GROUP POLICY

Anti-Facilitation of Tax Evasion

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DIPLOMA PLC
VALUE-ADD SOLUTIONS

Contents

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1 Purpose

The purpose of this policy is to communicate the approach of Diploma PLC ("Diploma") to the Corporate Criminal Offence Act 2017 on the failure to prevent the Criminal Facilitation of Tax Evasion. Specifically this policy will:

- summarise the offences under Part 3 of the Criminal Finances Act 2017 (the "Act"),
- set out responsibilities in complying with this policy to prevent facilitation of tax evasion within the Group, and
- provide information and guidance on how to recognise and deal with facilitation of tax evasion issues.

2 Scope

This policy applies to the entire Diploma group ("Group"), encompassing all directors, officers, and employees of Diploma and its subsidiaries, regardless of the country in which business is conducted or situated. Additionally this policy applies to associated persons[1] such as third parties and includes:

- all our business partners, including agents, intermediaries and suppliers,
- other third parties including contractors, consultants, and business partners acting for or on behalf of the Group, and
- any individual or organisation with which an employee of the Group comes into contact during the course of their work.

3 Policy Statement

The Group's approach to tax is to ensure that we comply with tax laws, rules and regulations in the countries in which we operate. This commitment includes adhering to those requirements of Part 3 of the Criminal Finances Act 2017. The Act introduced the Corporate Criminal Offence of failing to prevent the facilitation of tax evasion by another person. Diploma will not engage in or be associated with any form of tax evasion anywhere in the world, nor facilitate such activities.

This policy is published as part of the commitment of Diploma's senior management to implement and enforce effective systems throughout the Group to monitor the risk of and to prevent and eliminate tax evasion, in accordance with the Criminal Finances Act. It should be read and understood by all employees and colleagues of the Group.

The facilitation of tax evasion is a criminal offence. If Diploma is found to have taken part in the facilitation of tax evasion, the Group could face an unlimited fine and significant damage to its reputation. The success of Diploma's anti-facilitation of tax evasion measures depends on all associated persons and third parties to prevent tax evasion.

Employees and associated persons of Diploma are required to familiarise themselves and comply with this policy, including any future updates that may be issued from time to time. Associated persons are obliged to report any suspected facilitation of tax evasion in accordance with this policy. Diploma will support any associated person that makes such a report, provided it is made in good faith.

Diploma will regularly communicate its anti-facilitation of tax evasion measures to all its employees. Training is provided annually for relevant employees who might be in a position to facilitate tax evasion.

[1] *An associated person is defined as a person who performs services for or on behalf of the Group.*

4 Summary of Act and Consequences

The Criminal Finances Act came into force on 30 September 2017 (the "Act"). Part 3 of the Act creates the corporate offence of the facilitation of tax evasion, this includes UK and foreign taxes.

Tax evasion involves the deliberate and dishonest use of illegal practices to evade paying the right amount of tax. There are three stages that apply to both the domestic and foreign tax evasion facilitation offence:

1. the criminal tax evasion by a taxpayer (either an individual or legal entity) under existing law,
2. the criminal facilitation of the tax evasion by an "associated person" of the relevant body acting in that capacity, and
3. the relevant body failed to prevent its representative from committing the criminal facilitation act.

A criminal offence is committed under the legislation where an associated person of Diploma deliberately and dishonestly facilitates a taxpayer evading tax, and the Group has not put reasonable procedures in place to prevent the evasion taking place.

Should a company be found guilty of failing to prevent the facilitation of tax evasion they could be liable to an unlimited fine and subject to ancillary orders such as confiscation orders or serious crime prevention orders.

5 Responsibilities

All relevant employees must ensure that they read, understand and comply with this policy. They should seek additional support if needed. The prevention, detection and reporting of suspected tax evasion are the responsibility of all employees working for the Group or under the Group's control. All employees are required to avoid any activity that might lead to, or suggest, a breach of this policy.

Group

Diploma will monitor the effectiveness and review the implementation of this policy on an annual basis to consider its suitability. Specifically:

- The Board of Directors, through the Group General Counsel, has overall responsibility for ensuring this policy complies with the Group's legal and ethical obligations, and that all those under the Group's control comply with it.
- The Head of Tax has primary day-to-day responsibility for overseeing the effective implementation of this policy, and for monitoring its use and effectiveness and dealing with any questions on its interpretation.
- The Group General Counsel is responsible for the provision of training on this policy.

Businesses

Management at all levels are responsible for ensuring that all employees who report to them are made aware of and understand this policy and are given adequate training on it. Under no circumstances should colleagues:

- aid, abet, counsel or procure the commission of a tax evasion offence or foreign tax evasion offence by another person;
- engage in any form of facilitating tax evasion or foreign tax evasion.

