions are from heating, cooling and lighting our facilities, with Scope 2 representing 74% of our operational emissions. We intend to achieve our target by focusing on energy efficiency initiatives and on-site renewable power generation, as well as the purchase of renewable electricity.

		FY22	FY21	FY20
Greenhouse Gas Emissions (tonnes CO ₂ e)	Scope 1 emissions	3,256	2,554	773
	Scope 2 emissions	7,359	7,271	3,558
	Gross emissions	10,615	9,825	4,331

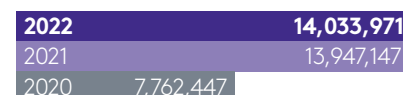
Tonnes CO₂e per £1m revenue

10.5



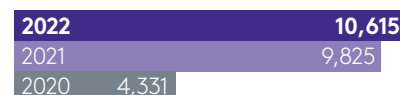
Purchased electricity kWh

14,033,971



Gross emissions

10,615



**DELIVERING VALUE RESPONSIBLY
CONTINUED**

There are some challenges to this as the majority of our facilities are leased, which can prohibit solar panel installation or energy efficient upgrades. However, we have started to incorporate environmental criteria into our facility requirements when negotiating or renewing leases.

As part of the work we are doing to submit net zero targets to the SBTi, we have reviewed our reporting methodology and will focus on a percentage reduction of Scope 1 & 2 emissions going forward.

During FY22, which is our baseline year, we used actual emissions data from the majority of our businesses (90% of Group revenue) and estimated the emissions of the remaining businesses. Metrics are reported quarterly by the businesses. For estimated emissions, stationary combustion is estimated on a percentage of revenue basis, mobile combustion is estimated by applying the average vehicle GGEs to 'out of scope' vehicles, and purchased electricity is estimated on a percentage of revenue basis. Calculations are location-based.

Gross emissions for existing businesses have remained relatively flat at 150 tonnes CO₂e less than FY21. Our Group emissions ratio (tonnes CO₂e per £1m revenue) has decreased from 12.5 to 10.5, largely driven by increased revenue. Total gross emissions for the Group were 10,615 tonnes CO₂e, of which 18% (1,915 tonnes CO₂e) was attributable to the UK.

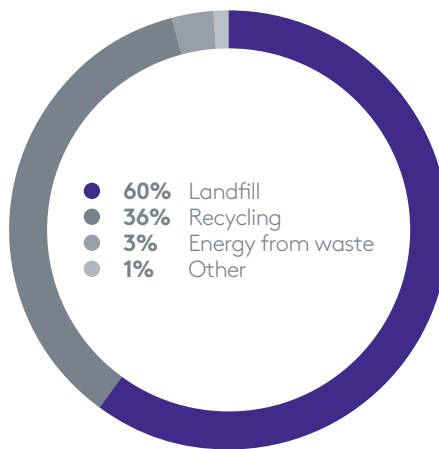
Consolidating and upgrading facilities has been particularly effective and we have seen a 30% reduction in Scope 2 emissions at our Hercules Aftermarket business in the US due to moving operations to the more energy efficient Louisville facility. We have also seen some benefit from energy efficiency measures, such as upgrading to LED lighting.

Consumption of purchased electricity for the Group was 13,947,147kWh, of which 14% (1,885,178kWh) was consumed in the UK.

Waste

Ahead of our Scope 3 calculation, we have started to measure our waste across the Group. This will be incorporated into our Scope 3 calculation and net zero targets but is also an important metric for us to manage.

Waste by destination



Waste per £m revenue	3.5
Total waste	3,336 metric tonnes

Our businesses (excluding acquisitions) report their total waste and waste by destination every quarter, an exercise that has significantly improved our understanding of waste across our businesses. There have been challenges to collecting this data, due to the capacity of local waste haulers to measure waste, recycling infrastructure in some regions and variance of units that weight is measured in.

The businesses reported a total of 3,336 metric tonnes of waste, of which 60% goes to landfill.

CASE STUDY

Packaging



Packaging initiatives are being put in place across the Group. For many businesses, the focus has been on creating a more circular packaging system.

Some businesses have invested in shredding machines in order to reuse incoming cardboard packaging as packing material for outgoing orders. Other businesses have focused on removing non-recyclable elements from their packaging by replacing plastic tape with paper tape – removing more than a tonne of plastic for their customers. Another scheme has completely removed branding from all packaging. By working closely with our suppliers to have products delivered in plain, cardboard boxes, product packaging can be reused by our businesses and customers.

