



a member of **DAIKIN** group



Sustainability Report

As of December 31, 2024

Company details

Headquarters	VIA MARIO RE DEPAOLINI 24 20015 PARABIAGO MI
Tax	05933050964
REA number	Milan MI-1859621
P.	05933050964
Share capital	4,815,811 fully paid up
Legal form	JOINT-STOCK COMPANY with sole shareholder
Main sector of activity (ATECO)	282999 Manufacture of other mechanical equipment and other general-purpose machinery n.e.c.
Company in liquidation	no
Company with sole shareholder	yes
Company subject to management and coordination by others	yes
Name of the company or entity exercising management and coordination activities	DAIKIN INDUSTRIES LTD
Membership of a group	yes
Name of parent company	DAIKIN INDUSTRIES LTD
Country of parent company	Japan

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Diplomatic MS Sustainability Report – Letter to Stakeholders

Dear Stakeholders,

It is with a spirit of transparency and commitment that we share Diplomatic MS's first Sustainability Report, a concrete step on our journey towards becoming a company that is increasingly aware of its economic, environmental, and social impact.

Every movement has meaning.

In our world – made up of valves, control units, cylinders, actuators, and electronics – every impulse is designed to generate impact. But today, the most important movement is the one we are making as a company: towards a fairer, more transparent, and more sustainable industrial model. "Motion matters" is our way of reminding ourselves that every action counts. And that every step, no matter how small, towards a more conscious industry can make a difference. Our alignment with Daikin Industries' Environmental Vision 2050, which we have been part of since 2022, reflects a clear direction: to design the future of motion control by combining innovation, efficiency, and respect for the planet.

With this first Sustainability Report, Diplomatic MS is publicly sharing its commitment: we are reporting on what we have done, but above all where we want to go. Accelerating the energy transition, contributing to a low-emission economy, innovating responsibly, and putting people—all people—at the center.

In this document, we have compiled the main results achieved in 2024, illustrating our sustainability performance and the actions taken to improve energy efficiency, reduce the environmental impact of our activities, protect people, and promote sound and transparent governance. The Report also reflects our commitment to contributing to the Sustainable Development Goals defined by the United Nations. Finally, this Report has been prepared in accordance with the principles and requirements introduced by the European Community in Directive 2022/2464, known as the "CSRD," and is an effort to bring transparency and standardization to the non-financial metrics of the company and the Group.

Thanks to those who work with us every day to make this vision a reality, to those who support it in practice, and to those who inspire us to improve. This report is an invitation to collaboration, listening, and shared responsibility. Because every movement, if well directed, can take us much further.

Enjoy reading.

Chapter 1 – Diplomatic MS

1.1 About Diplomatic MS

Diplomatic MS is an Italian company with a long engineering tradition that has expanded its international vision over the years, becoming a global benchmark in motion control. Founded in 1952, it designs and manufactures hydraulic, electric, and hybrid components and systems for industrial and mobile applications, with a constant commitment to sustainable innovation.

Headquartered in Parabiago (MI), Diplomatic MS is the leader of a group divided into three specialized brands:

- Diplomatic: solutions for industrial applications;
- Hydreco: for the mobile and off-highway sector;
- Continental Hydraulics: dedicated to the North American market.

Since 2022, Diplomatic MS has been part of the Daikin Group, whose support has expanded its innovation and sustainability capabilities through hybrid and digital technologies and an integrated vision.



1.1.1 History

Diplomatic was founded in 1952 in Busto Arsizio (VA), when Angelo Girola established the company with the aim of applying hydraulic principles to mechanical motion control. The name Diplomatic was born from the intuition of combining two key concepts: 'duplo' for double action and 'matic' for automation. A pioneering vision that has marked the industry.

In the 1960s, the company consolidated its role in the design of proportional hydraulic distributors. During that decade, its specialization in hydraulics made Diplomatic a benchmark in the industry. With the opening of its plants in Parabiago in 19 , and 2010 and the creation of business units dedicated to systems, mechatronics, and chillers, the company strengthened its strategy of organic growth and acquisitions.

Since then, the company has gone through several stages of evolution, progressively expanding its technological portfolio, international footprint, and organizational structure.

Among the most significant strategic milestones:

- 2011: acquisition of Continental Hydraulics (USA)
- 2014: opening of a production facility in China
- 2019: acquisition of the Hydreco Group
- 2021: acquisition of Till Hydraulik (Germany)
- 2022: entry into the Daikin Industries Group
- 2024: integration of the EATA division (industrial custom chillers)

Company	Location	Foundation / Acquisition	Products	Sectors
Continental Hydraulics	Shakopee (MN, USA)	1962 / 2011	Pumps, valves, systems	Industrial applications
Hydreco Hydraulics	Poole (UK), Italy, Germany, Norway, India, Australia, USA	1860 / 2019	Pumps, valves, PTOs, cylinders, controls	Mobile applications
Hydreco Italia Srl	Vignola (Modena, Italy), Parma (Italy)	-	Remote controls, pilot valves, direct control valves, gear pumps	-
Hydreco India Ltd	Bangalore (India)	-	Gear pumps	-
Hydreco Pty Ltd	Seven Hills (NSW, Australia), Welshpool (WA, Australia)	-	PTOs, pumps, valves, controls	-
Hydreco Hydraulics Germany	Helmstedt (Germany)	1962 / 2021	Valves, control technology, cylinders, micro hydraulics	Medical and mobile applications
Hydreco Srl	San Cesario s/P (Modena, Italy)	-	Hydraulic cylinders	-
Hydreco Norway A/S	Nittedal (Norway)	-	-	-

Today, Duplomatic MS is recognized as a leader in motion control, thanks to a combination of mechanical, electronic, and digital expertise, fueled by a strong focus on sustainability and customized service for industrial customers.

Along the way, Duplomatic has built an integrated technological ecosystem, where mechanical, electronic, and digital expertise come together to meet the needs of global industrial transformation.

Brands	Products and solutions	Market	Application		Market volumes (FY 2024 - M€)
			Industrial	Mobile	
Diplomatic MS	<ul style="list-style-type: none"> Valves, pumps, and cylinders Hydraulic and hybrid systems Electric actuators Chillers Turnkey projects 	<ul style="list-style-type: none"> Italy Germany United States European Community China Rest of the world 	✓		€44 million
Continental Hydraulics	<ul style="list-style-type: none"> Pumps Valves Hydraulic systems 	<ul style="list-style-type: none"> USA 	✓	✓	€23 million
Hydreco	<ul style="list-style-type: none"> Pumps and motors Valves Hydraulic cylinders Controls Hydraulic power take-offs Auxiliary components 	<ul style="list-style-type: none"> Italy Germany Norway UK Australia India 		✓	€71M

1.1.2 Global presence

Diplomatic MS has a widespread production and sales network that allows it to operate synergistically between the domestic and international markets. The headquarters in Parabiago (MI) houses the valve design and production center, the technological heart of the company.

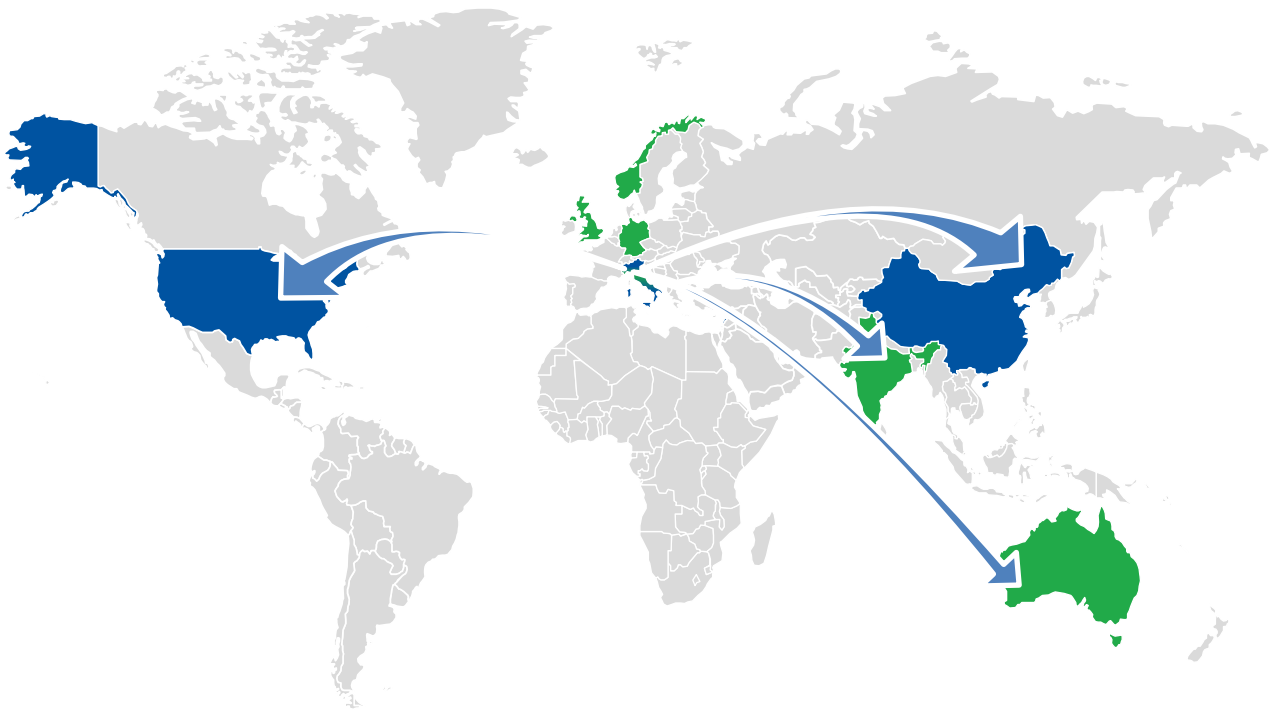
The other Italian business units include:

- Hydraulic Systems (Lainate, MI and Padua): custom systems designed to customer specifications
- Mechatronics (Rosta, Turin): electric actuators and electronic solutions for Industry 4.0
- Electric Drives & Motors (Barbarano Mossano, Vicenza): electric motors, reluctance motors
- Custom Chillers (Busto Arsizio, VA): cooling systems for hydraulic systems

The Group operates internationally with offices in Europe, Asia, North America, and Australia, thanks to the Hydreco and Continental Hydraulics brands.


Approximately 40% of the Group's turnover is generated on foreign markets.


Its international operating sites enable Diplomatic to offer technological solutions tailored to local needs, while maintaining high global quality standards.





1.2 Strengths and weaknesses of


Diplomatic MS's positioning is based on solid industrial and technological assets, a resilient business model, and a corporate culture focused on excellence and sustainability. The Group's main distinguishing features are:


 **Multidisciplinary engineering expertise:** a mix of hydraulic, electronic, mechatronic, and digital know-how to offer high-performance customized solutions.

 **International presence with Italian roots:** 14 production sites in Europe, Asia, the US, and Australia, but with a central management team that guarantees design consistency, excellence, and Italian quality.

 **Co-design capability:** we work side by side with OEM customers, building customized solutions that improve the performance, reliability, and energy efficiency of their machines.














 **Flexibility and short supply chains:** we manage the main production and logistics processes in-house, with fast response times and the ability to adapt to markets.

 **Energy transition and innovation:** we invest in hybrid technologies, electric actuators, efficient cooling, and digitalization to accompany our customers and territories towards more sustainable industrial models.

 **Part of a global group:** being part of Daikin strengthens our financial solidity and access to global networks and resources, while maintaining the agility and specialization of a customer-focused technical company.

1.3 The Group's business areas

Through the growth described above, the Diplomatic Group has developed a portfolio of products and solutions that enable it to address different business areas which, although distinct, operate synergistically.

 DIPLOMATIC MOTION SOLUTIONS a member of DAIKIN group	 CONTINENTAL HYDRAULICS a member of DAIKIN group	 HYDRECO a member of DAIKIN group
 Diplomatic MS Spa > Parabiago (Milan, Italy)	 Continental Hydraulics > Shakopee (MN, USA)	 Hydreco Hydraulics > Poole (UK),
BU Hydraulic Systems > Lainate (Milan, Italy) > Padua (Italy)		 Hydreco Norway A/S > Nittedal (Norway)
BU Mechatronics > Rosta (Turin, Italy) > Sulbiate (Monza Brianza, Italy)		 Hydreco Pty Ltd > Seven Hills (NSW, Australia) > Welshpool (WA, Australia)
BU Chillers > Busto Arsizio (Varese, Italy)		 Hydreco Srl > San Cesario (Modena, Italy)
BU Electric Drives & Motors > Barbarano Mossano (Vicenza, Italy)		 Hydreco Hydraulics Germany > Helmstedt (Germany)
 Diplomatic Hydraulics Shanghai > Shanghai Pudong		 Hydreco Hydraulics Srl > Vignola (Modena, Italy), > Parma (Italy)
		 Hydreco India Ltd > Bangalore (India)

1.3.1 Industrial applications

Components

The company offers a wide range of hydraulic and electronic components, including those with IO-Link technology, such as pumps, motors, on/off valves, explosion-proof products, hydraulic cylinders, proportional valves, electronic boards, accessories, electric actuators, reluctance motors for industrial applications and Industry 4.0, targeting companies and OEMs.

System Integration

The Hydraulic Systems Business Unit develops custom projects to supply complex systems, designing, manufacturing, and testing power units, manifolds, cabinets, and complex applications for industrial automation. The systems are customized to meet specific customer requirements and are used in various fields, from machine tools to presses, rubber and plastic processing machines, and paper mills.

Mechatronics

The Mechatronics Business Unit creates customized mechatronic solutions for industrial automation and motion control for Industry 4.0. The solutions offered are characterized by energy efficiency, reduced dimensions, and diagnostic functions for monitoring the "health" of the system. In particular, Diplomatic offers intelligent mechatronic devices, connecting them to a smart factory and predictive maintenance programs.

Chillers

The Custom Chillers Business Unit, created following the acquisition of EATA Equipaggiamenti in Busto Arsizio (VA), specializes in the manufacture of cooling systems for hydraulic circuits. With over 42 years of experience in the thermoregulation sector, this unit is dedicated to the design and manufacture of chillers for industrial use, with the aim of offering highly customized and technologically advanced solutions for the thermal management of production processes. Each chiller is tailor-made to meet the specific needs of customers, both in terms of performance and compliance with the latest regulations on refrigerant gases, thus distinguishing itself from standardized models.

Cooling solutions include air- and water-cooled chillers, designed to meet different temperatures and operating requirements. Heating units are designed to maintain operating areas at the ideal temperature, withstanding high temperatures of diathermic oil or fluid mixtures, with heating up to boiling point. Finally, the Business Unit also offers integrated heating and cooling solutions, ensuring maximum operational flexibility through the use of refrigeration cycles and electric heaters.

Microhydraulics

Hydreco GmbH (formerly Till Hydraulik) offers tailor-made microhydraulic solutions, drawing on a wide range of components in its catalog and developing customized solutions based on specific customer requirements. Till Hydraulik solutions are widely used in the medical sector, where they are employed to ensure the mobility of operating tables. In medical technology, it is essential to achieve high precision combined with simple operation; microhydraulics allows high performance to be achieved while maintaining a compact design.

1.3.2 Applications for the mobile sector

Pumps and motors

Hydreco Hydraulics' range of pumps includes models with straight or helical gears, made from both aluminum and cast iron. These pumps are distinguished by their quietness and reliability, characteristics that derive from the heritage of the prestigious David Brown range.

Valves

Hydreco Hydraulics valves are designed to be responsive, precise, reliable, and robust, ensuring high performance even in the most complex applications. The range includes modular and monoblock models, with electro-hydraulic, hydraulic, pneumatic, and manual controls.

Hydraulic cylinders

Hydreco offers telescopic cylinders suitable for all types of tipper trucks, as well as double-acting cylinders, ensuring competitiveness, speed, and flexibility. In particular, double-acting cylinders are a customized solution for multiple applications in various industries, offering the possibility of cylinders made with special materials, treatments, and coatings for harsh environments, as well as cylinders equipped with internal transducers.

Remote controls

Hydreco's remote control solutions include hydraulic joysticks for pilot circuits, equipped with manipulators and foot controls. The company also offers controls for control cabins that allow for various levels of sophistication, ranging from wired systems to electronics, including all intermediate stages. In addition,

Hydreco offers CAN-bus control systems designed for hydraulic systems and digital control systems for mobile machines.

Hydraulic power take-offs

Hydreco offers ideal solutions for any application through a complete range of power take-offs suitable for the transmissions of most vehicles.

Auxiliary components

Hydreco also manufactures additional components, including hollow shaft gearboxes and couplings for high flow rates, which enhance and complete the hydraulic package of the systems. In addition, it offers mini hydraulic power units with single and double acting circuits, as well as oil tanks designed to be mounted either sideways or on the vehicle chassis.

