
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.

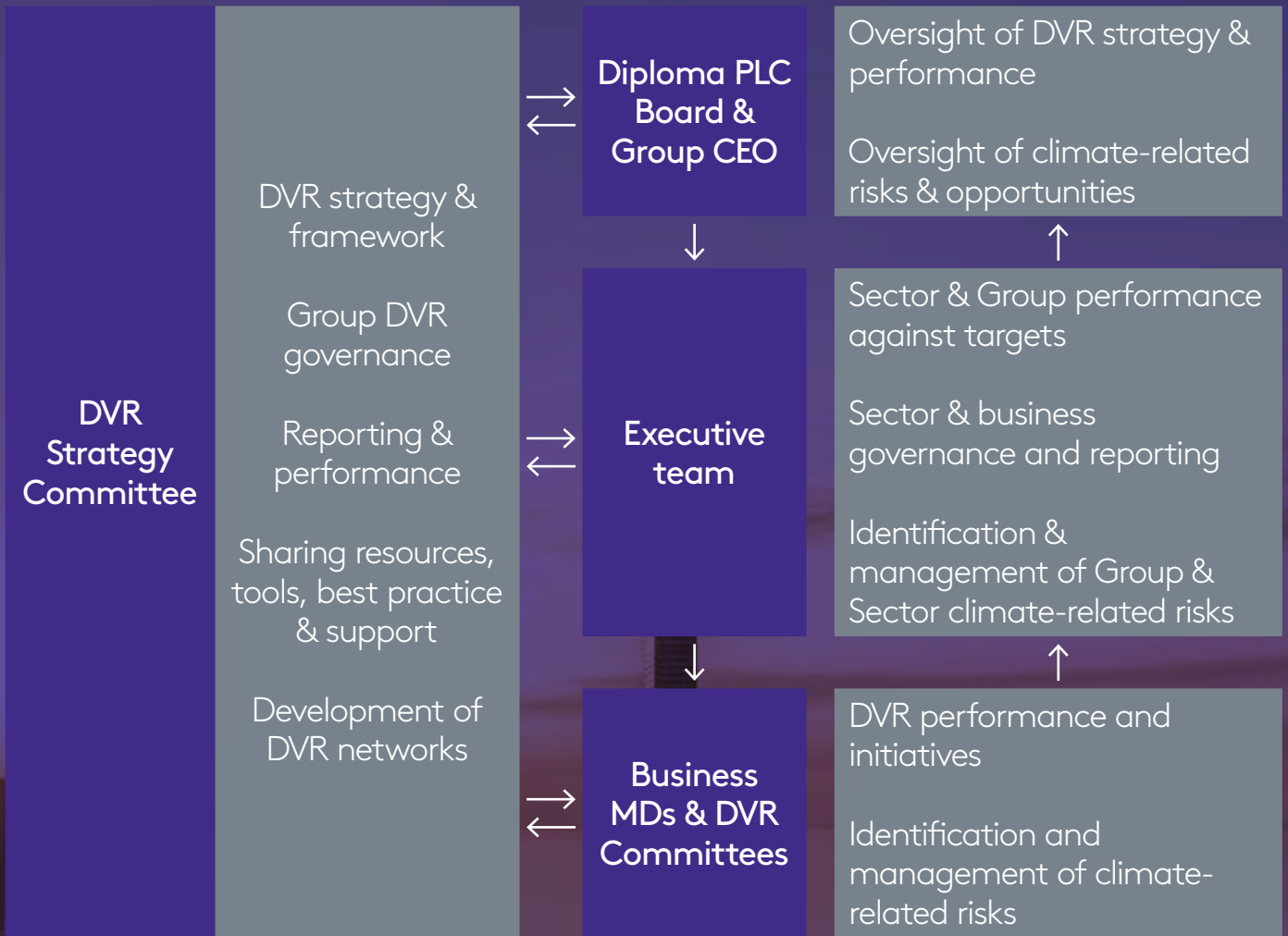
The role of the DVR Steering Committee, which is chaired by the Group CEO, is to outline Group strategy against the DVR framework, set Group initiatives and targets, support the Sectors and businesses, and monitor and communicate progress. The challenge of a decentralised business can be to ensure alignment 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.

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