All of these initiatives support our ambition to reduce our waste-to-landfill and overall waste. It also supports our customers in achieving their own net zero and waste reduction initiatives.

CASE STUDY

Facility upgrades

During FY22, our European Life Sciences business, Simonsen & Weel, moved into a new location that benefits from more efficient heating and cooling, solar panels, state-of-the-art insulation and electric vehicle charging. The business also decided to improve biodiversity in the surrounding area by sowing wildflower meadows on its surrounding land.

Overview

Strategic Report

Corporate Governance

Financial Statements

Other Information

DIPLOMA DELIVERS POSITIVE IMPACT



Our businesses deliver positive impact through products and services that benefit our society or environment. Growth initiatives in these areas offer exciting commercial opportunities and support our purpose.

Positive impact revenue is generated across all businesses from the sale of products, services and solutions that benefit our society or environment and support the transition to a more sustainable future. Growth initiatives in these areas offer a key opportunity to positively impact our stakeholders.

There are huge opportunities to be found in the scale of transformation required to create a more sustainable, low-carbon economy, such as the adhesives we sell into electric vehicle assembly or the seals sold into renewable energy generation.

Our businesses also supply products that support healthy and safe communities, such as the highly-stranded silicone cable, supplied by our Controls Sector, that is used in defibrillators and ECG electrodes.

Our Life Sciences businesses offer diagnostic solutions that make it quicker and easier to identify life-threatening diseases, including cutting-edge technology that allows for early detection of diseases in newborns, and home-testing kits for remote communities.

Our MRO seals business sells fluid-sealing solutions and trademarked products specifically designed to prevent fugitive emissions.

Our decentralised model gives us the agility to capitalise on opportunities in these new and fast-growing end segments as we work with our suppliers and their industries to innovate new, specialised products and solutions.

Our positive impact revenue streams are an important component of our organic growth strategy and each Sector has growth plans in place.

DIPLOMA DELIVERS RESPONSIBLY



Our Group purpose is to consistently deliver value and reward our stakeholders by making a positive difference to our colleagues, our customers and suppliers, and our communities. We are committed to fulfilling our purpose in a way that is environmentally, socially and ethically responsible.

DVR governance

Our DVR governance structure is lean and reflects our decentralised model. The Group has responsibility for providing direction and support, and the Board has ultimate oversight and responsibility for DVR across the Group.

Operational execution takes place in our businesses, close to our customers. Managing Directors are responsible for DVR performance of their business and are given flexibility to prioritise DVR focus areas in line with materiality to their business. Targets are set at Group and Sector level and the Executive team, which includes the Group CEO and Sector CEOs, is responsible for performance within their area of responsibility.

In line with our 2021 pledge, DVR KPIs are now integrated into our regular management reporting, including biannual updates on our emissions. Our businesses report their emissions data quarterly to the Group, where it is reviewed by the senior finance team and managed for improvement by the Sector leadership team.

Positive Impact Revenue data is collected from each business and analysed twice a year as part of management reporting. This analysis is considered a useful tool for assessing climate-related risks and opportunities. This data is reviewed by the Sectors, Group Finance, DVR steering committee and the Board.