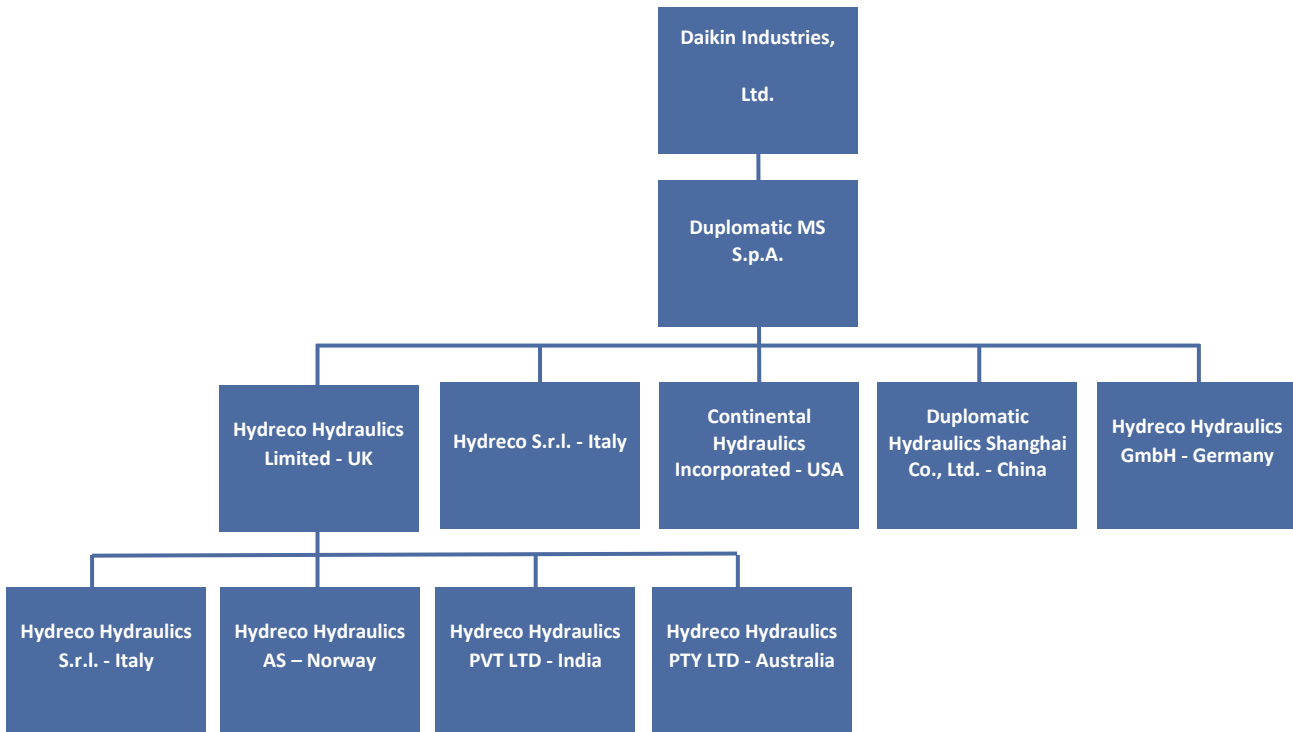
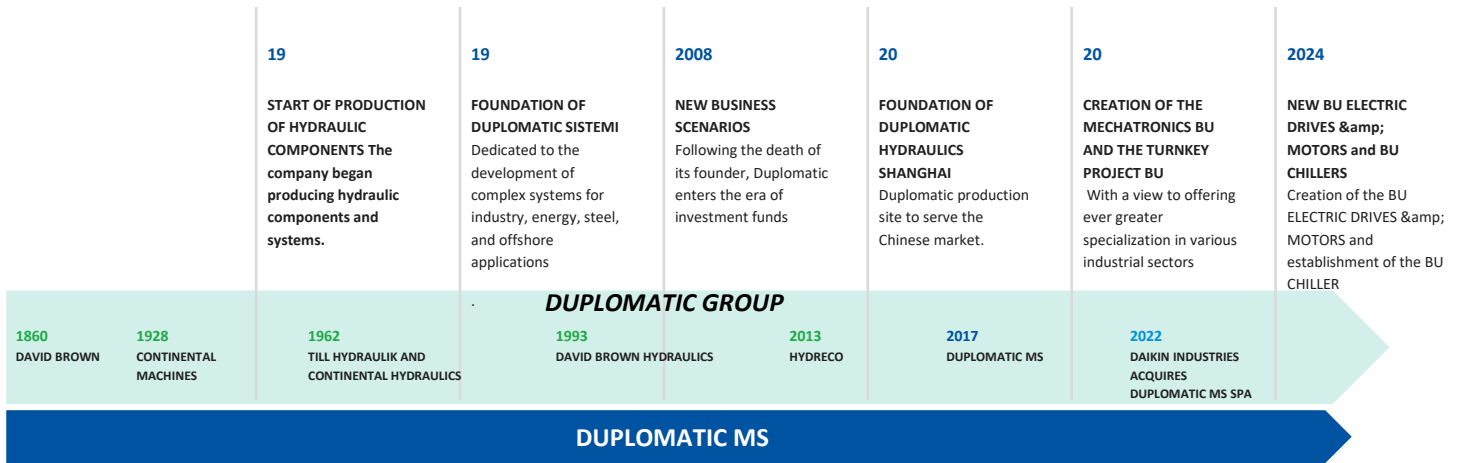
1.3.3 Turnkey projects

Thanks to its expertise in turnkey projects, Diplomatic creates comprehensive engineering solutions, fielding a team of professionals to listen to customer requests and take care of all phases of the project life cycle, including development, implementation, installation, commissioning, testing, and maintenance during use. Its expertise in mechatronics and motion control, together with its close contact with the academic world for the development of complex engineering pilot projects, has enabled it to design the United Arab Emirates pavilion for EXPO 2020.

Diplomatic Motion Control makes EXPO 2020 DUBAI fly

Expo 2020 in Dubai was an opportunity for Italy to showcase the excellence of Italian engineering, demonstrating the country's distinctive ability to develop tailor-made projects and tackle technological challenges with innovative and effective solutions. Diplomatic represented Italian engineering at the event, designing the movement system for the roof of the United Arab Emirates pavilion, conceived by architect Santiago Calatrava and inspired by the shape of a falcon's wings. In particular, Diplomatic combined its expertise with the Group's vision as a global player in innovation to create the hydraulic system for opening the pavilion's roof, a work that represents the largest hydraulic system ever built in this sector. The system consists of a hydraulic power unit with a power output of 1 MW and a 20,000-liter oil tank, which distributes the fluid through 2.5 km of pipes to 46 hydraulic cylinders located on the 28 wings.

The construction of the pavilion represented a technical, logistical, and organizational challenge for Diplomatic, which had to translate the aesthetic standards defined by Santiago Calatrava's design into technical and engineering parameters. Thanks to the commitment and talent of the Diplomatic team, the wing movement system of the United Arab Emirates pavilion is unique in the world and was admired by the approximately 25 million visitors who visited the 192 national pavilions.



1.4 Innovation is the Group's strength

Developing innovative and effective solutions is the driving force behind Duplomatic MS, a force that has its roots in the creation of a group capable of bringing together complementary skills and experience, which are essential for meeting customer needs.

For the Group, innovation stems from a deep understanding of the customer and a long and solid research and development process. To this end, Duplomatic is constantly committed to increasing its innovative capabilities, applying a growth strategy based on both the organic development of its skills and targeted acquisitions.

Research and development

Investments in research and development are aimed at strengthening current technologies and creating solutions for new applications. Duplomatic is convinced of the need to transform traditional hydraulic products through the adoption of the digital paradigm and collaboration with universities and research centers around the world, including the University of Naples Federico II, the Polytechnic University of Turin, the University of Padua, the Technische Universität Dresden, and the University of Minneapolis (USA), to name but a few, for curricular internships, degree theses, and industrial research activities.

IO-Link

An example of how Duplomatic is committed to promoting digital transformation within the 4.0 paradigm is the development of IO-Link communication technology. IO-Link is a digital communication protocol mainly used in industry to make products intelligent. Digital communication enables bidirectional transfer of information between devices in a machine or process, standardizing data exchange and allowing the acquisition of additional information, such as diagnostics, which is essential for machine management. It is an international standard that offers bidirectional point-to-point communication and is growing exponentially, as it can be easily integrated with most fieldbuses. Its implementation requires simple and reduced cabling, using an unshielded 3- or 5-wire cable to transmit both logic and power, together with M8 or M12 connectors for all devices.

IO-Link technology allows the digital connection of multiple devices on a single node connected to the machine's communication network at a low cost, enabling the digital exchange of process parameters and real-time acquisition of machine status via the PLC.

Digital communication is particularly immune to interference, and the standardization of the protocol makes it quick and easy to integrate products from different manufacturers, even on existing machines, helping to reduce both installation and maintenance times and costs.

Duplomatic has been a pioneer in integrating IO-Link technology into its solenoid valves, having already introduced the first product line of hydraulic solenoid valves with integrated electronics, both on-off and proportional, with IO-Link digital communication in 2019.

In addition to offering innovative products, Duplomatic also provides training and support through the Duplomatic Academy to facilitate the transition to Industry 4.0 and the dissemination of knowledge. Alongside

training on hydraulics, electric cylinders, and new hybrid solutions, the training programs include basic courses on IO-Link, advanced courses for developers, and courses dedicated to the use of Diplomatic solutions.

2. Sustainability Management

2.1 Double materiality analysis

ESRS 2 IRO-1

Double materiality analysis is a central element of EU Directive 2022/2464 (CSRD: Corporate Sustainability Reporting Directive), which redefines the regulatory framework for corporate sustainability reporting. The directive was transposed into Italian law with Legislative Decree 125/2024 and establishes common standards, known as European Sustainability Reporting Standards (ESRS), for the preparation of Sustainability Reports, issued at European level by the European Financial Reporting Advisory Board (EFRAG).

The first set of ESRS standards, known as Sector-Agnostic Standards, consists of cross-cutting standards covering general reporting requirements and information, and topical standards addressing various sustainability issues in the Environmental, Social, and Governance (ESG) areas.

In this context, double materiality analysis allows companies to identify the environmental, social, and governance issues that have a significant impact on the company, as well as the risks and opportunities associated with them. The analysis becomes a key tool for integrating sustainability into corporate strategies, improving resource management, and increasing transparency and accountability to stakeholders, ensuring that results are consistent with their expectations and priorities.

Double materiality is based on a two-pronged approach to assessing ESG impacts:

- Impact materiality (*inside-out* perspective): impact materiality considers how a company's activities have a significant external impact, affecting the environment and society.
- Financial materiality (*outside-in* perspective): financial materiality focuses on the effects, in terms of risks and opportunities, that sustainability aspects can have on company performance and, consequently, on the company's economic and financial position.

The company must identify the relevant impacts (impact materiality), risks, and opportunities (financial materiality), i.e., those that exceed the materiality threshold in the impact or financial assessment. The results of this analysis will not only determine the data to be reported in accordance with ESRS standards, but will also enable the identification of policies, actions, and objectives on which the company should focus its attention and resources.

Diplomatic's 2024 double materiality analysis was conducted following EFRAG guidelines, in particular Implementation Guidance EFRAG IG 1 - Materiality Assessment, and consisted of four phases.



2.1.1 Identification of impacts, risks, and opportunities

The process of identifying impacts, risks, and opportunities (IROs) that are potentially relevant to Diplomatic was based on a thorough understanding of the organization's activities and strategy. This was achieved through interviews with various top management functions, understanding the needs of internal and external stakeholders, and a detailed analysis of company documentation, including Enterprise Risk Management systems, in order to define a point of contact between the materiality assessment methodology and corporate risk management.

In addition, to outline the external context in which Diplomatic operates within the Daikin Group, an analysis of the reference sector was conducted, taking into account best practices, market trends, the regulatory framework, and consulting various external sources, including the principles of the Global Compact and the World Economic Forum's Global Risk Report.

The result of this process was the definition of a list of impacts, risks, and opportunities that are potentially relevant to Diplomatic, identifying the stages of the value chain involved between upstream, own operations, and downstream. The identified IROs were then mapped to the sustainability issues defined by ESRS 1 (Appendix A), linking the IROs to the environmental, social, and governance topics and sub-topics established by the standards.

2.1.2 Impact materiality

Potentially significant impacts, divided into categories of positive and negative, actual and potential impacts, were assessed by top management to determine their significance.

The assessment of impacts was based on metrics defined in accordance with EFRAG standards guidelines. The significance of an actual impact was determined using three dimensions that constitute the severity of the impact: a) Scale: the magnitude of the negative or positive impact on people or the environment; b) Scope: the spread of the negative or positive impact; c) Irreversibility: the possibility and degree of remedy for the negative impact. With regard to potential impacts, significance was also assessed based on the probability of occurrence. The assessment process also considered the expected time horizon for the impacts, dividing them into short, medium, and long term. Impacts with potential consequences for human rights were also identified, for which severity was considered more important than the probability of occurrence.

The assessment led to the prioritization of impacts, classifying them into five categories based on their level of significance: "Critical," "Severe," "Moderate," "Low," and "Insignificant," according to previously established quantitative thresholds.

2.1.3 Financial materiality

Potentially relevant risks and opportunities may be directly related to the impacts generated, but may also arise from dependencies on natural and social resources, which affect a company's ability to maintain business relationships and use the resources necessary for its activities.

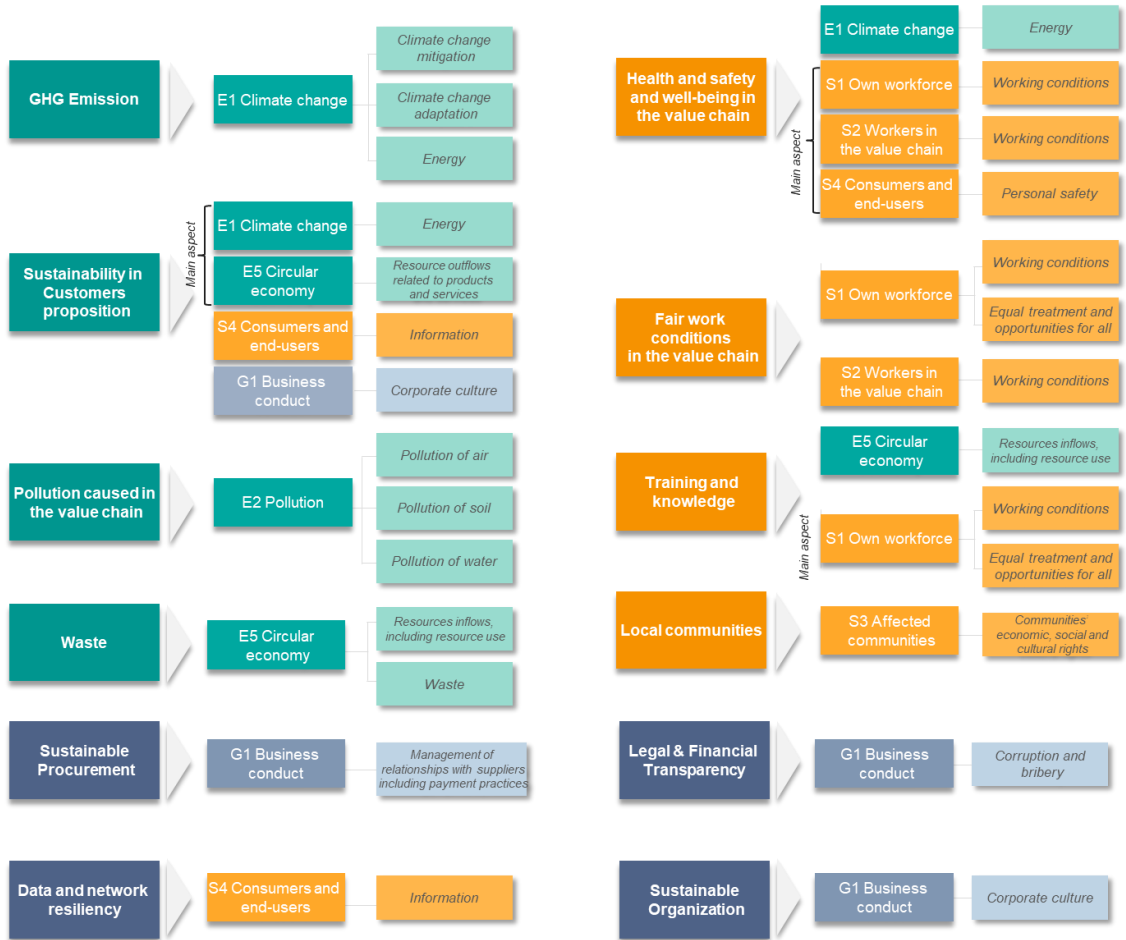
Similarly to materiality of impact, top management assessed the significance of risks and opportunities based on metrics defined in accordance with EFRAG guidelines. Significance was calculated as the product of the probability of occurrence and severity, the latter determined by the scale, i.e., the extent of the potential financial effects generated by the risk and/or opportunity. The assessment and prioritization methodology, including qualitative and quantitative metrics, was based on quantitative and/or qualitative financial thresholds defined in line with the Enterprise Risk Management process, currently being defined and developed by Diplomatic. Risks and opportunities were classified into five categories based on their level of significance: "Critical," "Severe," "Moderate," "Low," and "Insignificant." In addition, the assessment process considered the expected time horizon, dividing risks and opportunities into short, medium, and long term.