- fail to promptly report any request or demand from any third party to facilitate the fraudulent evasion of tax (UK tax or tax in a foreign country), or any suspected fraudulent evasion of tax (UK tax or tax in a foreign country) by another person, in accordance with this policy; or
- threaten or retaliate against another individual who has refused to commit a tax evasion offence or a foreign tax evasion offence or who has raised concerns under this policy.

Associated Persons

Diploma requires that associated persons remain vigilant in preventing, detecting, and reporting tax evasion in all aspects of the business. Any issues or concerns should be reported, as soon as possible to the Line Manager, Legal Department or via the Confidential hotline (see contacts below).

6 Reasonable Prevention Procedures

The only defence for facilitation of tax evasion is to have implemented reasonable prevention procedures. These procedures must be in place at the time the tax evasion offence is committed. HM Revenue and Customs ("HMRC") has published guidance on reasonable procedures to prevent the facilitation of tax evasion. Specifically six guiding principles;

1. risk assessment
2. proportionality
3. top level commitment
4. due diligence
5. communication and training
6. monitoring and review

The Head of Tax will monitor official advice and guidance, assisting businesses with any new developments. Managing Directors need to ensure there are reasonable prevention procedures in place following the guiding principles above. Specifically:

Risk Assessment

Assess the nature and extent of exposure to the risk of those who act in the capacity of an associated person criminally facilitating tax evasion offences.

Proportionality

Prevention measures should be based on an assessment of the business and linked to a proportionate, risk-based evaluation of their operations.

Top Level Commitment

The Group has a zero tolerance to engaging and facilitating in Tax evasion. To identify and prevent tax evasion risks, Diploma will regularly conduct risk assessments for each of its key business activities to ensure adherence to this policy. The Head of Tax will document and review risk assessments as part of the pre-existing Internal Audit review process.

Due Diligence

Due diligence should be undertaken, in accordance with internal procurement and risk management procedures, prior to entering any contract, arrangement or relationship with a third party. The extent of the due diligence carried out depends on the nature of the relationship and the risk of tax evasion occurring. Before entering any contract, arrangement, or relationship you must make sure that appropriate personnel have been consulted and you have the approval of the business to proceed, where necessary in accordance with internal policies.

Communication and Training

This policy should be communicated with appropriate personnel and made available to all employees. The Group's zero-tolerance approach to tax evasion must also be communicated to all suppliers, contractors and business partners at the outset of any business relationship and as appropriate thereafter.

The Group General Counsel is responsible for the provision of training on this policy. Specifically:

- Anti-Bribery and Corruption & Tax Evasion
- Anti-Facilitating Tax Evasion for Business

Monitoring and Review

Group Internal Audit will monitor the effectiveness of this policy and review its implementation regularly considering its suitability, adequacy and effectiveness. Any improvements identified will be made as soon as possible. Internal control systems and procedures will be subject to regular internal audits to provide assurance that they are effective in countering corporate facilitation of tax evasion.

Employees are invited to comment on this policy and may suggest ways in which it might be improved. Comments, suggestions and questions should be addressed to the Head of Tax and the Group General Counsel. This policy does not form part of any employee's contract of employment and it may be amended at any time.

7 Reporting Potential Facilitation of Tax Evasion

All employees must notify their Managing Director or Group Internal Audit immediately if they believe or suspect that a potential conflict with this policy has occurred or may occur in the future[2].

The Managing Director should perform an immediate review of any employee concerns to ensure compliance with this policy, including retaining an appropriate record (see below). Where action is required by the Group, details should be sent to the Head of Tax and Group General Counsel for monitoring and, where appropriate, self-reporting to the appropriate authorities.

7.1 Record Keeping

As part of existing controls each business in the Group is required to retain financial records, and have appropriate internal controls in place, which will properly support the business rationale for making any payments.

Managing Directors should keep a written record of all suspicious transactions raised and action taken. This will be periodically reviewed by Group Internal Audit.

7.2 How to raise a concern

All employees are encouraged to raise concerns about any issue or suspicion of malpractice at the earliest possible stage:

- If an employee is unsure whether a particular act constitutes tax evasion or corporate facilitation of tax evasion, contact the Head of Tax.
- If employees have any other questions, raise with their Managing Director or Group Internal Audit.
- Concerns can also be reported through a Confidential Hotline managed by Safecall. Safecall is a respected, confidential and independent third-party organisation (see contacts below).

[2] *Examples of facilitation of tax evasion are included in Schedule 1.*

7.3 Protection

Employees who refuse to engage in tax evasion, or those who raise concerns or report another's wrongdoing, are sometimes worried about possible repercussions. The Group aims to encourage openness and will support any employee who raises genuine concerns in good faith under this policy, even if they turn out to be mistaken.