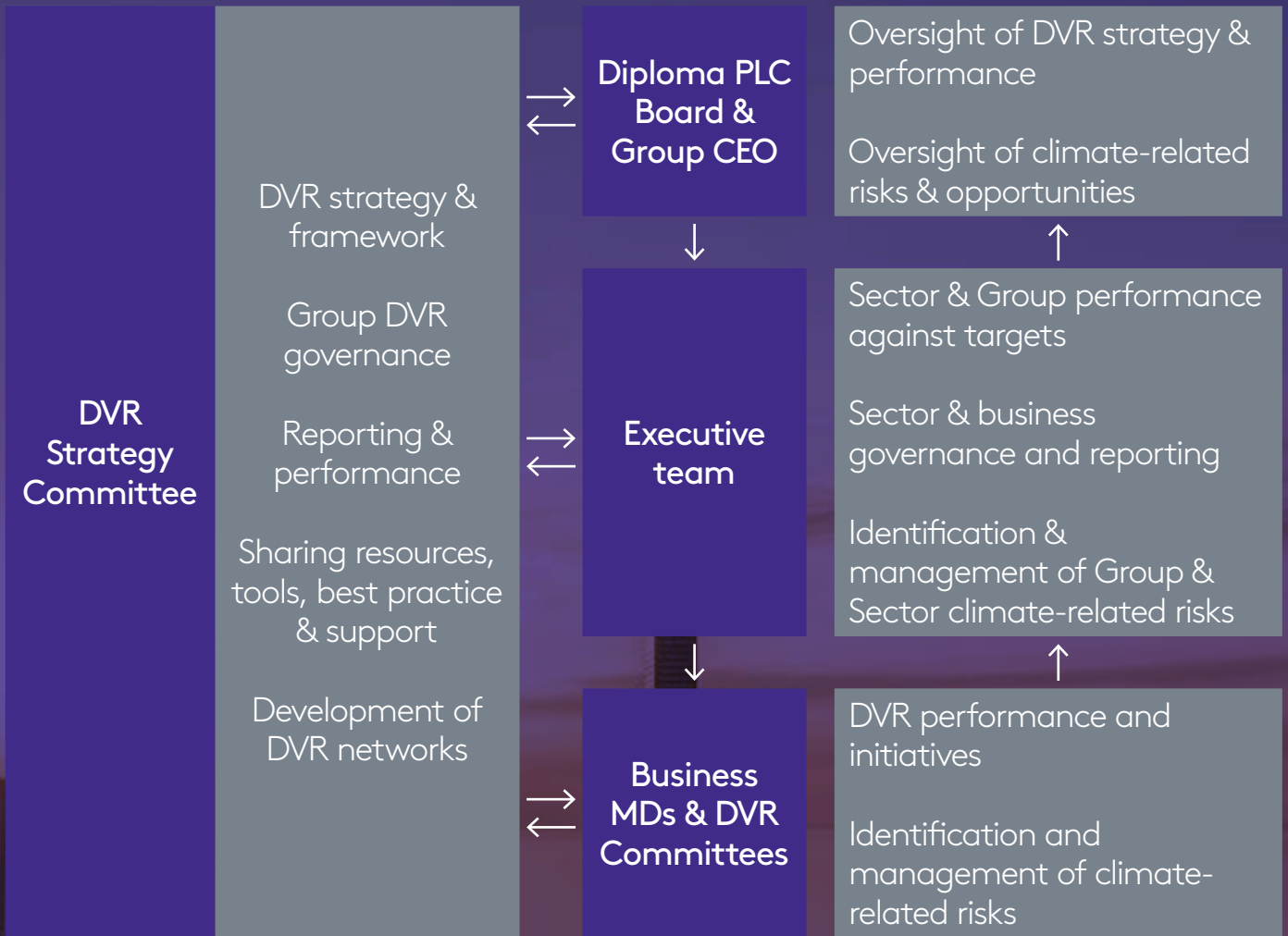
The role of the DVR Steering Committee, which is chaired by the Group CEO, is to outline Group strategy against the DVR framework, set Group initiatives and targets, support the Sectors and businesses, and monitor and communicate progress. The challenge of a decentralised business can be to ensure alignment with Group objectives and drive meaningful progress. Communication is key to the effectiveness of DVR management across the Group and DVR features heavily in regular internal and SLT communications.

Our Senior Leadership Team (SLT), which includes business MDs, is updated quarterly on DVR during regular SLT updates from the CEO. They also attend in-depth sessions with members of the DVR Steering Committee to review performance and DVR governance, receive updates on DVR strategy and policy changes, and share their successes and best practice.

The Executive team is updated on DVR along with the SLT but also hold more detailed sessions biannually as part of the Executive Meetings. Sector CEOs meet biannually with the DVR Steering Committee for a DVR Governance meeting to discuss DVR strategy, governance, climate-related risks and opportunities, and review progress and initiatives.

The Board holds an annual DVR session to review DVR strategy, objectives and progress. Climate-related risk management is integrated into Group risk management.

Our DVR governance structure



Our metrics and targets

FY22 is our first year of reporting against all of our DVR metrics and KPIs. We have set targets against each of our KPIs.