2.1.4 Results of the double materiality analysis

Overall, 35 impacts, 23 risks, and 20 opportunities associated with 13 sustainability topics were assessed for the double materiality analysis. The materiality threshold was defined by considering the IROs that, in both perspectives, fell into the "Critical," "Severe," or "Moderate" categories. Thirty impacts, 16 risks, and 14 opportunities were identified as material, related to 12 material issues. The results of the two analyses were presented in the double materiality matrix, which links the impact and financial perspectives of the material issues for Diplomatic.

Reconciliation between material issues and ESRS topics and sub-topics

With the aim of determining the most relevant sustainability issues for Diplomatic, the IROs and the topics and sub-topics provided by the ESRS associated with them were grouped into 13 sustainability themes. Among these, the assessment and prioritization of the IROs according to the two perspectives led to the identification of 12 material themes. A theme is considered material if it is associated with at least one impact, risk, or opportunity that exceeds the established materiality thresholds. The material themes for Diplomatic and the related ESRS topics and sub-topics are listed below.

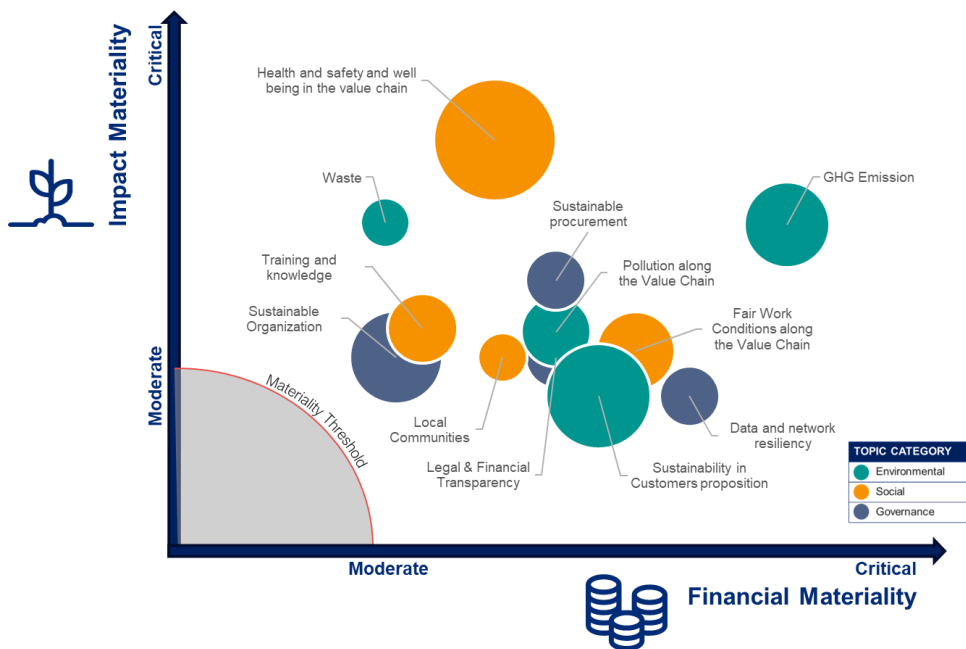


The matrix

The matrix representation allows the impact of material topics on both materiality perspectives to be identified. In particular, the matrix shows the material topics associated with the IROs that have exceeded the materiality threshold, highlighting their relevance from both a financial perspective (x-axis) and an impact perspective (y-axis). The size of the themes is proportional to the number of IROs associated with them.

Although all issues have significant impacts and risks, the matrix highlights how some issues are more relevant in one dimension than in the other. For example, it is clear that the issue of "Data and network resilience" is more important from a financial point of view, while "Health, safety, and well-being in the value chain" and "Waste" are the most significant issues in terms of the impact of the company's activities on the outside world.

The matrix representing Diplomatic's double materiality analysis is shown below.



Material issues










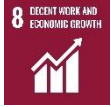





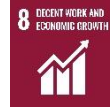

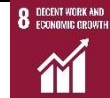

The double materiality analysis highlights the importance that Duplomatic attaches to environmental sustainability, as demonstrated by the promotion of specific projects for monitoring and reducing greenhouse gases, as well as the careful management of emissions into the air, soil, and water, and of waste. This commitment to the environment is also reflected in the business strategy, which aims to guarantee the reliability of its products and services, leveraging Daikin technologies and offering innovative and sustainable solutions to meet new consumer needs.



Duplomatic's social commitment translates into the promotion of a value chain that ensures fair and inclusive working conditions, growth opportunities for employees, and compliance with the highest safety standards for the workforce, suppliers, and customers. The company aspires to become a point of reference for the local community through economic support and engagement initiatives, seeking to be perceived as an added value for the territory.

Finally, Duplomatic's governance priorities include integrating sustainability issues into its business model, conducting its activities in compliance with laws and regulations, ensuring the security of its IT infrastructure, and committing to the stability and integrity of its supply chain through long-term partnerships, including to develop innovative approaches to sustainability issues.

The material topics are listed below, divided into Environment, Social, and Governance. The following chapters will highlight the impacts, risks, and opportunities associated with each topic covered.

Material topic	Description	Contribution to SDGs
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Environment		
GHG Emissions	Promote the implementation of specific projects dedicated to monitoring and reducing greenhouse gases, in line with Daikin's guidelines. Develop energy efficiency initiatives, both within the company and externally.	  
Sustainability in Customer Proposition	Ensure the reliability of products and services by leveraging Daikin technologies. Manage customer relationships by providing innovative, circular, and sustainable solutions to meet new consumer needs.	 
Pollution caused in the value chain	Careful and conscious management of emissions into the air, soil, and water through monitoring systems that ensure constant compliance with the emission limits permitted by environmental authorizations.	 
Waste	Careful and conscious management of emissions into the air, soil, and water through monitoring systems that ensure constant compliance with the emission limits permitted by environmental authorizations.	
Social		
Health, safety, and well-being in the value chain	Promote an integrated safety culture to monitor and prevent any potential risks, investing in training, maintenance, and product safety. Reduce negative impacts and risks on internal and external stakeholders (customers, suppliers, etc.). Promote a better working environment through safety initiatives and welfare programs.	 
Fair working conditions in the value chain	Promote diversity, equal opportunities, and inclusion by sharing a non-discriminatory culture that values different skills, backgrounds, experiences, and orientations, both for employees and non-employees.	 
Training and knowledge	Improve human resource development programs by creating customized training plans for employees. Provide training to improve hard and soft skills, also to attract and retain new talent.	 
Local communities	Become a point of reference for the local community through economic support and engagement initiatives. Be perceived by the community as an added value for the territory.	
Governance		
Sustainable procurement	Adopt responsible and ethical purchasing policies that include the selection of suppliers based on their ESG performance. Establish long-term partnerships, including those aimed at developing innovative H I approaches to sustainability issues. Promote the stability and integrity of the entire supply chain.	 
Data and network resilience	Promote innovation and digitalization, improving cybersecurity to protect sensitive company and customer information, ensuring infrastructure security guarantees.	 

Legal & Financial Transparency	Conduct business with integrity and fairness in compliance with laws and regulations. Create adequate internal control systems and promote a corporate culture based on integrity, professional ethics, and honesty in order to build trusting relationships with all stakeholders.	
Sustainable Organization	Strengthen our commitment to ESG issues by integrating them into our business model, strategy, and risk analysis. Build an ESG function capable of addressing all current and emerging requirements while keeping pace with regulatory developments.	

2.2 Commitment to decarbonization

The Paris Agreements, adopted in 2015 during COP21, represent a crucial turning point in the global fight against climate change. The goal of keeping the global average temperature rise well below 2°C above pre-industrial levels, and pursuing efforts to limit it to 1.5°C, requires governments, businesses, and civil society to make concrete commitments to reduce greenhouse gas emissions. In response to these commitments, the European Union has adopted the European Climate Law, which makes the goal of achieving climate neutrality by 2050 legally binding. This goal is further strengthened by the European Green Deal, a package of policies and regulations aimed at guiding the ecological transition. The increasingly stringent regulatory framework requires companies to actively engage in reducing greenhouse gas emissions. Businesses have a responsibility and an opportunity to adopt concrete strategies to reduce their greenhouse gas emissions. Integrating decarbonization into business strategies not only contributes to the fight against climate change, but also promotes operational efficiency and business resilience in the long term.

To make this commitment effective, it is essential to define a clear strategy with measurable objectives and short-, medium-, and long-term emission reduction targets. It is essential to monitor progress, identify areas for improvement, and adopt innovative technologies and solutions to reduce environmental impact.

Since 2018, Daikin has been pursuing its Environmental Vision 2050, a decarbonization roadmap for 2050 that goes beyond products and is based on a 360-degree approach to sustainability. Daikin is committed to reducing greenhouse gas emissions generated throughout the entire product life cycle and to creating solutions that unite society, customers, and all stakeholders toward the goal of decarbonizing business. Leveraging IoT, artificial intelligence, and open innovation projects, the Japanese parent company aims to respond to the global urgency to provide air solutions, ensuring safe and healthy environments while helping to solve global environmental issues.

Daikin aims to achieve zero greenhouse gas emissions by 2050 by incorporating the best technologies into its hydraulic solutions and helping industries reduce their energy consumption and, consequently, their emissions through:

- Products: increasing energy efficiency, developing and adopting refrigerants with lower global warming potential, and reducing greenhouse gases throughout the entire product life cycle, including production.

- Solutions: optimizing building management activities with centralized systems for energy efficiency, using renewable energy, and providing energy services throughout the value chain.
- The power of air: ensuring healthy and comfortable environments that stimulate concentration, while protecting people's health from air pollution and the risks of stress and infectious diseases.

With 2019 as the reference year, the Group has set a target to reduce net greenhouse gas emissions by 30% or more in 2025 and 50% or more in 2030 compared to emissions projected at current rates under the IPCC Business as usual scenario (RCP8.5). In 2023, the Group recorded a 17% reduction in GHG emissions.

Environmental Vision 2050 Medium- to Long-Term Environmental Strategy

Toward Net-Zero Greenhouse Gas Emissions
 In 2018, Daikin formulated Environmental Vision 2050, with a target of reducing greenhouse gas emissions to net zero by 2050.

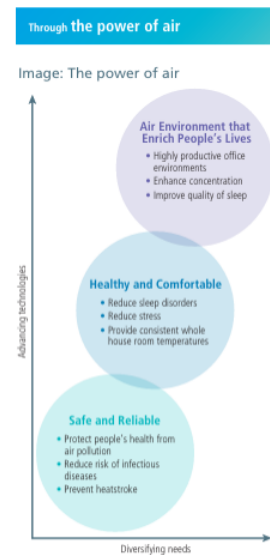
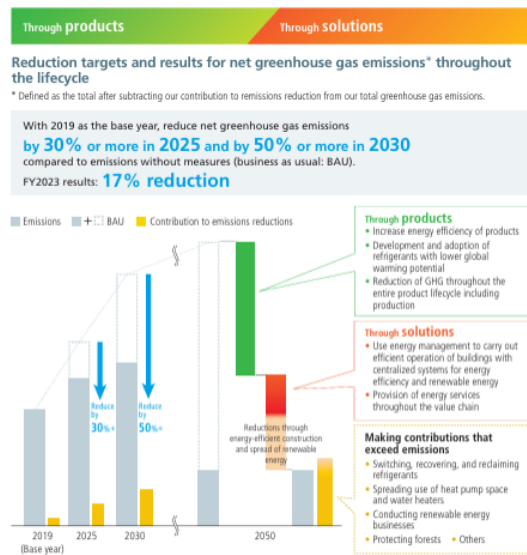


We will reduce the greenhouse gas emissions generated throughout the entire lifecycle of our products. Furthermore, we are committed to creating solutions that link society and customers as we work with stakeholders to reduce greenhouse gas emissions to net zero. Using IoT and AI, and open innovation attempts, we will meet the world's needs for air solutions by providing safe and healthy air environments while at the same time contributing to solving global environmental problems.

192 Data Process Used to Formulate Environmental Vision 2050

Setting Targets Aimed at Realizing Environmental Vision 2050

Daikin has established a greenhouse gas emissions reduction target after analyzing the future of its business operations in order to reduce these emissions to net zero while bringing the added value nature of air to people around the world.



3. Climate and sustainable resource management

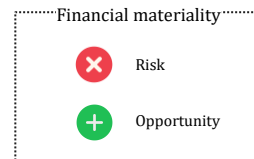
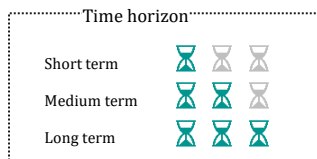
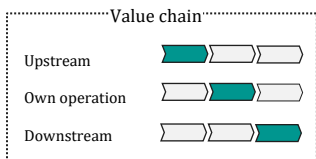
3.1 Climate change

As a manufacturing company with a clear engineering and technology focus and a global presence, Duplomatic recognizes its role in climate change, both in terms of the impacts it generates and its exposure to related risks. At the same time, the transition to a low-carbon economy represents an opportunity to innovate and strengthen its competitiveness, actively contributing to the decarbonization of the sector through more efficient and sustainable solutions.

3.1.1 Impacts, risks, and opportunities related to climate change

ESRS 2 SBM-3

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
- E1 Climate change: <i>Climate change mitigation;</i> <i>Climate change adaptation;</i> <i>Energy</i>	Scope 3 GHG emissions from suppliers' activities, product use, and disposal by customers	Current - Negative		<p>+ Daikin's decarbonization path represents a strategic opportunity for Duplomatic to improve operational efficiency and reduce greenhouse gas (GHG) emissions. By applying Daikin's "Green Heart Factory" policies, the company has the opportunity to identify and implement significant improvements in the energy efficiency of its plants and production processes.</p> <p>At the same time, Duplomatic MS has the opportunity to undertake projects aimed at improving working conditions within its factories. Investing in modern heating and cooling systems not only helps to create a more comfortable working environment for employees, but can also lead to significant reductions in energy costs in its factories.</p> <p>Following the example of the parent company also represents an opportunity for the business. By leveraging the advanced technologies provided by Daikin, Duplomatic is able to offer products and solutions that enable customers to achieve higher levels of energy efficiency while maintaining the same functional performance.</p> <p>It is also essential to consider the risks associated with climate change. One of the main risks for Duplomatic is extreme weather events, which can affect the company's business continuity and compromise the supply chain.</p>
	Direct and indirect greenhouse gas emissions caused by energy consumption (Scope 2) and fuel consumption in offices and factories (Scope 1)	Current - Negative		
	Scope 3 GHG emissions associated with employee commuting	Current - Negative		
	Contribution to the energy transition through the integration of Daikin (hybrid) technologies and the establishment of partnerships with universities and research centers for the development of innovative solutions	Potential - Positive		



The analysis of the impacts, risks, and opportunities associated with climate change has made it possible to identify Duplomatic's impact, both positive and negative, with respect to this phenomenon along the value chain, as well as how climate risks and dependence on natural resources can directly and indirectly affect the Group's activities¹.

The analysis provided an initial assessment of the resilience of Duplomatic's strategy and business model to climate change. The Group fully recognizes the need to implement an operating model that allows it to actively contribute to the energy transition and pursue concrete decarbonization targets, in line with the strategic path outlined by Daikin.

The current business strategy has been carefully calibrated to respond to the market context and to integrate into the natural process of ecological transition. Particular attention is paid to:

- **Emissions monitoring:** Systematic assessment of the impact of direct emissions and those generated throughout the entire value chain
- **Climate risk management:** Analysis of the vulnerability of the supply chain to risks arising from climate change
- **Business continuity:** Implementation of measures to ensure the constant supply of raw materials and efficiency in product marketing processes

This integrated approach allows us to proactively address the challenges of the ecological transition, transforming them into opportunities for innovation and sustainable growth.

3.1.2 Response to climate change

E1-1, E1-2

Daikin's Environmental Vision 2050 represents Duplomatic's commitment to achieving zero greenhouse gas emissions by 2050, in line with the Paris Agreement and certified by the Science Based Targets initiative (SBTi)². The transition plan to a net-zero business model includes a reduction in net greenhouse gas emissions of at least 30% in 2025 and 50% in 2030 compared to emissions projected at current rates under the business-as-usual scenario.

