

NOMINATION COMMITTEE REPORT

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The Nomination Committee is supporting the development of boardroom diversity whilst evaluating the balance of skills, experience and independence necessary for Diploma's succession planning."



John Nicholas
Chairman of the
Nomination
Committee

Dear Shareholder

I am pleased to set out below the report on the activities of the Nomination Committee during the year. 2021 saw further changes to the Board, with the appointment of Dean Finch as a non-Executive Director in May 2021 and the appointment of David Lowden as Chairman designate in October 2021, bringing further strong commercial, financial and operational experience to Board discussions. The main focus of the Committee during this past year has been on Board succession planning, including the search process for my role of Chairman of the Board.

A fundamental responsibility of the Committee is to ensure plans are in place for orderly succession to Board, our Group Company Secretary and senior management positions, and the Committee debates these regularly. The Committee continues to monitor balance on the Board to ensure we have the right combination of skills, experience and knowledge consistent with the long-term strategy of the Company. This allows us to identify where further focus needs to be brought in the coming years and beyond. Details of the current skills and experience of the Board are contained below.

B2B, Industrial & Distribution Sectors:	10
Retail and FMCG Sectors:	2
Financial and Risk Management:	10
Operations:	4
Customer Service:	4
Health & Safety:	2
Strategy:	10
M&A/Financing:	10
International Business:	10

After nearly nine years on the Board, I will retire at the conclusion of the AGM in January 2022. During my tenure there have been considerable changes to the governance regime and we are mindful of the discussions around improving diversity and inclusion, together with the targets set by the Hampton-Alexander Review and the Parker Review. Following my retirement in January, three out of seven Directors (43%) will be women, therefore we continue to exceed the target set by the Hampton-Alexander Review as we did throughout 2021.

We have written elsewhere (see page 42) about our Group-wide approach to diversity and inclusion, which emanates from the Board and impacts the approach of the Nomination Committee. The FRC's guidance on board effectiveness recognises a breadth of diversity that goes beyond just gender and race, and includes personal attributes including intellect, critical assessment, judgement, courage, honesty and tact; and the ability to listen and forge relationships and develop trust. This ensures that a board is not comprised of like-minded individuals. The Committee agrees that diversity is vital when reviewing the composition of the Board and setting the criteria for the recruitment of new appointees, alongside succession planning activities. External search consultants are expected to make every effort to put forward diverse candidates for new Board positions. Whilst appointments will continue to be made on merit and against objective criteria, it remains the Committee's intention that the diversity on the Board will continue to increase over time.

The Committee has also maintained its focus on the executive succession pipeline and senior management succession plans within the Group, reflecting its responsibility to ensure appropriate plans are in place.

John Nicholas
22 November 2021

Nomination Committee

The Nomination Committee is chaired by John Nicholas, Chairman of the Board. The Committee was chaired by the Senior Independent Director on any matters concerning the Chairman of the Board. The Committee comprises the non-Executive Directors and meets as necessary to discharge its responsibilities.

The Group Company Secretary acts as Secretary to the Committee.

The Committee's key focus areas during the year have been the Chairman succession, recruitment of a non-Executive Director and broader succession planning.

The Committee reviews the composition of the Board and principal Committees, considering skills, knowledge, experience and diversity requirements before making appropriate recommendations to the Board regarding any changes. It also manages succession planning for Directors and the Group Company Secretary, and oversees succession planning for senior leadership across the Group.

The Committee's role and responsibilities are set out in its Terms of Reference, which were reviewed during the year and approved by the Board.

Process for Board appointments

Step 1

The Committee reviews and approves an outline brief and role specification and appoints a search agent to facilitate the search

Step 2

A Committee member discusses the specification with the independent search agent, who prepares an initial longlist of candidates

Step 3

The Committee then defines a shortlist of candidates and we hold interviews

Step 4

The Committee makes a recommendation to the Board for its consideration

Step 5

Following Board approval the appointment is announced in line with the requirements of the FCA's Listing Rules

When making Board appointments, we follow the five steps outlined above. We disclose the name of the search agent and any other connection they have with Diploma in our Annual Report & Accounts published following the search. In due course, a tailored induction programme is developed for the new Director. During the year we engaged Korn Ferry in connection with the recruitment of Dean Finch and Russell Reynolds was engaged in connection with the recruitment of David Lowden. Neither of these search consultancies had any other connection to the Group, other than providing executive search services.