Focus Area	KPI	Target	Target date	FY22	Our long-term vision
Colleague Engagement	Engagement index	Maintain 70%+	FY30	79%	All of our colleagues are highly engaged
Health & Safety	LTI rate (Lost time incidents per 1,000 employees)	5% reduction year-on-year	FY30	10.6	No one is harmed at work
Diversity, Equity and Inclusion	% of women on the Senior Management Team	Women represent 40%+ of Senior Management Team	FY30	27%	A diverse and gender balanced workforce
Supply Chain	% of identified key suppliers aligned with the standards of the Diploma Supplier Code	80% suppliers are aligned with the Supplier Code	FY30	59% ¹	All key suppliers are compliant with the Supplier Code
Emissions	% reduction of Scope 1 and 2 emissions against FY22 baseline.	50% reduction	FY30	Baseline year: 10,615 tonnes CO ₂ e	To be net zero across our operations by 2040 and net zero across our value chain by 2050 at the latest
Waste	% of total waste to landfill	Less than 15% waste to landfill	FY30	60%	To be a zero-to-landfill business

¹ Key suppliers are required to cover in aggregate at least 50% of supplier spend. In the first year of reporting against this metric, 578 key suppliers were identified across the Group. Engagement on the Supplier Code is underway and 59% have been engaged and aligned with the standards of the Supplier Code.

Responsible business

We recognise our obligation to undertake all business dealings in an ethical and responsible fashion, including interactions with employees, customers, suppliers, shareholders and advisors.

In line with our decentralised model, business dealings are managed at a local level and the Group expects senior management to ensure the highest standards of integrity, ethics and professionalism.

Charitable donations

Our businesses operate across multiple communities. It is important that our colleagues can support and donate to the communities that they belong to. During the year, charitable donations across the Group totalled £122,733 (2021: £70,374) this included a donation to support those affected by the war in Ukraine. No political donations were made.

Taskforce on Climate-related Financial Disclosures (TCFD): our response

We recognise that climate change is an urgent and global crisis, and we are committed to building our understanding of its potential impact on our Group as well as making a positive contribution to a low-carbon future. We operate a decentralised model across a large number of geographically spread businesses with lean management structures. Our approach to climate impact reporting has focused initially on developing a sound understanding of our own emissions (Scope 1 and 2) in order to set credible and sensible reduction targets (published on page 53 of this report). With many thousands of supply chain partners, we are on a journey to understand our Scope 3 emissions and, as a consequence, our ability to create credible climate change scenario models. We have already engaged third party expertise, engaging EcoAct in FY22, and will increase internal resources in this area in the coming months. This will enable us to make material progress during the first half of FY23. We expect to have fully compliant TCFD reporting by the end of FY23.

At the time of publication, we have made climate-related financial disclosures consistent with the TCFD recommendations against the following:

- Governance (a) and (b)
- Strategy (a)
- Risk management (a), (b) and (c)

For strategy disclosures (b) and (c), further work is underway to understand the impact of climate-related risks and opportunities and we are planning to undertake scenario analysis during FY23. Our understanding of these risks will be further informed by scenario analysis during FY23 in order to comply with metrics and targets disclosures (a), (b) and (c). We have disclosed our Scope 1 and 2 emissions and targets in this report as well as some of the related risks. We are not currently fully consistent with metrics and targets disclosures (b) and (c) as we have not disclosed our Scope 3 emissions or targets. However, we have engaged EcoAct to review and advise on our methodology for calculating our Scope 1 and 2 emissions, calculate our Scope 3 footprint and support us in submitting 'near-term targets' to the SBTi in FY23 that consider long-term target alignment in achieving net zero no later than 2050.

The further work outlined above, and which is required for consistency with the recommended TCFD disclosures, will be completed during FY23 and the findings will be published in our FY23 Annual Report.

GOVERNANCE

Disclose the organisation's governance around climate-related risks and opportunities

Board Oversight

The Board is accountable for Diploma's response to climate change and has ultimate oversight of climate-related risks and opportunities as well as our DVR strategy. In order to remain well-informed and improve decision-making, the Directors received regular reports and updates during the year, including:

- Reports on macroeconomic trends, including the risks of climate change, that allow the Board to review the Group's principal, new and emerging risks together with mitigating actions
- Quarterly risk updates
- Training on TCFD reporting and trends from PwC
- Annual ESG updates

The Board is responsible for overseeing the integration of climate-related risks into the Group's overall risk management framework. Where specific expertise is required, the Board engages external experts to support. A key example of this is the engagement of EcoAct to review and advise on our methodology for calculating our Scope 1 and 2 emissions, review and calculate our Scope 3 footprint, and support us in setting net zero targets and submitting them to the SBTi in FY23.