Daikin intends to contribute to reducing greenhouse gas emissions along the value chain by developing and marketing products and services with low environmental impact, promoting energy savings, the use of refrigerants with low global warming potential (GWP), and the recovery of refrigerants when products are disposed of. Furthermore, although emissions from production and development processes represent a small fraction of its total emissions, Daikin is committed to reducing them in line with the 1.5°C scenario, as these emissions can be directly controlled.

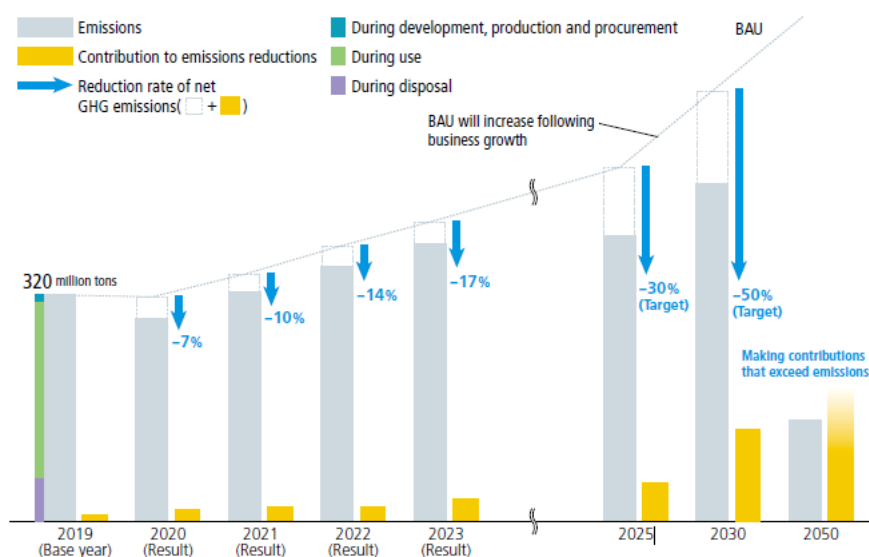
¹ For further information on the methodology used to identify and assess IROs, please refer to section 2.1 Materiality analysis.

² Certification obtained for Scope 1 and 2 emission reduction targets and for Scope 3 emission targets in categories 11 and 12.

The Environmental Vision 2050 targets have been fully integrated into Daikin's Fusion 25 Strategic Management Plan. In 2023, the plan was further strengthened through the implementation of a three-year strategy with four priority action areas:

- Decarbonization of operations: Reduction of greenhouse gas emissions in manufacturing plants and offices, with the goal of achieving zero greenhouse gas emissions in all facilities, except chemical plants, by 2030.
- Accelerating the energy transition: Promoting the transition to heat pumps for space and water heating in areas where combustion systems are still prevalent.
- Developing the circular economy: Implementing an eco-cyclical system for the recovery, regeneration, and reuse of refrigerants, contributing significantly to reducing the environmental impact throughout the entire product life cycle.
- Customer-focused innovation: Further enhancement of solutions designed to respond specifically to customer needs, combining energy efficiency and environmental sustainability.

The Daikin Group's greenhouse gas emission reduction targets and results are detailed below.



The integration of the decarbonization plan into the corporate strategy and the joint pursuit of objectives by all Group entities are ensured by a solid framework. As defined in the Group's environmental policy, Daikin manages environmental issues related to climate change, water, and waste in each of the five regions (Japan, Europe, the United States, China, and Asia/Oceania) through regular meetings.

Daikin has implemented a structured environmental governance system based on annual regional meetings and biennial global meetings, during which local presidents and environmental managers define sustainability strategies and objectives. At the same time, the company organizes specific annual working groups dedicated to product innovation and sustainability, where eco-friendly solutions are developed, such as the use of low-GWP refrigerants and energy-efficient inverter technologies. This operating model ensures that environmental issues of strategic importance follow a rigorous escalation process: from analysis by the CSR Committee,

through evaluation by the CEO, to final approval by the Board of Directors, thus ensuring that environmental considerations are integrated into decision-making processes at the highest levels of the company.

Since its acquisition, Duplomatic has begun its integration into this process, focusing in particular on the development and marketing of energy-efficient products, the introduction of low-energy equipment in its production processes, and the use of renewable energy for its activities. The Group's main objective is to strengthen its market presence in energy transition solutions, promoting increasingly efficient versions that require less energy for their use.

3.1.3 Policies and actions for decarbonization

Daikin's pursuit of this path is based on optimal management of aspects related to environmental impact. To date, the parent company's Environmental Management System complies with the ISO 14001:2015 standard. The implementation of this system guarantees the reliability and compliance with regulatory standards of environmental management mechanisms, which are verified and regularly audited by third parties. The goal is to obtain the same certification for all of the Group's production plants by 2027.

Environmental management is formalized through policies and procedures aimed at protecting the environment and promoting responsibility in the management of natural resources. In relation to climate change, the integration of Daikin's policies will enable Duplomatic to address issues related to climate change mitigation and energy efficiency, considering a short-, medium-, and long-term perspective.

In particular, the adoption of the policies and activities outlined by the Green Heart Factory will represent a significant step for Duplomatic on its path towards environmental sustainability. The Green Heart Factory, established by Daikin in 2005, is a structured system for monitoring and evaluating the environmental and social performance of the Group's production sites. This system involves the awarding of a certification every two years, based on the actions implemented by the sites regarding CO2 emissions reduction and water use, together with progress in achieving the Sustainable Development Goals (SDGs) at socially sensitive plants. The standard provides for a four-level assessment: platinum, gold, silver, and bronze. To date, two plants have been certified gold, 17 silver and 10 bronze .

Duplomatic is currently working to integrate the guidelines defined by Daikin. Duplomatic's top management is driving this change, supported by professionals specialised in the development and improvement of business processes and products. The actions implemented and resources dedicated are aimed at promoting decarbonization, focusing with determination on improving the efficiency of production processes and plants, as well as on developing energy-efficient solutions and products, fully leveraging the innovative technologies offered by Daikin.

Efficiency of production processes and plants

Duplomatic has embarked on a process of improving the efficiency of its production processes and plants, starting with the Parabiago plant. In particular, a deflector has been installed at this site to channel the heat generated in the workshop, resulting in savings in gas consumption for heating. In 2022, the compressors were

replaced with inverter machines, which operate according to actual demand. In addition, gas boilers are being replaced with heat pumps to heat and cool both the production area and the offices.

With regard to the use of renewable energy, Duplomatic purchases certified renewable energy for its plants. An investment is underway for the Parabiago plant to build a self-production system for electricity, which will cover at least 40% of the plant's needs.

Development of energy-efficient solutions and products

Duplomatic is committed to offering products that reduce energy consumption and related emissions, ranging from cooling solutions to advanced cylinder and electric actuator technology.

The Group has integrated Daikin hybrid hydraulic systems into its business, which not only guarantee maximum flexibility but also contribute to reduced heat generation, low operating noise levels, and significant energy savings. These include:



ECORICH represents a significant innovation in the field of hybrid energy efficiency, thanks to several advanced features. The high-efficiency IPM motor exceeds IE4 class, enabling a 65% reduction in energy consumption compared to conventional hydraulic units, while also extending oil life and increasing the intervals between oil changes.



The **SUPER UNIT** system stands out for its high performance and energy savings, thanks to the use of high-efficiency IPM motors with Daikin inverter technology, which enable energy savings of up to 50%, significantly outperforming conventional hydraulic units. In addition, the dual pump function keeps operating noise levels low.



AKZ and **AKW** are circulation-type cooling units for oil and water, respectively, offering high-precision temperature control thanks to the use of the Daikin inverter, which allows high levels of precision to be achieved. These units guarantee superior energy performance, offering energy efficiency and energy-saving performance at the top of their class. The filter has been optimized to minimize the risk of blockages, ensuring continuous and reliable operation over time.

The synergy between Daikin's hybrid technology and Duplomatic's innovation is the driving force behind the development of transition-oriented solutions. Duplomatic is working on the development of products related to electric motor technology and electronics.

3.1.4 Energy consumption and emissions

E1-4, E1-5, E1-6

Duplomatic's decarbonization process is based on measuring energy consumption and calculating emissions. Quantifying and managing these emissions are fundamental aspects of preparing an effective decarbonization plan.

Energy Performance

In 2024, Duplomatic recorded energy consumption of 4,211 MWh, a decrease of 5% compared to 2023. The company's energy mix is balanced, with 50% of energy coming from renewable sources and the remaining 50% from fossil fuels. Of the latter, 55% is gas used for heating and cooling the plants, 32% is diesel used to power vehicles and machinery, and the remainder is gasoline, electricity, and LPG. The significant 50% reduction in fossil fuel consumption compared to the previous year is the direct result of the sustainable energy procurement strategy implemented by the company, in line with the objectives of Daikin's Environmental Vision 2050.

The table below shows the energy consumption and mix during the reporting period in detail.

ENERGY CONSUMPTION AND MIX ³ (in MWh)	2024	2
Consumption from fossil fuels	2,105	4,454.90
<i>Electricity</i>	100.45	2,470.02
<i>Gas</i>	1,161.56	1,122.41
<i>Gasoline</i>	168.79	195.83
<i>Diesel</i>	673.40	666.64
<i>LPG</i>	1.24	-
Share of fossil fuels in total energy consumption (%)	50	10
Total renewable energy consumption	2,105.70	-
Electricity, heat, steam, and cooling consumption purchased or acquired from renewable sources	2,105.70	-
Share of renewable sources in total energy consumption (%)	50	0
Total energy consumption	4,211.14	4,454.9

³ The conversion factors used to calculate energy consumption were published by DEFRA - Department for Environment Food and Rural Affairs UK, in the 2023 edition of the document "Greenhouse gas reporting: conversion factors."

By comparing total energy consumption with Duplomatic's net revenues, we obtain an energy intensity indicator of 0.09, which is lower than the previous year. This index represents the energy consumption required to generate €1,000 of net revenues.

Energy intensity ⁴	Unit	2024	2023
Energy intensity relative to net revenues	(MWh/1000€)	0.09	0.07
Total final energy consumption from activities in sectors with high climate impact	MWh	4211	4454.90
Net revenues from activities in climate-impacting sectors	€	46,090,783.5	59,522,456.7

GHG emissions

Duplomatic's energy consumption generates both direct and indirect greenhouse gas (GHG) emissions, measured in tons of CO2 equivalent (tCO2-eq). The main reference standard for reporting these emissions is the GHG Protocol, which distinguishes three main categories: Scope 1, Scope 2, and Scope 3.

Scope 1 emissions include all direct emissions from sources owned or controlled by the organization. In 2024, Duplomatic recorded Scope 1 emissions of approximately 446 tCO2-eq, resulting from the combustion of fuels such as natural gas, diesel, gasoline, and LPG.

Scope 2 emissions refer to indirect emissions associated with the generation of electricity, heat, and steam purchased and consumed by the organization. When reporting Scope 2 emissions, it is essential to distinguish between the location-based approach, which reflects the average emissions intensity of the local energy mix, and the market-based approach, which considers specific energy sourcing choices. Duplomatic has calculated its Scope 2 emissions from electricity purchases using both approaches: 589 tCO2-eq for the location-based approach and 46 tCO2-eq for the market-based approach. Thanks to the purchase of electricity from renewable sources, Duplomatic has reduced its Scope 2 emissions by 96% compared to 2023.

Scope 3 emissions include all other indirect emissions that occur throughout the entire corporate value chain. Duplomatic will work to include this category in its quantification, and to monitor and reduce its emissions, following Daikin's example.

Considering Scope 1 and 2 emissions, in 2024 Duplomatic generated total emissions of 1,035 tCO2-eq according to the location-based approach and 492 tCO2-eq according to the market-based approach. Considering the market-based approach, the Group's total emissions showed a significant decrease of 69% compared to 2023. This reduction is attributable to the decrease in energy consumption from non-renewable sources, which is reflected in the market-based Scope 2 emissions.

⁴ All Duplomatic's activities are considered part of sectors with a high climate impact, in particular in section C of NACE, as defined in Commission Delegated Regulation (EU) 2022/1288.

Below are the details of Duplomatic's GHG emissions during the reporting period.

⁵ GHG emissions (in tCO ₂ -eq)	2024	2
Scope 1 GHG emissions		
Scope 1 GHG emissions	446.09	443.61
Percentage of Scope 1 GHG emissions covered by regulated emissions trading schemes (%)	-	-
Scope 2 GHG emissions		
Location-based Scope 2 GHG emissions	589.04	659.49
Scope 2 GHG emissions, market-based	45.92	1,129.17
Total GHG emissions		
Total GHG emissions (location-based)	1,035.13	1,103.10
Total GHG emissions (market-based)	492.01	1,572.78

The emission intensity, calculated as the ratio between tons of CO₂ equivalent and net revenues, for 2024 is equal to 0.02 tCO₂e per €1,000 of net revenues considering Scope 2 emissions according to the location-based approach, and 0.01 tCO₂e for those according to the market-based approach.

Emissions intensity	Unit of measurement	2024	2023
Total GHG emissions (location-based)	tCO ₂ -eq	1,035.1	1,103.10
Total GHG emissions (market-based)	tCO ₂ -eq	492.01	1,572.78
Net revenues	€	46,090,784	59,522,457
Emissions intensity relative to net revenues (location-based)	(tCO₂-eq /1000€)	0	0
Emissions intensity relative to net revenues (location-based)	(tCO₂-eq /1000€)	0.01	0

3.2 Pollution

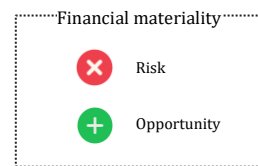
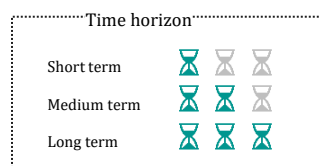
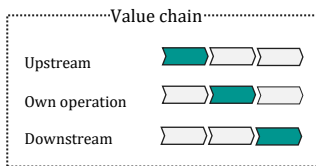
It is essential for the Group to prevent air, water, and soil pollution generated by its activities and suppliers.

3.2.1 Impacts, risks, and opportunities related to pollution

⁵ Scope 1: the coefficients of the Department for Environment, Food and Affairs "UK Government GHG Conversion Factors for Company Reporting" (Defra) were used, published in 2023 and 2024 respectively.

Scope 2: For the location-based approach, the coefficients published by ISPRA "Emissions, production and electricity consumption factors" in 2023 and 2024 were used. For the market-based approach, in the absence of specific contractual agreements, the emission factor relating to the national Residual Mix (AIB – European Residual Mixes 2023) was used. For purchases of electricity from renewable sources, a zero tCO₂-eq emission factor is assigned.

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
- E2 Pollution: Air pollution; Water pollution; Soil pollution	Air pollution caused by the release of hazardous substances resulting from the activities of suppliers and Diplomatic's manufacturing processes	Current - Negative		✘ Compliance with environmental regulations, which aim to protect public health and the environment, is of primary importance. Any exceeding of emission limits from chimneys in company activities constitutes a risk, as, in addition to air pollution, it can lead to penalties and negatively affect the company's reputation and customer confidence.
	Water pollution caused by the release of hazardous substances from suppliers' activities	Potential - Negative		
	Soil pollution caused by the release of hazardous substances from suppliers	Potential - Negative		



3.2.2 Pollution prevention

E2-1

Diplomatic is committed to preventing pollution from its products and plant activities, avoiding the use of Substances of Very High Concern (SVHC) and monitoring production processes in accordance with the Environmental Management System, which complies with ISO 14001 and relevant legislation.

The Parabiago plant manages atmospheric emissions according to formalised procedures. Boiler emissions are checked periodically, in accordance with the provisions of current legislation. With regard to emissions generated by the production cycle, Diplomatic carries out regular sampling and analysis of atmospheric emissions produced by the emission points present, as defined by the Single Environmental Authorisation (AUA). Potential spills of paints, oils, and lubricants during the handling of waste and raw materials are managed through specific procedures to ensure minimal environmental impact and the health and safety of those involved.

Diplomatic's environmental management strategy extends throughout the entire value chain through the implementation of Daikin's Green Procurement policy. This approach involves the distribution of a questionnaire to suppliers for self-assessment of compliance with fundamental conditions for environmental protection. The questionnaire asks suppliers to provide information on compliance with emission limits and the management and use of chemicals in accordance with current legislation, such as the REACH regulation, including the possible presence of substances of very high concern.