The challenge of "onboarding" during a pandemic

Recruiting and inducting personnel during the last year has proved to be an unusual experience. The decentralised nature of the Group has always made induction processes complex. The pandemic has led us to reconsider how these processes can be conducted effectively. Customarily there would have been face-to-face meetings with key executives and management, introductions to their direct reports, one-to-ones following the initial meetings, and site visits arranged to key businesses. Instead, the induction plan was conducted via Microsoft Teams; each key person heading up a Sector or function gave a presentation on their area of expertise or the businesses comprising their Sector, followed by a Q&A session.

Succession planning

The Committee formally reviews succession planning for the Board, Group Company Secretary and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background skills and expertise that will be required by the Group in the future. The CEO manages the development of succession plans for senior management, and these are overseen by the Committee. The CEO and Group HR Director presented a succession planning update to the Board in January 2021. The Committee is aware of the importance of identifying critical roles within the businesses to ensure we retain and motivate key talent and have the necessary skills for the future.

The standard term for non-Executive Directors is three years. They normally serve for a maximum of nine years, through three terms, each of three years' duration. All Directors are subject to annual re-election.

	Date of original appointment	Expiry of current term
John Nicholas	1 Jun 13	1 Jun 22 ¹
Andy Smith	9 Feb 15	9 Feb 24 ¹
Anne Thorburn	7 Sep 15	7 Sep 24 ¹
Geraldine Huse	20 Jan 20	20 Jan 23
Dean Finch	21 May 21	21 May 24
David Lowden	19 Oct 21	19 Oct 24

¹ Director in final term.

External Board evaluation

The Code recommends that an externally facilitated evaluation of the performance of the Board should take place at least every three years and therefore, in line with this recommendation, the Committee selected Clare Chalmers Limited to undertake an external evaluation of the Board and its Committees. The evaluation was conducted through in-depth facilitated interviews with all Board members and senior executives and the external Audit Partner, observation of meetings, and review of meeting papers and minutes, Committee Terms of Reference, the latest Annual Report, the Board calendar and forward agenda. The review looked comprehensively at all aspects of Board effectiveness. Clare Chalmers Limited undertook the externally facilitated evaluation in 2018. Clare Chalmers Limited has no other connection with the Company or its individual Directors.

NOMINATION COMMITTEE REPORT CONTINUED

Clare Chalmers' evaluation report was robust and informative and provided a valuable independent external perspective on the Group's governance. In connection with the presentation of the evaluation report, Clare made a number of recommendations which the Board considered and intends to implement, including the following:

Recommendation	Action
Consider increasing the size of the Board, bringing in further skills relevant to Diploma's size and operations	Nomination Committee to review the composition of the Board and determine if further appointments are necessary.
Board training programme to be evolved	Additional sessions to be included as part of annual calendar as well as bespoke sessions from advisors as required to enable and increase further challenge and scrutiny from the non-Executive Directors.
Employee engagement to be reviewed	Board to consider appointing a Designated NED for Employee Engagement. Increased number of site visits, with NEDs conducting these individually on occasion and providing feedback to the Board.
Board schedule to be reviewed	Board to consider sometimes holding the Committees the day before the Board, with a Board dinner in the evening between.

The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2022 Annual Report. The summary of the Board performance evaluation set out above has been reviewed and approved by Clare Chalmers.

Key areas for development in 2021

The following were the key areas for improvement and actions taken arising from the 2020 internal Board performance evaluation.

Area for development	Action
Employee and stakeholder engagement	Additional Board visits to businesses were added to the 2021 schedule, but were prevented due to travel restrictions and deferred to 2022.
Succession planning	Nomination Committee scheduled annually solely devoted to Board succession and specifically looking three years forward.
Strategy	Additional strategy sessions added to Board workplan.