Management's role

Management plays a key role in assessing and managing climate-related risks and opportunities. The Group CEO chairs the DVR Steering Group, which is responsible for the Group's DVR strategy and progress, including setting emissions targets and reviewing performance. Sector CEOs are responsible for identifying and assessing climate-related risks and opportunities at Sector level. Our Group MDs are responsible for identifying and managing climate-related risks and opportunities in their business.

Our DVR governance structure applies to the governance of climate-related risks and opportunities.

DVR governance structure: page 52

Internal control and risk Management: pages 80-88

Governance: pages 90-141

Nomination Committee Report: pages 108-113

STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

We expect to see increased physical risks due to extreme weather events in the mid to long term – largely in our US facilities – with the potential to impact operations and increase costs due to damage to Diploma property and assets as well as supply chain disruption.

Internal control and risk management: pages 80-88

For the purposes of assessing climate-related risk, we have adopted the following timelines: short term: 0-3 years (consistent with the time period for the Group's viability assessment); mid term: 3-10 years; and long term: 10+ years (both of which are considered to be appropriate time horizons to assess mid-to-long-term climate-risks to the Group).

In the mid term, we plan to take advantage of facility-related opportunities to build resilience to extreme weather events, such as the selection of more climate resilient locations, improved drainage systems, on-site energy generation and more efficient cooling, heating and insulation. We have started to integrate environmental requirements when negotiating or renewing facility contracts or leases, including on-site renewable energy generation and improved energy efficiency.

In the short term, we do not expect significant increases in extreme weather events beyond the current experience of the businesses. This risk is expected to increase in the medium to long term as the regularity and severity of weather events may increase. These are largely mitigated by the continued diversification of the supplier base to reduce dependencies, continuous diversification of the customer base with low end market dependencies, and actions taken to invest in site resilience.

In the mid to long term we would also anticipate an increase in risks associated with the transition to a low-carbon economy. This includes the potential decline in certain end markets in which the Group operates, changing user preferences or a demand for lower-carbon products. However, our diversified supply chain and end markets means that we are not heavily dependent on one particular end market or product line. The agility of our decentralised distribution model allows us to pivot quickly. Proactive positive impact revenue initiatives, which are in place at every business, are driving our businesses to pursue opportunities in new and emerging low-carbon end markets.

We do not expect a significant impact from the risk of changing markets or consumer preferences in the short to mid term as we do not expect any of the industries that we serve to decline rapidly or cease to be in existence due to climate change. We do anticipate that our end markets may evolve but equally believe that our decentralised model is agile enough to evolve with them. Our low dependency on any specific industry mitigates our exposure. We also expect to identify climate-related opportunities, including the opportunity to improve our operational efficiency, deliver value to our customers and suppliers by aligning with them on their net zero ambitions, and supply specialised products and solutions to high-growth, low-carbon end markets.

During the year, the Board considered potential risks, threats and opportunities and identified climate change and its impacts as an emerging risk. However, we strongly believe that climate-related risks and opportunities will require further analysis. During FY23 we have committed to undertake scenario analysis in order to assess the impact of climate-related risks and opportunities on our businesses, strategy and financial planning. Scenario analysis will offer us a better understanding of the climate-related risks and opportunities that are most relevant to our Group, the impact of those risks and opportunities, as well as our resilience to identified risks. This will also inform the associated mitigation, action plans and financial impacts.

RISK MANAGEMENT

How the organisation identifies, assesses and manages climate-related risks

We take the same approach to identifying and monitoring climate-related risks as we do for strategic, operational, financial and other macro risks as outlined in the internal control and risk management section of the Annual Report.

Internal control and risk management: pages 80-88

Our decentralised model means that local businesses are responsible for identifying, assessing and managing risks to their businesses. The businesses use a framework to map risks, based on both likelihood and impact to the business. As part of the biannual DVR governance process, these risks are reviewed by the DVR Steering Committee and Sector leadership.