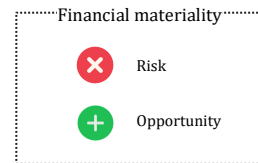
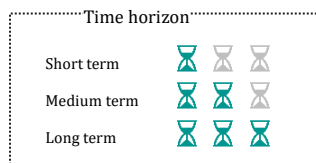
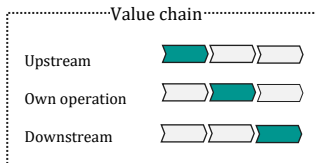
Based on the results of the assessment, Diplomatic may require suppliers to implement specific improvements in their activities in order to protect the environment.

3.3 Use of resources and circular economy

For Diplomatic, promoting a circular model not only contributes to reducing environmental impacts but also to creating added value, promoting innovation, efficiency, and resilience throughout the entire product life cycle.

3.3.1 Impacts, risks, and opportunities related to resource use and the circular economy

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
- E5 Circular Economy: <i>Resource inflows, including resource use; Resource outflows related to products and services; Waste</i>	Introduction of new technologies and operating procedures in back office processes through investments in innovation and digitalization	Potential - Positive		<p>+ The introduction of environmental metrics into the product design and development process allows Diplomatic to integrate sustainability criteria from the earliest stages. This approach represents an opportunity to develop products and solutions that enable customers to increase the percentage of reused and recovered materials. In this way, each new product will not only meet functional requirements, but also ecological ones.</p> <p>Reducing operating costs through lower use of raw materials is of paramount importance in the context of waste management. By adopting more efficient practices to minimize waste, such as recycling and reusing materials, Diplomatic can not only reduce operating expenses but also reduce its environmental impact by limiting the amount of waste generated and promoting a circular economy.</p>
	Integration of circularity principles in supplier relationships with regard to packaging	Current - Positive		



3.3.2 Circular economy and waste management

E5-1, E5-5

The circular economy is an essential paradigm for improving the sustainability of production processes, with a particular focus on both product design and waste management. Attention to the choice of materials is fundamental: favoring recycled, renewable, or low-environmental-impact raw materials reduces dependence on natural resources and limits emissions associated with production. At the same time, responsible waste management is crucial to ensure the recovery and valorization of end-of-life materials, transforming them from waste into new resources.

Promotion of the principles of circularity

Diplomatic is actively involved in projects aimed at reducing and optimizing the use of raw materials in its production processes. The Group intends to accelerate the development of innovative products designed to help customers reduce the amount of waste generated, offering solutions that integrate recycled and/or reused materials. The aim is to reduce the use of virgin materials and design products that are easy to disassemble and recycle, in order to minimize their environmental impact at the end of their life cycle.

In order to achieve these objectives, Diplomatic is working to integrate Daikin's circularity principles into its design and production processes:

- **Lightweight products:** The manufacture of more compact and lightweight products is essential to reduce resource consumption. However, it is essential to maintain high quality standards, improving environmental performance without compromising energy efficiency. Therefore, weight reduction targets for each product are linked to maintaining the annual performance factor (APF).
- **Materials with lower environmental impact:** Diplomatic is committed to using recycled and alternative materials in its products, as well as reducing the amount of packaging materials derived from plastic. In addition, Diplomatic is committed to reusing metal packaging in collaboration with its suppliers, creating synergies that promote sustainability throughout the supply chain.
- **Separability and recyclability of components:** The recyclability of a product is considered from the design stage. The Group promotes the use of easily recyclable resins and easily dismantled structures, as well as the labeling of materials to facilitate sorting and recycling. Diplomatic is also committed to reducing the number of components and developing structures with improved recyclability, thus contributing to a more sustainable life cycle for its products.

Waste management

Waste generated is monitored and managed according to specific procedures, in compliance with current legislation and the Environmental Management System. In the management of waste produced during the production cycle, priority is given to recovery and recycling at disposal sites, in line with the principles of the circular economy and environmental responsibility.

The main waste from production processes includes iron shavings generated during processing and used oil emulsions. In addition to these categories, mixed packaging, wood, and paper waste are also produced. More sporadically, other types of waste are also generated, such as used spray cans, obsolete equipment, and absorbent materials, which require specific procedures for proper disposal.

During 2024, Diplomatic generated a total of 215 tons of waste, 59% of which was classified as non-hazardous, representing an overall decrease of 22% compared to the previous year. It is important to note that 83% of the waste produced is destined for recovery operations. In particular, all non-hazardous waste is recovered, while 41% of hazardous waste is sent to landfill. Recovery and disposal operations are carried out at specialized external sites.

Below is a detailed breakdown of the waste generated by Duplomatic⁶ during the reporting period, broken down by type of recovery and/or disposal.

WASTE GENERATED (in tons)	2024									
	Total waste generated	of which <u>not intended for disposal</u>				of which <u>destined for disposal</u>				
		Recovery operations				Disposal operations				
		Total recovery	Preparation for reuse	Recycling	Other recovery operations	Total Disposal	Incineration (with energy recovery)	Incineration (without energy recovery)	Landfill	Other disposal operations
HAZARDOUS WASTE	88.25	51.9	-	-	51.9	36.26	-	-	36.26	-
Used oil	51.89	51.89	-	-	51.89	-	-	-	-	-
Waste acids	27.29	-	-	-	-	27.29	-	-	27.29	-
Sludge	1.56	-	-	-	-	1.56	-	-	1.56	-
Other waste	7.51	0.10	-	-	0.10	7.42	-	-	7.42	-
NON-HAZARDOUS WASTE	126.43	126.43	-	-	126.43	-	-	-	-	-
Wood	30.79	30.79	-	-	30.79	-	-	-	-	-
Plastic	12.83	12.83	-	-	12.83	-	-	-	-	-
Plastic packaging	0.18	0.18	-	-	0.18	-	-	-	-	-
Metal	78.92	78.92	-	-	78.92	-	-	-	-	-
Glass and ceramics	1.85	1.85	-	-	1.85	-	-	-	-	-
Paper and cardboard	1.86	1.86	-	-	1.86	-	-	-	-	-
TOTAL WASTE GENERATED	214.6	178.41	-	-	178.41	36.26	-	-	36.26	-

WASTE GENERATED (in tons)	2023									
	Total waste generated	of which <u>not intended for disposal</u>				of which <u>intended for disposal</u>				
		Recovery operations				Disposal operations				
		Total recovery	Preparation for reuse	Recycling	Other recovery operations	Total Disposal	Incineration (with energy recovery)	Incineration (without energy recovery)	Landfill	Other disposal operations

⁶ The data reported does not include waste generated by the Sulbiate and Barbarano Mossano plants, while information relating to the Busto Arsizio plant will be available from April 2024.

HAZARDOUS WASTE	116.78	84.2	-	-	84.2	32.58	-	-	32.58	-
Used oil	84	84	-	-	84	-	-	-	-	-
Waste acids	23.00	-	-	-	-	23	-	-	23.00	-
Mud	2.34	-	-	-	-	2.34	-	-	2.34	-
Other waste	7.44	0.20	-	-	0.20	7.24	-	-	7.24	-
NON-HAZARDOUS WASTE	159.22	159.22	-	-	159.2	-	-	-	-	-
Wood	42.36	42.36	-	-	42.36	-	-	-	-	-
Plastic	17.90	17.90	-	-	17.90	-	-	-	-	-
Plastic packaging	-	-	-	-	-	-	-	-	-	-
Metal	98.77	98.77	-	-	98.77	-	-	-	-	-
Glass and ceramics	0.19	0.19	-	-	0.1	-	-	-	-	-
Paper and cardboard	-	-	-	-	-	-	-	-	-	-
TOTAL WASTE GENERATED	276.00	243.43	-	-	243.43	32.58	-	-	32.58	-

4. Value for people and society

4.1 Workforce management and development

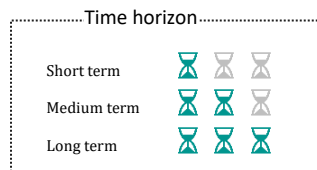
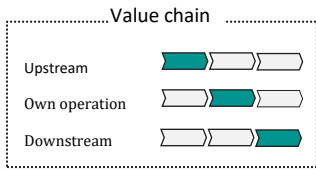
Diplomatic is fully aware of how crucial the contribution of each individual member of its workforce is to achieving the company's objectives and successfully meeting market challenges. Its workforce includes all staff members who can be significantly influenced by the company. This group consists mainly of employees, but also includes some external non-employees who contribute different skills and perspectives.

4.1.1 Impacts, risks, and opportunities related to the workforce

ESRS 2 SBM-3, S1-4

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
- S1 Own workforce: Working conditions; Equal treatment and opportunities for all; Other work-related rights	Promotion of a safety culture through employee training and initiatives that integrate the requirements of the ISO 45001:2018 Occupational Health and Safety Management System and relevant legislation	Current - Positive		Diplomatic considers the well-being of its employees to be of the utmost importance.
	Increasing employee well-being through welfare programs and work-life balance initiatives	Potential - Positive		<p>✘ Assessing health and safety risks is fundamental for Diplomatic, which considers employee awareness in reporting hazards and near misses, monitoring work-related stress indicators, and covering assets and workers in the Occupational Health and Safety Management System to be crucial points.</p>
	Workplace accidents, near misses, or other impacts on employee health and safety	Potential - Negative		<p>+</p> <p>The introduction of a predictive maintenance system is an important advantage in reducing the risk of sudden breakdowns and accidents, ensuring a safer and more reliable working environment.</p>
	Fair and transparent human resource management (e.g., types of contracts offered, second-level collective bargaining and trade unions, management of non-employee personnel) in remuneration policies and professional growth opportunities for employees	Potential - Positive		<p>+</p> <p>Promoting fair and favorable working conditions is essential for building a positive corporate culture in which employees feel valued and supported in their professional development. Investing in engagement initiatives focused on flexibility, competitive salaries, welfare, and professional growth plans improves employee satisfaction and motivation. Furthermore, using objective metrics to monitor and evaluate employee performance that also include sustainability criteria allows you to set clear and achievable goals for employees and promote a culture of accountability that values not only economic results but also the social and environmental impact of business activities.</p>
	Promotion of a fair and inclusive work environment based on the enhancement of diversity through dedicated policies and initiatives	Potential - Positive		<p>+</p> <p>Investing in specific training programs for employees is essential to ensure that the work is always up to date with the latest technologies and practices in the industry.</p>
	Improvement of employee skills through the identification of training needs and the provision of continuous training	Current - Positive		<p>✘ The partial implementation of targeted training programs weakens talent retention, as employees</p>
	Breach of sensitive internal data due to insufficient security measures in place to protect IT systems and ensure infrastructure	Potential - Negative		

	resilience (e.g., business impact analysis)			<p>may not feel valued and supported in their professional growth.</p> <p>These elements are crucial for preserving your wealth of skills and know-how, mitigating the risk of losing highly qualified employees.</p>
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With the aim of ensuring a safe and stimulating working environment, Diplomatic manages its workforce through an integrated approach that values both individual skills and the collective potential of the company, based on:

- Promoting a culture of safety by adopting Daikin's initiatives to create a healthy and safe working environment.
- Welfare programs that support the well-being of employees and their families, including opportunities for employees' children to participate in internships at Group companies, both in Italy and abroad, thus promoting intergenerational ties and a sense of belonging.
- Offering employment contracts that guarantee fair and transparent working conditions, as defined by the second-level national collective labor agreement.
- Investments in specialized training to improve not only personal skills but also the level of expertise within the company.
- Partnerships with schools to acquire talent, ensuring a generational turnover of workers who are prepared and ready to face the challenges of the market.

4.1.2 Workforce policies and procedures

ESRS S1-1, S1-3

Diplomatic has a structured system of policies, procedures, and codes to mitigate and minimize potential negative impacts on its workforce and to identify and exploit opportunities to promote a positive impact on people.

Code of Ethics

Diplomatic's Code of Ethics, part of the Organization, Management, and Control Model adopted pursuant to Italian Legislative Decree 231/01, clearly defines the set of values and responsibilities that all those who work on behalf of and in the name of the company accept and share. In this context, Diplomatic recognizes the central importance of human resources as a c, whose management is based on respect for the personality and professionalism of each individual, in a framework of loyalty, trust, and rejection of all forms of discrimination

and exploitation. The Code is available on the company website and is provided to all employees upon joining the company and is subject to training.

Whistleblowing procedure

The Procedure for reporting to the Supervisory Body regulates the process of reporting violations of Model 231 and the Code of Ethics through the whistleblowing channel. Within the working environment, the procedure defines the internal reporting methods for employees, ensuring the confidentiality of the persons involved and the content of the report.

QHSE policies and procedures

The Integrated Management System defines a set of policies and procedures that ensure that every level of the organization operates in accordance with best practices in quality, safety, and environmental sustainability.

The Occupational Health and Safety Management System (SGSL), certified in accordance with ISO 45001:2018, aims to protect the health and safety of workers by reducing the risk of accidents and occupational diseases. The system, together with the provisions of Legislative Decree No. 81/08 and the relevant legislation, establishes policies and procedures for risk assessment and reduction, staff training, emergency management, and the active involvement of employees in company safety. Key principles include a risk-based approach, which allows accidents to be prevented before they occur, and continuous improvement, which ensures that protective measures are constantly evolving. These principles are applied through the drafting and periodic updating of the Risk Assessment Document (DVR), which provides an analysis of the risks present in the workplace and the prevention and protection measures adopted to manage them. The measures include the implementation, where necessary, of corrective actions, the performance of internal audits and audits by certified third parties, and the provision of the personal protective equipment (PPE) necessary for the performance of the activities.

The SGSL also provides procedures for the management of occupational health services in accordance with current legislation. In collaboration with the Competent Doctor, Diplomatic ensures that employees undergo mandatory medical examinations and those required for specific qualifications as defined in the Health Protocol.

4.1.4 Workforce involvement

ESRS 2 SMB 2, S1-2

Over the years, Diplomatic has established an active and constructive dialogue with its internal stakeholders, based on the values of transparency and trust. The company organizes meetings every six months, during which employees are informed about the company's performance, ongoing projects, and future scenarios. These meetings are an important opportunity for discussion between management and the workforce, fostering a climate of collaboration and participation.

In addition, there are employee representatives belonging to the Unitary Trade Union Representation (RSU), a body that represents the interests and needs of employees. Regular meetings are held with these representatives, which help to ensure open communication and active listening to the concerns of workers.

In accordance with Decree No. 81/08, a Workers' Safety Representative (RLS) has been elected to act as a channel of communication between employees and the company on matters relating to health and safety in the workplace. In addition to mandatory training, employees are involved in awareness-raising activities related to accident prevention and the reporting of potentially hazardous situations.

In addition to mandatory training, employees are also involved in awareness-raising activities related to accident prevention and the reporting of potentially hazardous situations. The initiatives were launched by Daikin with the aim of raising awareness among employees and building a safety culture focused on continuous improvement:

- **Safety Gemba Walk:** a Lean management practice applied to workplace safety, which involves direct observation of production processes in the workplace. These "safety walks" take place weekly in all plants and involve observing the workplace and collecting suggestions for improvement from the employees involved, with the aim of optimizing working conditions.
- **Safety Dojo:** at the Parabiago plant, a space has been set up dedicated to identifying potential hazardous situations caused by tools that are unsuitable for use. In this "gym," employees are asked to distinguish between tools used by workers in suitable and unsuitable versions, thus contributing to greater awareness and responsibility in terms of safety.

4.1.5 Workforce structure

S1-6, S1-7, S1-8, S1-9, S1-13, S1-14, S1-15

Workforce characteristics

As of December 31, 2024, Diplomatic's workforce consisted of 226 employees, 85% of whom were male. All employees are covered by permanent contracts, most of which are full-time, with only 4% of part-time contracts. The workforce also includes 5 non-employees.

Employees by gender and type of contract	2024			2023		
	Women	Men	Total	Women	Men	Total
Total number of employees	35	191	226	34	193	227
Number of permanent employees	35	191	226	34	193	227
Number of temporary employees	-	-	-	-	-	-
Total number of employees	35	191	226	34	193	227
Number of employees with non-guaranteed hours	-	-	-	-	-	-
Number of full-time employees	27	190	217	27	193	220
Number of part-time employees	8	1	9	7	-	7

Non-employees in the workforce	2024	2023
Self-employed workers	3	1
Persons employed by third parties who perform work activities	2	2
Total non-employees in the workforce	5	3

Hiring and terminations

During 2024, 27 new employees were hired, while 28 terminated their employment. This results in an outbound turnover rate, calculated as the ratio of the number of employees who left the company to the total number of employees, of 12%. This figure marks a slight decrease compared to 2023

Employees hired and terminated	2024	2023
Total number of employees	226	227
Number of new hires	27	39
Number of employees leaving	28	29
Turnover rate	12%	13%

Collective bargaining and social dialogue

All Diplomatic employees are covered by collective agreements in accordance with the provisions of the second-level national collective labor agreement. Of these, 24% are union members. In addition, 78% of employees work in plants that have employee representatives.