The Group is committed to ensuring that no employee suffers any detrimental treatment as a result of refusing to take part in tax evasion, or because of reporting in good faith their suspicion that an actual or potential instance of tax evasion has taken place or may take place in the future.

Detrimental treatment includes dismissal, disciplinary action, threats or other unfavourable treatment connected with raising a concern. If an employee believes that they have suffered any such treatment, they should inform their Managing Director immediately. If the matter is not remedied, the employee should raise the matter formally using the businesses' applicable grievance procedure.

8 Compliance & Non-Compliance

Any employee who breaches this policy will face disciplinary action, which could result in dismissal for gross misconduct. The penalties for non-compliance by the Group include unlimited financial fines, based on the seriousness of the offence and the factual circumstances of the offender. In addition, there may be ancillary orders, such as confiscation orders or serious crime prevention orders.

Prosecution for either offence could also lead to a business being prevented from being awarded public contracts.

9 Contacts

9.1 Diploma PLC

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9.2 Confidential hotline

The Diploma Confidential Hotline is managed by Safecall. a respected, confidential and independent third-party organisation. Safecall provides a 24-hours a day, 7 days a week service and can be contacted as follows:

- Freephone (full list Freephone numbers available on their website)
- Raising an official report on their website (https://www.safecall.co.uk/file-a-report/)
- Email (diploma@safecall.co.uk)

When contacting Safecall via telephone, you will be put through to an operator who is trained to receive your report about concerns in the workplace that you feel cannot be addressed in any other way. Your call will not be recorded and will be treated confidentially and should you wish, Safecall will guarantee your anonymity. When raising a report on their website you have the option to be named, semi anonymous or anonymous.

Schedule 1: Examples of facilitation of tax evasion

- An employee deliberately and dishonestly collaborates with a supplier to falsify the amount paid on an invoice e.g. by reducing the true amount paid, so that the supplier evades income/corporate taxes.
- An employee deliberately conspires with a supplier to conceal the true source country of goods, to evade Customs duties.
- An employee processes regular payments to a supplier, the invoices do not include VAT/Sales taxes. However, one invoice or a series of invoices to that supplier exceeds the registration thresholds, therefore VAT/Sales taxes should be applied.
- An employee agrees to accept an invoice from a supplier which includes an incorrect description of the goods or services provided in the knowledge that this is a mechanism through which the supplier intends to underpay VAT/Customs Duty/Tariffs.
- An employee deliberately incorrectly categorises an employee as self-employed/a contractor in the knowledge that payroll taxes will not then be deducted at source and the second employee will not declare the amounts that he or she will then receive gross.
- An employee agrees to set up a supplier account with a bank account in a different name or in a 'tax haven', knowing that the intention of the supplier is not to the declare receipt of the funds.
- An employee changes the labelling on goods or the export documentation to hide the true country of origin or material, to reduce the tariffs payable by the Group company it is sending goods to.
- It is agreed to overstate the proportion of the purchase price of a property relating to fixtures and fittings, to an unjustifiable level, so that the seller can reduce their liability to Stamp Duty Land Tax.
- Fees to overseas directors are paid into an account in the name of their spouse, in the knowledge that this is with the intention of them evading tax.
- A supplier falsifies the commodity code and goods description on import documentation, so that the customer pays less Customs Duty/VAT/Tariffs.
- A customer pays for a product from a business account and then asks for the purchase to be cancelled. An employee agrees to a request that the repayment is paid into another account, knowing that this will enable the customer to evade tax.
- An agent is responsible for sourcing goods and acting as a conduit for the transmission of funds agrees that the funds can be split between two separate supplier accounts, one of which is in a 'tax haven' knowing that the purpose of this arrangement is to evade tax.
- A third party which provides administrative services to the company issues false invoices to enable a customer to evade tax.

Below are examples (not exhaustive) of high-risk factors that may be present and indicate concerns under various forms of tax evasion/corporate facilitation of tax evasion:

- Customers and Suppliers; unusual circumstances, non-residents, complex or unusual ownership structures.
- Countries; inadequate anti-money laundering and counter terrorist financing measures as well as those subject to economic sanctions.
- Transactions; complex tax planning structures, overly complex supply chains or involvement in politically exposed persons.
- Business opportunities: high value projects involving many parties, jurisdictions or intermediaries, certain business partnerships (with known compliance deficiencies) – for example, as part of a large transaction an employee of a UK-based multinational bank knowingly referred a corporate client to an offshore accounting firm with the express intention of assisting the corporate client to set up a structure allowing the client to evade foreign income tax.