The Board holds ultimate responsibility for risk management and oversight and for ensuring appropriate systems of control are in place, as well as horizon scanning for emerging and potential risks. They are informed of the outcomes of risk reviews ahead of reviewing and approving principal risks. The Audit Committee ensures the effectiveness of the internal control environment for the Group and that the Group's risk management, governance and internal control are operating effectively.

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities

We recognise that the emissions produced as a result of our operations and value chain contribute to climate change and global warming. We also recognise the opportunity to partake in global efforts to tackle climate change as well as our exposure to some transitional risks by making active efforts to reduce our emissions.

Emissions metrics: page 53

We measure and manage our businesses on their actual Scope 1 and 2 emissions as well as a combined emissions ratio for Scope 1 and 2. These are reported quarterly by our businesses alongside qualitative reporting on initiatives and progress. These metrics and our performance against these metrics can be found on pages 36-47.

Governance: pages 90-141

During the year, we have worked with EcoAct to review our Scope 1 and 2 reporting metrics and calculation methodology and are currently working with them to analyse and calculate our Scope 3 emissions.

Audit Committee Report: 102-107

We have announced a 50% reduction target for Scopes 1 and 2 by FY30 against an FY22 baseline. This target aligns with the analysis of our value-chain emissions and Scope 3 calculations currently being undertaken ahead of submitting net zero targets to the SBTi in line with the <1.5 degree pathway. Our target for Scope 1 and 2 will reduce our own contribution to the increase in physical climate impacts and help us to focus on improving the energy efficiency of our facilities. Alongside the calculation of our Scope 3 footprint and net zero targets, it will reduce our exposure to some transitional risks.

Our Scope 3 calculation will also help us to better understand the carbon impact of our business as it relates to both physical and transitional climate-related risks.

Our policies and procedures

Anti-bribery & Corruption	The Group has a policy on anti-bribery and corruption that complies with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure continued and effective compliance in our businesses around the world. We provide online training to all of our businesses through our Learning Management System, including senior management and employees in customer and supplier management roles.
Code of Conduct	Our Code of Conduct sets out the expected standards of conduct and behaviour of all employees across Diploma as they relate to our people, governance and the law, social media, and stakeholder engagement. Much of the Code of Conduct is underpinned by other Group policies, including Modern Slavery, Whistleblowing, Diversity, Equity and Inclusion, and Health & Safety.
Diversity, Equity and Inclusion	Our Diversity, Equity and Inclusion (DEI) Policy applies to all our businesses and every aspect of how we work, and we believe our business leaders play a key role in creating an inclusive, diverse and equitable workplace. We believe that an effective DEI strategy will add value to our business, contribute to employee wellbeing and satisfaction, and allow us to recruit and retain a wider pool of exceptional talent.
Equal Opportunity	We are an equal opportunities employer with zero tolerance of any form of discrimination due to ethnicity, background, religion, sexual orientation, gender identity, pregnancy and maternity, citizenship, nationality, marital status or any other protected characteristic. We comply with all applicable DEI and inclusion laws, regulations and standards and apply responsible standards where legislation is inadequate. We encourage all members of Diploma to call out discrimination, or discriminatory behaviour, either through their line manager or through our whistleblowing hotline.
Environmental Policy	Our Environment Policy applies to all businesses and asks that they comply with the standards and requirements set out. These include complying with, or exceeding, all applicable environmental laws, understanding the risks and opportunities related to the environment and climate change and how they might impact the business. All businesses are required to submit data on their emissions and waste.
Health & Safety Policy	Our objective is to ensure the Health & Safety of our colleagues, visitors and partners through a proactive culture, clear standards, good governance, and rigorous reporting of incidents. Group performance and protocols are reviewed regularly to ensure that suitable standards are maintained and the Board reviews Health & Safety protocols and performance annually. The Group CEO has ultimate responsibility for Health & Safety across the Group, including ensuring provision of a safe working environment. Operating businesses are responsible for developing procedures and frameworks to suit their specific risk level.
Human Rights and Labour Conditions	The Group's activities are principally carried out in countries with strong human rights legislation, which the Group complies with in the countries in which it operates. Our businesses carry out due diligence on their supply chain and our key suppliers are asked to comply with our Supplier Code, which has standards and requirements related to human rights and labour conditions. Our own colleagues are provided with a safe, secure and healthy environment in which to work and have access to employee assistance programmes.
Modern Slavery Statement	The Group has a zero-tolerance approach to slavery in all its forms, including human trafficking, forced labour and child labour. Each business undertakes an annual risk assessment of modern slavery within the business and its principal suppliers. Group businesses also monitor and carry out due diligence of suppliers. Based on these assessments and the initiatives implemented by the businesses to counter slavery, the Board has been assured that slavery is not taking place within the Group. Our Modern Slavery Statement is available on the Diploma PLC website.
Whistleblowing Policy	We have a Group-wide Whistleblowing Policy that applies to all employees and businesses and is monitored by the Audit Committee. The Policy is displayed on noticeboards at all businesses. Employees are encouraged to raise concerns via the confidential, multilingual hotline, which is independently managed by an external company and is available 24/7, 365 days a year. All reports are reviewed by the Group Company Secretary to ensure appropriate investigation with the support of internal audit and external resources, if required.

KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

We measure our performance against a number of financial and non-financial metrics which reflect how we are delivering against our strategic objectives (as set out on pages 22-33), our financial model (see page 22) and our ESG framework (see pages 34-57).

FINANCIAL KPIs

Organic revenue growth

Organic revenue growth is the Group's number one priority. We focus on products and solutions which are critical to customers' needs, giving resilience to revenues. We target mid-single digit organic growth.

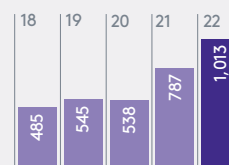
6%
Five-year average



Reported revenue growth

We aim to deliver sustainable double-digit growth through a combination of organic growth and high-quality, value-enhancing acquisitions which accelerate our organic growth.

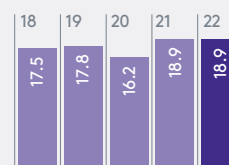
18%
Five-year compound



Adjusted operating margin

Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins. We target a margin of 17%+.

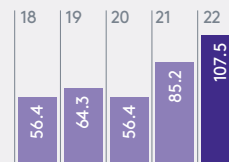
17.9%
Five-year average



Adjusted EPS

EPS growth is a measure of how successful we have been in growing organically and through acquisition, including capital allocation and tax considerations. We target double-digit EPS growth.

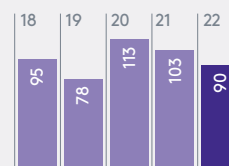
17%
Five-year compound



Free cash flow conversion

A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends. We target free cash flow conversion of 90%+.

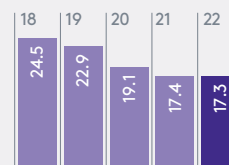
96%
Five-year average



ROATCE

This measures how successful we are at generating returns on the investments we make. We target ROATCE in the high teens.

20.2%
Five-year average



NON-FINANCIAL KPIs

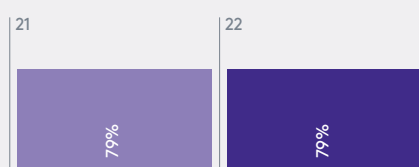
OUR COLLEAGUES

Engagement index

An externally benchmarked score from our annual engagement survey

TARGET

maintain **70%+**



Lost time incident (LTI) rate

Number of LTIs per 1,000 employees

TARGET

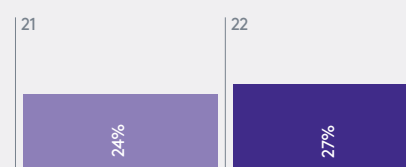
5% year-on-year reduction



% women on the Senior Management Team (SMT)

FY30 TARGET

40%+



OUR ENVIRONMENT

% key suppliers aligned with Supplier Code¹

FY30 TARGET

80%

of key suppliers aligned with Supplier Code by FY30

2022

59%

% of total waste to landfill

FY30 TARGET

<15%

waste to landfill

2022

60%

% reduction of Scope 1 & 2 emissions against FY22 baseline

FY30 TARGET

50%

reduction in Scope 1 & 2 emissions

2022 (baseline year)

10,615 tonnes CO₂e

¹ Key suppliers are required to cover in aggregate at least 50% of supplier spend. In the first year of reporting against this metric, 578 key suppliers were identified across the Group. Engagement on the Supplier Code is underway and 59% have been engaged and aligned with the standards of the Supplier Code.

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