Employees covered by collective agreements and union members	2024	2023
Total number of employees	226	227
Number of employees covered by collective agreements	226	227
Number of employees who are members of trade unions	55	48
Percentage of employees covered by collective agreements	100%	100%
Percentage of employees who are members of trade unions	24%	21%

Employees covered by employee representatives	2024	2023
Total number of employees	226	227
Number of employees working in establishments with employee representatives	176	185
Percentage of employees covered by worker representatives	78%	81%

Diversity metrics

Diplomatic's top management, consisting of a total of 14 executives, is made up of 13 men and 1 woman.

In terms of age distribution, 52% of employees are between 30 and 50 years old, 37% are over 50, and the remainder are under 30.

Employees by age group	2024				2023			
	< 30 years	30-50	> 50	Total	Under 30	30-50	> 50 years	Total
Total number of employees	25	117	84	226	27	127	73	227

Training

Diplomatic employees participate in a training program aimed at expanding their skill set, which is essential for professional development and the effective performance of their duties. In addition to the mandatory training required by company policies and relevant legislation, which includes topics such as Health and Safety, Code of Ethics, Model 231, privacy, and data security, employees also have the opportunity to access the Diplomatic Academy⁷, which offers highly specialized optional training courses.

Below is a breakdown of the total and average number of training hours provided to Diplomatic employees during the reporting period.

Employee training hours by gender and category	2024			2023		
	Female	Male	Total	Females	Males	Total
Executives	9.25	154.2	163.50	13	1.5	14.50
Frame	23.75	186.00	209.75	43	74	117.00
Employees	393.50	1,425.50	1,819	277.00	603.75	880.75
Worker	0	2,113.50	2,113.50	0	667	667.0
TOTAL	426.50	3,879.25	4,305.75	333.00	1,346.25	1,679.25

⁷ For further information, please refer to section 4.3 Customer care.

Average hours of employee training by gender and category	2024			2023		
	Female	Male	Total	Females	Males	Total
Executives	9.25	11.87	11.68	13	0.11	0.97
Quad	7.92	12.40	11.65	10.75	4.93	6.16
Employees	12.69	22.63	19.35	9.55	9.01	9.17
Worker	0	21.14	21.14	0	6.88	6.88
TOTAL	12.19	20.31	19.05	9.79	6.98	7.4

Health and safety at work

The health and safety of Duplomatic's workforce is guaranteed through the careful maintenance and practical application of the Health and Safety Management System. In 2024, there were no accidents at work, either with serious consequences or fatalities. As a result, the accident rate, calculated as the ratio of the number of accidents recorded to the number of hours worked, was zero compared to 2023, when one accident involving a male employee was recorded, with a rate of 2.74. Furthermore, during the reporting period, there were no cases of occupational diseases.

Employees covered by an occupational health and safety management system	2024	2023
Total number of employees	226	227
Number of employees covered	226	227
Percentage of employees covered by an occupational health and safety management system	100	100

Non-employees covered by an occupational health and safety management system	2024	2023
Total number of non-employees	5	3
Number of non-employees covered	5	3
Percentage of non-employees covered by an occupational health and safety management system	100	100

Total number of accidents at work	2024			2023		
	Women	Men	Total	Women	Men	Total
Total number of accidents at work	-	-	-	-	1	1
<i>Of which at the workplace</i>	-	-	-	-	-	-
<i>Of which business trips</i>	-	-	-	-	1	1
Total number of deaths at work	-	-	-	-	-	-

<i>Of which at the workplace</i>	-	-	-	-	-	-
<i>Of which business trips</i>	-	-	-	-	-	-
Total number of accidents at work with serious consequences (excluding fatalities)	-	-	-	-	-	-
<i>Of which at the workplace</i>	-	-	-	-	-	-
<i>Of which business trips</i>	-	-	-	-	-	-
Days lost due to injury	-	-	-	-	3	3
Number of hours worked	42.937	304.976	347.913	53.178	311.900	365.078
Workplace accident rates						
Recordable accident rate at work	-	-	-	-	3,21	2,74
Severity index	-	-	-	-	0,01	0,01

Parental leave

All Diplomatic employees are entitled to take leave for family reasons. In 2024, 64 employees were entitled to take leave and 26 of them took advantage of this opportunity, including 5 women and 21 men.

Employees entitled to family leave	2024	2023
Total number of employees	226	227
Number of employees entitled to family leave	64	59
Percentage of employees entitled to family leave	28%	26%

Employees who took family leave	2024			2023		
	Women	Men	Total	Women	Men	Total
Total number of employees	35	191	226	34	193	227
Number of employees who took leave for family reasons	5	21	26	3	23	26
Percentage of employees who took family leave	14%	11%	12%	9%	12%	11%

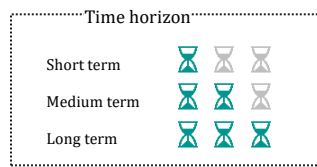
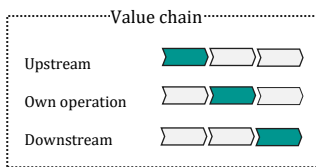
4.2 Responsibility in the value chain

Diplomatic relies on an extensive global network of suppliers. Procurement decisions, particularly for direct purchases, are mainly oriented towards local suppliers, with the aim of promoting local businesses and generating synergies between different plants where possible.

4.2.1 Impacts, risks, and opportunities related to workers in the value chain

ESRS 2 SBM-3

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
S2 Workers in the value chain: <i>Working conditions</i>	Accidents at work, near misses or other impacts on the health and safety of external collaborators	Potential - Negative		Diplomatic also takes into account risks related to workers along the value chain, paying particular attention to the supervision of contractors' activities.



Diplomatic recognizes the importance of identifying potential negative impacts along the supply chain and adopting a robust supplier selection and assessment system. In particular, it is essential to minimize the risk of human rights violations that may occur, either directly or indirectly, against workers in the value chain.

With regard to direct impacts, it is essential to monitor the activities of external personnel, in particular contractors, in order to ensure the highest standards of health and safety. To this end, Diplomatic manages access by external parties for the performance of work or the provision of services through a specific procedure and the regular completion of the Single Risk Assessment Document (DUVRI), in accordance with current legislation on health and safety at work.

The risk of potential negative impacts generated by the activities of suppliers on a specific group or on all workers, over which Diplomatic has no direct control, is mitigated through supply chain selection, assessment, and management policies and procedures.

4.2.2 Supply chain management

ESRS 2 SMB 2, S2-1, S2-2, S2-3, S2-4

Diplomatic MS's procurement is governed by a Group policy that ensures a fair, efficient, and transparent purchasing process for both direct and indirect goods and services⁸. The Purchasing Department is responsible for managing the supplier list, monitoring supplier performance, and collecting the necessary supporting documentation. Currently, selection and evaluation are based on indicators that consider aspects such as quality, delivery times, costs, level of technology, and environmental compliance. With the aim of promoting sustainability throughout the supply chain, Diplomatic is working to integrate Daikin's procurement policies and procedures.

⁸ For more information on supplier purchasing policies and payment practices, please refer to the section "Supplier relations management."

Supply Chain CSR Promotion Guidelines

The Japanese parent company works with its suppliers globally to ensure responsible sourcing that considers impacts throughout the supply chain. In addition to its Green Procurement Policy⁹, Daikin evaluates the sustainability performance of its suppliers by verifying compliance with the Supply Chain CSR Promotion Guidelines.

The guidelines are divided into 17 pillars that encourage suppliers to commit to improving their performance in terms of the environment, quality, occupational safety, and human rights, as well as refraining from doing business with companies operating in conflict regions. Daikin requires suppliers to declare their compliance by completing specific checklists. Based on these declarations, the Group evaluates and reviews its business relationships with the aim of achieving 100% compliance among both domestic and international suppliers.

Processes for involving workers in the value chain

External workers operating at Duplomatic sites undergo a safety risk assessment, which includes an in-depth analysis of working conditions and potential threats to their health and safety, in accordance with relevant legislation. They also receive specific training to ensure that they are adequately informed about safety practices and standard operating procedures.

All workers in the supply chain are guaranteed access to Duplomatic's whistleblowing channel, available on the company website. This allows them to report any misconduct or violations in a secure and confidential manner, or to raise any issues that have arisen. The code of ethics, which outlines the fundamental principles of conduct and expectations in terms of integrity and responsibility, can also be consulted on the website.

4.3 Customer care

The Duplomatic Group offers a wide range of catalog and customized components and systems, both traditional and "smart," applying ingenuity and innovative spirit in the industrial and mobile sectors.

In the industrial sector, the Group supplies various components, systems, and solutions, supporting companies operating in areas such as:

- Test benches
- Turnkey
- Rail
- Lubrication
- Energy
- Industrial machinery
- Marine

⁹ For further information, please refer to section 3.2 Pollution.

- Oil & Gas

In the mobile sector, thanks to Hydreco's experience and expertise, the Group assists customers in the design of various machines, including:

- Agricultural machinery (e.g., sprayers, combine harvesters, forestry equipment)
- Construction machinery (e.g., lifting and handling equipment, earthmoving machinery, mobile cranes, industrial trucks)
- Gardening machinery (e.g., lawn mowers)
- Public service machines (e.g., for street cleaning or snow removal)
- Material handling machines
- Mining machinery





In addition, the Group also caters to companies in the energy sector, manufacturing customized products for the construction of gas, steam, and hydraulic turbines.

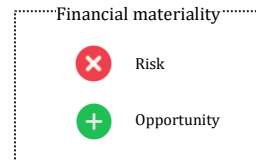
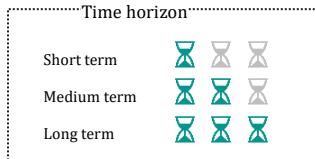
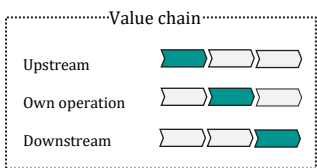
Diplomatic MS focuses on the production and distribution of components that, using hydraulic technology, contribute to the manufacture of machine tools, production plants, oil & gas plants, mobile mechanical infrastructure, trucks, and tractors. Diplomatic mainly targets international distributors for the sale of components and OEM customers for the manufacture of customized components and systems.

4.3.1 Impacts, risks, and opportunities related to consumers and end users

ESRS 2 SBM 3

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
- S4 Consumers and end-users: Information ; Personal safety	Improve the quality of customer care services by providing specific professional training programs through the "Diplomatic Academy"	Current - Positive		<p>+ With increasing environmental awareness and stricter regulations, customers are increasingly looking for solutions that reduce their emissions. Diplomatic has the opportunity to meet these demands by leveraging the advanced technologies provided by Daikin and tapping into industry trends related to the development of low-carbon technologies.</p> <p>+</p>
	Increased customer satisfaction and loyalty through structured CRM and tools for understanding their needs and level of satisfaction	Potential - Positive		
	Breach of sensitive customer data due to insufficient security measures in place to protect IT systems and ensure infrastructure resilience (e.g., business impact analysis)	Potential - Negative		

	<p>Negative impacts on customer health and safety due to product malfunctions and irregularities</p>	<p>Potential - Negative</p>		<p>Offering a professional training program such as the Diplomatic Academy is an opportunity to improve customer awareness, increase loyalty, and promote new products.</p> <p>Health and safety are also important issues to manage downstream, as the absence of a management plan to deal with product malfunctions and defects can compromise not only the quality of the products offered but also customer safety.</p> <p>Data is a company's true asset, a set of valuable resources that must be protected with the utmost care. In an age of ever-increasing cyber threats, Diplomatic  considers the risk of targeted attacks on IT and operating systems that can lead to data breaches, theft of sensitive information, and service interruptions to be a top priority.</p> <p>The loss of key resources containing sensitive information is another critical risk to consider in order to ensure business continuity and maintain customer trust. </p> <p></p>
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When defining its strategy and business model, Diplomatic takes into account the interests and needs of its customers, paying particular attention to the impact of its downstream activities.

Although Diplomatic does not currently have specific policies and procedures in place regarding human rights relating to customers or end users, the company recognizes the importance of respecting human rights and the potential impact of such rights within its strategy and business model.

Health and safety

The company is committed to ensuring that its products meet the highest safety standards, following the requirements defined by ISO 45001 certification, which is part of Diplomatic's Integrated Management System, together with ISO 14001 and ISO 9001 certifications, and protecting end users through a "safety by design" approach.

To this end, Duplomatic takes measures to mitigate the risk of malfunctions that could have negative effects on health and the environment, following strict safety regulations and operating in accordance with recognized standards and certifications.

For Duplomatic, certification is the starting point for offering products and solutions that meet customer expectations, guaranteeing safety and quality. For example, Duplomatic valves are certified according to ISO 13920:2023, which defines the dimensional and geometric tolerances of welded structures, thus ensuring an adequate level of precision according to the chosen tolerance class. Compliance with this standard is part of the requirements established by the Machinery Directive (2006/42/EC), which lays down the essential health and safety requirements for the design, construction, and marketing of machinery, in order to protect the safety and health of users and persons exposed to risks arising from its use. The fundamental requirements include the obligation to carry out a risk analysis, CE marking as a certificate of conformity, the preparation of a technical file containing all relevant documentation, and the provision of a user and maintenance manual written in the language of the end user.

In addition to ISO 13920:2023 and the Machinery Directive, Duplomatic guarantees compliance with various product standards and certifications, including:

- **PED Directive 2014/68/EU:** regulates the design, manufacture, conformity assessment, and marketing of pressure equipment, ensuring a high level of safety in hydraulic systems.
- **CU-TR 012/2011:** technical regulation of the Eurasian Economic Union (EAEU) establishing safety requirements for equipment intended for use in potentially explosive atmospheres.
- **IECEX:** international certification system developed to ensure the safety of electrical and non-electrical equipment used in potentially explosive atmospheres.
- **ATEX Directive 2014/34/EU:** establishes the essential health and safety requirements for equipment and protective systems intended for use in potentially explosive atmospheres, such as the oil, chemical, pharmaceutical, and mining industries.
- **INMETRO No. 115/2022:** regulation defining the requirements for the certification of electrical and non-electrical equipment intended for use in potentially explosive atmospheres on the Brazilian market.

Duplomatic is also attentive to its customers' needs regarding compliance with environmental regulations. For example, it pays particular attention to the lead content in its products to ensure proper waste disposal, as required by various local and international regulations, including RoHS.

Privacy and data security

Another crucial aspect of customer relationship management is mitigating the negative impacts caused by cyber risks. Data protection is not only a regulatory requirement, but also a key factor in maintaining customer trust. At the European level, the General Data Protection Regulation (GDPR, EU Regulation 2016/679) has established strict standards for the processing of personal information, imposing clear obligations regarding consent, transparency, security, and the rights of data subjects.

The GDPR requires companies to take appropriate technical and organizational measures to prevent data breaches, ensure confidentiality, and ensure the correct and proportionate use of the information collected.

However, regulatory compliance is only one aspect to consider: protecting data also involves developing a security-oriented corporate culture and adopting effective cyber risk management practices.

Diplomatic is currently working on implementing privacy policies to protect sensitive customer data. This includes creating personalized email accounts and ensuring that sensitive data is stored in controlled and secure locations.

4.3.2 Quality culture

ESRS 2 SMB 2, S4-1, S4-2, S4-3, S4-4

Diplomatic is committed to promoting a culture of quality that involves all business functions at every level. The Quality Management System, certified to ISO 9001:2015 and part of the Integrated Management System, ensures scrupulous attention to the compliance of all components with the highest market expectations, with the aim of achieving zero defects through in-depth analysis of non-conformities.

The overall management of the Quality System is entrusted to a dedicated team, which has clearly defined tasks in verifying and implementing the System in every aspect of company management, from internal processes to customer relations. The implementation of policies and procedures aimed at ensuring the proper management of internal processes, together with the continuous updating and improvement of technical training, as well as the monitoring of customer satisfaction, allows Diplomatic to operate with a strong focus on excellence.

Listening to and managing customer satisfaction

Diplomatic actively collects and analyzes customer feedback, starting with profiling and in-depth understanding of their business sectors, which allows it to effectively tailor its approach to their needs. Customer service maintains direct contact with customers, ensuring that each one has a single point of contact for gathering needs, feedback, and comments. Requests are handled internally through separate channels, depending on their nature.

The company has established a formal channel for handling complaints through customer service. If a customer contact results in a complaint being filed, it is handled by the Quality Department, which, following the internal procedures established by the Quality Management System, assesses whether the product subject to the complaint should be returned, inspected, or replaced under warranty. The effectiveness of the service and customer satisfaction are monitored through indicators such as delivery times, the number of returns, and the number of complaints in relation to commercial activity.

Diplomatic Academy

Diplomatic supports the growth of employees and companies by focusing on training through events, webinars, and the Academy.

For 15 years, the Diplomatic Academy has been a benchmark for professional training in the Motion Control sector. The Academy was founded with the aim of enhancing the skills of its employees and customers by

training professionals specialised in the design, installation and maintenance of systems equipped with hydraulic and electrical components through a wide range of technical courses conducted by industry experts.

The training offer includes specialized courses, both in the classroom and online, which are free and accessible to anyone wishing to deepen their knowledge in areas such as hydraulics, mechatronics, hybrid systems, and chillers. At the end of the courses, participants receive a certificate attesting to the skills acquired, together with the teaching materials. In addition, customers can organize customized courses at their premises for a fee.

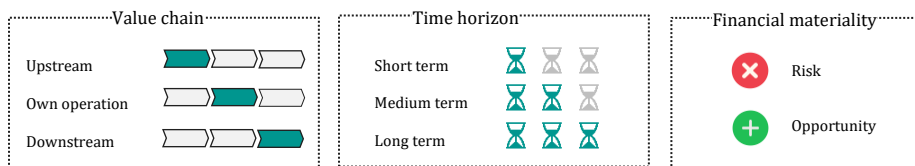
4.4 Shared growth with communities

Diplomatic recognizes the importance of building strong and lasting relationships with the local communities with which it interacts through its production facilities and research and development centers. Being present in the communities in which it operates means not only creating economic value, but also actively contributing to their social and cultural development.

4.4.1 Impacts, risks, and opportunities related to the communities concerned

ESRS 2 SBM-3

ESRS Topic and sub-topic	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	
S3 Affected communities: <i>Communities' economic, social, and cultural rights</i>	Contribution to the economic, cultural, and social development of local communities through non-profit initiatives and economic support	Current - Positive		Diplomatic MS has the opportunity to strengthen its relationships with local communities through support and active involvement initiatives. These initiatives not only contribute to improving the quality of life in the surrounding areas, but also create a significant emotional bond between the company and the people who live and work in the communities in which it operates.



Through targeted investments, social responsibility initiatives, and partnerships with local authorities and associations, Diplomatic is committed to generating a positive impact by promoting employment, training,

and innovation. This approach creates a meaningful link between the company and the people who live and work in the communities where it operates, fostering an inclusive and sustainable development model.

4.4.2 Investments in communities

ESRS S3-2, S2-4

Sports associations

Diplomatic MS's collaboration with Rugby Parabiago is one of the pillars of its commitment to the local area. This non-profit sports club was founded to pursue educational and solidarity goals, promoting the positive values of rugby in the Parabiago community. Through synergies with companies, public administration, institutions, families, and non-profit associations, Rugby Parabiago is committed to spreading a culture of inclusion and respect, thus contributing to the social well-being of the area.

Events

Participation in events is a fundamental tool for establishing a presence in the local area. During 2024, Diplomatic sponsored several significant events, including:

- **Japan Italy Friendship Continues:** Organized by the Department of Culture of the Municipality of Cerro Maggiore (MI), this event aims to encourage cultural exchange between the two nations. Diplomatic participated as a sponsor, with the aim of promoting Italian-Japanese expertise in industry and, above all, raising awareness and appreciation of Japanese culture and the Daikin group among the local community.
- **Cinque Mulini:** Diplomatic sponsored this historic cross-country race, which for 92 editions has offered athletes from all over the world the opportunity to compete on a picturesque course that winds through the historic mills of San Vittore Olona.
- **StraVilla:** This running event, organized by GSO Running Villa Cortese, is an international race open to all. Diplomatic sponsored the event, which in 2023 was awarded the prize for best evening running event in the province of Milan.

University scholarships

Diplomatic supports university students, confirming its link with the academic world by funding scholarships for degree courses closely related to hydraulics. In particular, in 2024, it funded scholarships for industrial engineering students at the University of Naples Federico II and the University of Sannio in Benevento.

5. Responsible governance

5.1 Governance structure

Diplomatic's governance structure ensures solid coordination between Group companies and clear and timely communication with Daikin, thus facilitating a rapid and responsive integration process.

5.1.1 Role of governing bodies

ESRS 2 GOV-1

Diplomatic's corporate governance is managed and supervised by the Directors, who are responsible for strategic decisions and the overall management of the company, including executive responsibility.

The Group's Board of Directors is composed of eight members, six of whom are direct representatives of Daikin. In a period of strong integration, this structure allows Diplomatic to quickly understand the needs of the Daikin Group and adapt them effectively to its own reality. The Group's governance is further strengthened by the presence of the Board of Statutory Auditors and the Supervisory Body, appointed in accordance with Legislative Decree 231/2001.

The composition of the various bodies ensures that all aspects of governance are monitored and managed with clarity and transparency.

Cohesion and coordination with the Japanese parent company are ensured by Daikin's solid governance management. In particular, a monthly Group Management Meeting is held, during which Diplomatic's directors work with the Business Unit managers to provide constant updates on the progress of operations, define the strategic and tactical actions to be implemented, and supervise the progress of the integration plans for the individual functions. In turn, the various functions collaborate individually to execute their integration plans, with monthly updates. This same structure is replicated within Diplomatic, with monthly Management Meetings with each company and functional coordination for each function. Every four months, Diplomatic's Board of Directors meets to monitor management performance and take the necessary decisions in a timely manner.

5.1.2 Information provided to governance bodies on sustainability issues

ESRS 2 GOV-2

During 2024, the results of the double materiality analysis were presented to top management, which validated the material sustainability issues for Diplomatic and the associated impacts, risks, and opportunities. Subsequently, the sustainability issues and the reporting process carried out during the year were presented to the Board of Directors.


In addition, sustainability management, through specific policies and procedures, and reporting in accordance with the Corporate Sustainability Reporting Directive are managed in synergy with Daikin. This is achieved through the sharing of activities carried out and coordination on the next steps to be taken.

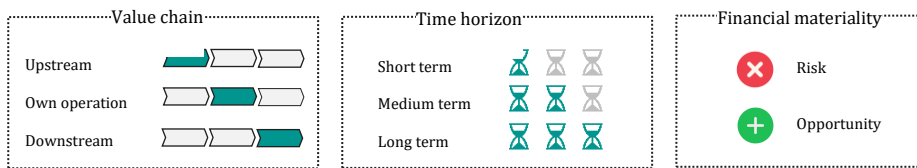
5.2 Ethical and transparent corporate culture

Following its acquisition by the Daikin Group in July 2022, Diplomatic has accelerated its transformation into a global company, progressively intensifying its efforts to integrate Daikin's culture and systems into all aspects of its business. The Group has aligned its business conduct processes with the parent company's guidelines, ensuring that every level of the organization operates in an ethical and transparent manner.

5.2.1 Impacts, risks, and opportunities related to business conduct

ESRS Topics and sub-topics	Impact materiality			Financial materiality
	Material impacts	Type	Time horizon / Value chain	Material risks and opportunities
G1 Business conduct: Corporate culture; Management of relationships with suppliers including payment practices; Corruption and bribery; Protection of whistle-blowers	Insufficient formalization of customer requirements for participating in tenders or accessing the supplier portfolio	Potential – Negative		<p>Diplomatic is committed to strengthening a Group-wide compliance framework that integrates existing governance and processes and facilitates the alignment of business practices with sustainability objectives, ensuring that every level of the organization works synergistically towards common goals.</p> <p>Sustainability management at the corporate level is of fundamental importance. Defining a clear ESG strategy integrated into the business model and implementing a systematic Enterprise Risk Management approach that considers ESG risks and s are critical elements for seizing opportunities for innovation and sustainable growth.</p> <p> Furthermore, employee recognition of the sustainability values and objectives promoted by the corporate culture are key elements in ensuring the effective implementation of sustainability actions. It is essential to ensure that all members of the organization understand and embrace the corporate culture, thus contributing to a more cohesive and committed work environment.</p> <p>Factors such as geopolitical crises, pandemics, climate change, and economic fluctuations can affect the availability and quality of raw materials and components needed for production. The lack of a business continuity plan that considers the instability and volatility of the supply chain represents a significant risk, especially in the context of supply sustainability.</p> <p>Diplomatic sees legal compliance as an opportunity to strengthen its medium- to long-term stability and enhance its reputation. Transparency in legal and financial matters is crucial not only for regulatory compliance but also for</p>
	Promotion of a culture of legality within the organization through employee training and awareness and collaboration between Group companies	Potential – Positive		
	Definition of governance and a strategy for monitoring sustainability issues	Current – Positive		
	Improvement of sustainability practices along the value chain through the integration of Daikin's ESG criteria in the selection and evaluation of suppliers	Potential – Positive		
	Establishment of strong and transparent relationships with suppliers	Current – Positive		
	Potential vulnerability of the system of procedures and internal controls for the prevention of fraud and corruption in business activities	Potential – Negative		
	Potential vulnerability of the system of procedures and controls for the prevention of fraud and corruption along the value chain	Potential – Negative		

<p>Creation of a more ethical and responsible working environment through the implementation of a whistleblowing policy</p>	<p>Potential - Positive</p>		<p>building and maintaining the trust of investors and business partners. A well-defined system of delegated responsibilities allows specific responsibilities to be assigned to individuals or teams within the organization, ensuring that every decision is documented and approved by the appropriate levels of management, thus creating a clear and verifiable audit trail.</p> <p>Duplomatic has fully adopted the organizational measures provided for by Legislative Decree 231/2001 and is committed to the process of adopting the control framework required by J-Sox regulations and the internal procedures established by the Daikin Group.</p>
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5.2.2 Policies on corporate culture and business conduct

ESRS G1-1

One of Duplomatic's fundamental commitments is to adopt Daikin's values and governance system, an objective that is achieved through a well-defined and detailed structure of policies and guidelines. The guidelines, the Code of Ethics, and the whistleblowing systems are three essential pillars of corporate governance and are constantly highlighted to employees.

Specific training is provided for all new employees, and the content of these policies is incorporated into regular training courses and internal newsletters.

Our Group Philosophy

The Group Philosophy reflects the fundamental ideas, beliefs, and guidelines for conduct that underpin the Group's Corporate Ethics. The Philosophy serves as a reference point for every member of the Group in their decision-making processes. Daikin's core values are:

- **Absolute credibility:** a commitment based on trust and a willingness to build relationships with customers, colleagues, business partners, and communities.
- **Enterprising management:** a commitment to building the company through the initiative and excellence of all employees.
- **Harmonious personal relationships:** a commitment to creating a workplace where everyone works together with dedication to achieve Daikin's goals and challenges.

These values translate into guidelines for conduct that form the basis of the codes of conduct defined by each Group company in accordance with regulatory requirements and the culture of the company. The guidelines for corporate conduct are based on 16 pillars:

1. Providing safe and high-quality products and services
2. Free competition and fair trade
3. Compliance with trade control laws
4. Respect and protection of intellectual property rights
5. Proper management and use of information
6. Prohibition of insider trading
7. Timely and appropriate disclosure of company information
8. Protection of the global environment
9. Ensuring the safety of operations
10. Respect for human rights and diversity and compliance with labor laws
11. Protection of company assets
12. Proper management of accounting procedures
13. Moderation in entertainment, gift-giving, and invitations
14. Maintaining a firm stance against antisocial activities
15. Relations with society
16. Compliance with all applicable laws and regulations

Compliance with the guidelines is essential to preserving the Group's image, thereby helping to promote corporate responsibility. Therefore, the guidelines of conduct represent an essential pillar for Duplomatic, to which every employee is required to commit in order to maintain high standards of ethics and integrity. These guidelines are shared with every new employee and are constantly referred to in internal communications. They apply not only to all employees and directors, but also to consultants, agents, and other representatives, and we encourage all business partners, including customers and suppliers, to act in accordance with Daikin's values.

Code of Ethics

The Code of Ethics is a fundamental component of the Organization, Management, and Control Model adopted by Duplomatic MS Spa pursuant to Italian Legislative Decree 231/01, clearly defining the set of values and responsibilities that Duplomatic MS Spa recognizes and shares.

In the course of its activities, Duplomatic undertakes to comply with the laws and regulations in force in the various countries in which it operates, always acting in accordance with the principles of loyalty, fairness, responsibility, freedom, and human dignity. The company promotes respect for diversity and condemns all forms of discrimination based on gender, race, language, personal and social conditions, as well as religious and political beliefs. To achieve these objectives, Duplomatic MS Spa is committed to creating a working environment characterized by respect, fairness, and collaboration.

All those who work for Duplomatic in any capacity are required to observe the values and principles contained in the Code in the performance of their duties. Anyone who becomes aware of facts that constitute or may constitute a violation of the Duplomatic MS Code of Ethics may contact the Supervisory Body anonymously or non-anonymously.

Whistleblowing

Diplomatic MS Spa has implemented the provisions of Italian Legislative Decree 24/2023 - in implementation of EU Directive 2019/1937. Therefore, anyone who becomes aware of facts that constitute or may constitute violations of national or EU regulations may make a confidential report (known as "whistleblowing") through a dedicated communication channel that will protect their identity.

Violations reported through the reporting system may concern conduct, acts, and omissions that may directly or indirectly cause economic/financial damage and/or damage to the company's image and consist of

- Administrative, accounting, civil, or criminal offenses
- Illegal conduct relevant pursuant to Legislative Decree 231/2001, i.e., violations of Model 231, the Code of Ethics, company and Group policies, as well as good practices, including commercial practices.
- Offenses falling within the scope of EU legislation.
- Acts or omissions that harm the dignity of persons and human rights.
- Acts or omissions that harm the financial interests of the European Union as referred to in Article 325 of the Treaty on the Functioning of the European Union (e.g., fraud and illegal activities);
- Acts or omissions affecting the internal market as referred to in Article 26(2) of the Treaty on the Functioning of the European Union (e.g., budget fraud and corrupt practices);
- Acts and conduct that undermine the purpose or objective of the provisions of European Union acts in the areas referred to in points 3), 4) and 5).

Reports submitted through the whistleblowing channel are handled directly by the Supervisory Body, appointed in accordance with Legislative Decree 231/01, which is external and independent.

This system is designed to ensure the confidentiality of the whistleblower and the persons involved, as well as the content of the report and related documentation. The identity of the whistleblower and any other information from which their identity may be inferred, even indirectly, may not be disclosed without their prior express consent to parties other than the Supervisory Body responsible for managing the reporting process who are expressly authorized to process such data in accordance with current legislation on the protection of personal data.

5.2.3 Prevention and detection of active and passive corruption

ESRS G1-3, G1-4

Regularly confirming the status of compliance and risk management efforts, sharing information, and making the Group's Code of Conduct a standard practice for everyone are fundamental objectives for Diplomatic. In this way, the Group aims to promote a corporate culture that encourages employees to ensure that, both personally and towards their colleagues, they always act in accordance with laws and regulations.

In terms of anti-corruption, Diplomatic adopts Daikin's guidelines and the directives of the Corporate Ethics and Risk Management Committee. These comply with the United Nations Convention against Corruption and the ten principles of the United Nations Global Compact, which the Group actively supports.

In particular, the company has developed and implemented a specific group policy to prevent corruption, which sets out detailed procedures for managing payments to public officials, in line with policies on entertainment, gifts, and invitations, as set out in Daikin's "Compliance Guidelines for the Prevention of Corruption of Public Officials." These guidelines establish standards and approval processes for interactions with public officials and other parties.

Daikin is committed to ensuring that these guidelines are known to all employees by organizing briefings for each division and company within the Group, as well as providing distance learning courses for all employees. For employees of Group divisions and companies who have frequent contact with public officials, members of the legal department conduct regular training sessions. In addition, Duplomatic has organized in-person training sessions for the first two levels of management on 231 and anti-corruption.

During the reporting period, there were no cases of active or passive corruption within the Duplomatic Group.

5.2.4 Management of supplier relations

ESRS G1-2, G1-6

Suppliers are considered key partners with whom the Group cultivates relationships of trust through open, fair, and supportive trade. Daikin has established solid governance for supply management. In particular, the purchasing managers of all Group companies share information and discuss progress and challenges related to supply chain management within the CSR Committee, chaired by the CSR officer. The decisions taken by the Committee are then communicated to the Group Board of Directors and shared with the individual companies.

In this context, the Green Procurement subcommittee promotes initiatives on human rights and the management of hazardous chemicals within the supply chain. In this way, Daikin and Duplomatic pursue the sustainability of their supply chain, taking into account not only environmental issues, but also the environment, quality, occupational safety, and human rights throughout their supply chain.

To achieve this goal, Duplomatic has initiated a process of engagement with suppliers, involving each partner in the adoption of the Group's Purchasing Policy. A standard supplier evaluation form has recently been introduced, which considers specific risks based on the region of origin, to analyze suppliers according to five criteria: corporate management, safety, environment, prices, and production. Suppliers are then re-evaluated periodically based on this assessment system. Companies that do not meet the assessment standards or present a high risk are required to submit improvement plans, which the Group actively supports in implementing.

The assessment program described above is currently being implemented, giving Duplomatic the opportunity to collect and analyze the results over the next fiscal year.

Payment practices

Suppliers are considered key stakeholders for Duplomatic, and a solid relationship with them is essential to the company's success. The Group believes in mutual cooperation and building strong, lasting relationships based on fairness and transparency.

As with employees, economic aspects are crucial in this equation, and Duplomatic is committed to ensuring that every supplier is paid on time. To ensure this commitment is met, each of Duplomatic's companies has implemented a process to strengthen collaboration between the finance, accounting, and purchasing teams. This process involves constantly reviewing agreements and supplier invoices, working with all parties involved to proactively resolve any disputes, with the aim of ensuring timely payments.

Payment execution to suppliers relative to the nominal invoice due date	2024
Percentage of payments made on the invoice due date	88%
Percentage of payments made within 30 days of the invoice due date	8%
Percentage of payments made more than 30 days after the invoice due date	4%

During 2024, no disputes or proceedings were brought by suppliers in relation to non-payments.

5.3 European Taxonomy

In line with the objectives of the United Nations 2030 Agenda and with the aim of achieving climate neutrality by 2050, the European Union has developed a series of strategies and initiatives designed to steer capital flows towards investments in sustainable activities and assets.

European institutions have introduced the European Taxonomy through Regulation (EU) 2020/852, which provides standardized criteria for identifying sustainable economic activities, thereby promoting transparency and comparability of economic activities for financial institutions and investors.

In particular, the European Taxonomy represents a unified classification system for economic activities. For an activity to be defined as environmentally sustainable, it must contribute to the achievement of one or more of the following six environmental objectives: 1- Climate change mitigation; 2 - Climate change adaptation; 3 - Sustainable use and protection of water and marine resources; 4 - Transition to a circular economy; 5 - Prevention and reduction of pollution; 6 - Protection and restoration of biodiversity and ecosystems.

The European Taxonomy classifies activities into two levels:

- Eligible: An economic activity is considered eligible if it is compatible with the activities described in the Delegated Act on Climate and the Delegated Act on the Environment;
- Aligned: An economic activity is considered aligned with the Taxonomy if, in addition to being eligible, it meets the technical screening criteria and minimum safeguards. In particular, the activity must:
 - Contribute substantially to the achievement of at least one of the six environmental objectives.
 - Comply with the "Do No Significant Harm" (DNSH) principle, ensuring that the activity does not cause significant harm to any of the environmental objectives to which it does not contribute substantially.

- Ensure compliance with minimum safeguards, which guarantee that the procedures adopted by a company in carrying out its economic activity comply with the OECD Guidelines, the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the ILO Declaration and the International Bill of Human Rights.

If an activity meets the requirements to be considered eligible and aligned with the European Taxonomy, it can qualify as environmentally sustainable. Following this identification, the Regulation requires reporting of the percentage of revenue, CapEx, and OpEx associated with the environmentally sustainable activity.

During 2024, Diplomatic carried out a screening of its activities to assess their eligibility under the regulation. The screening identified the specific business activities that contribute to objective 1, "Climate change mitigation." Considering recent regulatory updates and the initial status of its activities, the Group has decided to continue working to determine which activities can be classified as aligned with the European Taxonomy and to calculate the KPIs required by the Regulation.

6. Appendix

6.1 ESRS Content Index

ESRS Standard	Topic	Disclosure requirement		Reference paragraph	
ESRS 2	General disclosures	BP-1	Basis for preparation	General basis for preparation of sustainability statements	6.1 Methodological note
ESRS 2		BP-2	Basis for preparation	Disclosures in relation to specific circumstances	6.1 Methodological note
ESRS 2		GOV-1	Governance	The role of the administrative, management, and supervisory bodies	5.1 Governance structure - <i>Role of governing bodies</i>
ESRS 2		GOV-2	Governance	Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies	5.1 Governance structure - <i>Information provided to the governing bodies on sustainability matters</i>
ESRS 2		SBM-1	Strategy	Strategy, business model, and value chain	1.1 Who is Diplomatic MS; 1.4 Innovating to grow
ESRS 2		SBM-2	Strategy	Interests and views of stakeholders	4.1 Workforce management and development - <i>Workforce engagement</i> ; 4.2 Responsibility in the value chain - <i>Supply chain management</i> ; 4.3 Customer care - <i>Quality culture</i>
ESRS 2		SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	3.1 Climate change - <i>Impacts, risks and opportunities related to climate change</i> ; 4.1 Workforce management and

					development - <i>Impacts, risks and opportunities related to the workforce</i> ; 4.2 Responsibility in the value chain - <i>Impacts, risks and opportunities related to workers in the value chain</i> ; 4.4 Shared growth with communities - <i>Impacts, risks and opportunities related to affected communities</i> ; 4.3 Customer care - <i>Risks and opportunities related to consumers and end users</i>
ESRS 2		IRO-1	Impact, risk, and opportunity management	Description of the processes to identify and assess material impacts, risks, and opportunities	2.1 Double materiality analysis
ESRS 2		IRO-2	Impact, risk, and opportunity management	Disclosure requirements in ESRS covered by the undertaking's sustainability statement	2.1 Double materiality analysis
ESRS 2		MDR-P	Impact, risk, and opportunity management	Policies adopted to manage material sustainability matters	3.1 Climate change - <i>Response to climate change</i> ; 3.2 Pollution - <i>Pollution prevention</i> ; 3.3 Resource use and circular economy - <i>Circular economy and waste management</i> ; 4.1 Workforce management and development - <i>Workforce policies and procedures</i> ; 4.2 Value chain responsibility - <i>Supply chain management</i> ; 4.3 Customer care - <i>Quality culture</i> ; 5.2 Ethical and transparent corporate culture - <i>Policies on corporate culture and business conduct</i>
ESRS 2		MDR-A	Impact, risk, and opportunity management	Actions and resources in relation to material sustainability matters	3.1 Climate change - <i>Response to climate change</i> ; 4.1 Workforce management and development - <i>Workforce impacts, risks, and opportunities</i> ; 4.2 Value chain responsibility - <i>Supply chain management</i> ; 4.4 Shared growth with communities - <i>Community investment</i> ; 4.3 Customer care - <i>Quality culture</i>
ESRS 2		MDR-M	Impact, risk, and opportunity management	Metrics in relation to material sustainability matters	3.1 Climate change - <i>Energy consumption and emissions</i> ; 3.3 Resource use and circular economy - <i>Circular economy and waste management</i> ; 4.1 Workforce management and development - <i>Workforce structure</i> ; 5.2 Ethical and transparent business culture - <i>Prevention and detection of active and passive corruption</i> - <i>Supplier relationship management</i>
ESRS 2		MDR-T	Impact, risk, and opportunity management	Tracking effectiveness of policies and actions through targets	3.1 Climate change - <i>Energy consumption and emissions</i>
Environmental					
ESRS E1	Climate change	E1-1	Strategy	Transition plan for climate change mitigation	3.1 Climate change - <i>Response to climate change</i>
ESRS E1		SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	3.1 Climate change - <i>Impacts, risks and opportunities related to climate change</i>

ESRS E1		IRO-1	Impact, risk and opportunity management	Description of the processes to identify and assess material climate-related impacts, risks and opportunities	2.1 Double materiality analysis
ESRS E1		E1-2	Impact, risk, and opportunity management	Policies related to climate change mitigation and adaptation	3.1 Climate change - <i>Response to climate change</i>
ESRS E1		E1-3	Impact, risk, and opportunity management	Actions and resources in relation to climate change policies	3.1 Climate change - <i>Response to climate change</i>
ESRS E1		E1-4	Metrics and targets	Targets related to climate change mitigation and adaptation	3.1 Climate change - <i>Energy consumption and emissions</i>
ESRS E1		E1-5	Metrics and targets	Energy consumption and mix	3.1 Climate change - <i>Energy consumption and emissions</i>
ESRS E1		E1-6	Metrics and targets	Gross Scopes 1, 2, 3 and Total GHG emissions	3.1 Climate change - <i>Energy consumption and emissions</i>
ESRS E2		Pollution	IRO-1	Impact, risk and opportunity management	Description of the processes to identify and assess material pollution-related impacts, risks and opportunities
ESRS E2	E2-1		Impact, risk, and opportunity management	Policies related to pollution	3.2 Pollution - <i>Pollution prevention</i>
ESRS E5	Resource use and circular economy	IRO-1	Impact, risk, and opportunity management	Description of the processes to identify and assess material resource use and circular economy-related impacts, risks, and opportunities	2.1 Double materiality analysis
ESRS E5		E5-1	Impact, risk, and opportunity management	Policies related to resource use and circular economy	3.3 Resource use and circular economy - <i>Circular economy and waste management</i>
ESRS E5		E5	Metrics and targets	Resource outflows	3.3 Resource use and circular economy - <i>Circular economy and waste management</i>
Social					
ESRS S1	Own workforce	SBM-2	Strategy	Interests and views of stakeholders	4.1 Workforce management and development - <i>Workforce engagement</i>
ESRS S1		SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	4.1 Workforce management and development - <i>Impacts, risks, and opportunities related to the workforce</i>
ESRS S1		S1	Impacts, risks, and opportunities management	Policies related to own workforce	4.1 Workforce management and development - <i>Policies and procedures related to the workforce</i>
ESRS S1		S1	Impacts, risks, and opportunities management	Processes for engaging with own workers and workers' representatives about impacts	4.1 Workforce management and development - <i>Workforce engagement</i>
ESRS S1		S1	Impacts, risks, and opportunities management	Processes to remediate negative impacts and channels for own workers to raise concerns	4.1 Workforce management and development - <i>Workforce policies and procedures</i>
ESRS S1		S1	Impacts, risks, and opportunities management	Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions	4.1 Workforce management and development - <i>Impacts, risks, and opportunities related to the workforce</i>
ESRS S1		S1	Metrics and targets	Characteristics of the undertaking's employees	4.1 Workforce management and development - <i>Workforce structure</i>

ESRS S1		S1-7	Metrics and targets	Characteristics of non-employee workers in the undertaking's own workforce	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S1		S1-8	Metrics and targets	Collective bargaining coverage and social dialogue	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S1		S1-9	Metrics and targets	Diversity metrics	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S1		S1-13	Metrics and targets	Training and skills development metrics	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S1		S1-14	Metrics and targets	Health and safety metrics	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S1		S1-15	Metrics and targets	Work-life balance metrics	4.1 Workforce management and development - <i>Workforce structure</i>
ESRS S2	Workers in the value chain	SBM-2	Strategy	Interests and views of stakeholders	4.2 Responsibility in the value chain - <i>Supply chain management</i>
ESRS S2		SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	4.2 Responsibility in the value chain - <i>Impacts, risks, and opportunities related to workers in the value chain</i>
ESRS S2		S2	Impact, risk and opportunity management	Policies related to value chain workers	4.2 Responsibility in the value chain - <i>Supply chain management</i>
ESRS S2		S2-2	Impact, risk, and opportunity management	Processes for engaging with value chain workers about impacts	4.2 Value chain responsibility - <i>Supply chain management</i>
ESRS S2		S2	Impact, risk, and opportunity management	Processes to remediate negative impacts and channels for value chain workers to raise concerns	4.2 Responsibility in the value chain - <i>Supply chain management</i>
ESRS S2		S2-4	Impact, risk, and opportunity management	Taking action on material impacts on value chain workers, and approaches to managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions	4.2 Value chain responsibility - <i>Supply chain management</i>
ESRS S3	Affected communities	SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	4.4 Shared growth with communities - <i>Impacts, risks and opportunities related to affected communities</i>
ESRS S3		S3	Impact, risk and opportunity management	Processes for engaging with affected communities about impacts	4.4 Shared growth with communities - <i>Investments in communities</i>
ESRS S3		S3-4	Impact, risk, and opportunity management	Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions	4.4 Shared growth with communities - <i>Investments in communities</i>
ESRS S4	Consumers and end-users	SBM-2	Strategy	Interests and views of stakeholders	4.3 Customer care - <i>Quality culture</i>
ESRS S4		SBM-3	Strategy	Material impacts, risks, and opportunities and their interaction with strategy and business model	4.3 Customer care - <i>Impacts, risks and opportunities related to consumers and end users</i>
ESRS S4		S4	Impact, risk and opportunity management	Policies related to consumers and end-users	4.3 Customer care - <i>Quality culture</i>
ESRS S4		S4-2	Impact, risk, and opportunity management	Processes for engaging with consumers and end-users about impacts	4.3 Customer care - <i>Quality culture</i>

ESRS S4		S4-3	Impact, risk, and opportunity management	Processes to remediate negative impacts and channels for consumers and end-users to raise concerns	4.3 Customer care - <i>Quality culture</i>
ESRS S4		S4	Impact, risk, and opportunity management	Taking action on material impacts on consumers and end-users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions	4.3 Customer care - <i>Quality culture</i>
Governance					
ESRS G1	Business conduct	GOV-1	Governance	The role of the administrative, supervisory, and management bodies	5.1 Governance structure - <i>Role of the governing bodies</i>
ESRS G1		IRO-1	Impact, risk, and opportunity management	Description of the processes to identify and assess material impacts, risks, and opportunities	2.1 Double materiality analysis
ESRS G1		G1-1	Impact, risk, and opportunity management	Corporate culture and business conduct policies and corporate culture	5.2 Ethical and transparent corporate culture - <i>Policies on corporate culture and business conduct</i>
ESRS G1		G1-2	Impact, risk, and opportunity management	Management of relationships with suppliers	5.2 Ethical and transparent corporate culture - <i>Management of relationships with suppliers</i>
ESRS G1		G1-3	Impact, risk, and opportunity management	Prevention and detection of corruption and bribery	5.2 Ethical and transparent corporate culture - <i>Prevention and detection of active and passive corruption</i>
ESRS G1		G1-4	Metrics and targets	Confirmed incidents of corruption or bribery	5.2 Ethical and transparent corporate culture - <i>Prevention and detection of active and passive corruption</i>
ESRS G1		G1-6	Metrics and targets	Payment practices	5.2 Ethical and transparent corporate culture - <i>Management of supplier relations</i>

6.2 Methodological note

This Sustainability Report (hereinafter referred to as the "document" or "report") aims to communicate in a clear, transparent, and comprehensive manner the economic, environmental, and social performance of Diplomatic Motion Solutions S.p.A. (hereinafter referred to as "Diplomatic" or "the Company") for the year from January 1, 2024, to December 31, 2024.

In order to allow for a comparison of data over time and an assessment of Diplomatic's performance, comparative data for a previous financial year are presented.

The companies belonging to the Group excluded for this period are as follows: Diplomatic Hydraulics Shangai, Continental Hydraulics, Hydreco Hydraulics, Hydreco Italia Srl, Hydreco Srl, Hydreco India Ltd, Hydreco NorwayA/S, Hydreco Pty Ltd, Hydreco Hydraulics Germany.

They will be included next year in anticipation of future regulatory requirements.

Since the Diplomatic Group became part of the Daikin Group in 2022, some procedures and methods for managing its impacts, risks, and opportunities derive from Daikin's procedural framework. With regard to sustainability objectives, it should be noted that the Diplomatic Group does not currently have any, but it supports the objectives shared by Daikin.

This document has been prepared in accordance with the ESRS (European Sustainability Reporting Standards) developed by EFRAG (European Financial Reporting Advisory), which provide guidelines for reporting an organization's economic, environmental, and social performance. The aim is to ensure transparency of performance and facilitate the comparability of the data presented.

The reporting has been guided by the principles of materiality, completeness, balance, comparability, accuracy, timeliness, and clarity, as defined in the ESRS standards. Measures have been implemented to ensure that the information provided is reliable, verifiable, and relevant to stakeholders.

The sustainability indicators included in the document have been selected based on the disclosure requirements established by the ESRS, as required by the European CSRD Directive, implemented in Italy by Legislative Decree 125 of September 6, 2024. The chapters are therefore organized according to the ESRS, with details on the indicators reported and references to the location of the information within the document.

Any use of estimates for some of the quantitative information is directly referenced in the various paragraphs of this document, in the comments on the data presented.

Chapters 3, 4, and 5, divided according to environmental, social, and governance dimensions, present information on the various topics and sub-topics defined by the ESRS, which are relevant results of the materiality analysis. For each topic, the associated impacts, risks, and opportunities (IROs) are reported. The IROs are organized in tabular form, highlighting on the one hand the significant impacts based on Impact materiality, with details on the type, time horizon (short, medium or long term) and positioning of the impact in the value chain (upstream, core business or downstream). On the other hand, the relevant risks and opportunities are analyzed according to Financial materiality.

This document has been prepared with the technical and methodological assistance of Marsh Advisory.

This sustainability report has not been subject to independent external verification. However, appropriate measures have been taken to ensure the accuracy and reliability of the information presented.

For further details regarding the information contained in this document, please contact the dedicated team at sustainability@diplomatic.com.