



Materiality Assessment

Findings and Recommendations

January 2023

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The following draft report has been written by Sustainable Advantage following interaction with key contacts in the organisation, along with data gathering from TVS Interfleet Board Directors and key clients chosen by the company. Data gathering took place between the July and November 2022.



About TVS Interfleet

TVS Interfleet provides an integrated approach to delivering the specialised fleet bodybuilding services that its customers require. To do so, it has brought together four specialist organisations who work together to reduce complexity and risk for the customer, while increasing the opportunities for innovation and efficiency, and providing long-term support to keep their fleet operational.

The goal of the TVS Group is to enable the growth and commercial development of high-end, specialist manufacturing firms that deliver solutions for the commercial and industrial vehicle industry.

To achieve this goal, TVS Interfleet is deeply reliant on its slate of over 500 suppliers. The company uses 2 Enterprise Resource Management systems to manage the timely delivery of supplies. Supply chain issues are not unknown, and while Tier 1 suppliers are located in the UK, parts are

not necessarily produced here. McPhee Mixers have some Tier 1 suppliers located in Italy and have recently replaced a supplier in China for a UK based supplier due to shipping delays.

TVS's key customers span 6 distinct industries:

- retail
- parcel delivery
- OEMs
- construction and building materials
- logistic and transportation solution
- operational fleet
- management

They are typically large organisations and dominant players in their field. Most have well developed ESG strategies, with a primary focus on both environmental issues and the stability of their supply chain. There are significant plans to move to electric fleet at some point in the near to medium future (usually between 2025 and 2040). Some are looking to require their suppliers to act to reduce their carbon footprint.

Understanding what sustainability factors are important to its key customers, will enable TVS to forge stronger links with them by anticipating and delivering on ESG issues that are of importance to them.



ESG Materiality and why it matters

To all enterprises, what is material is what matters.

Materiality has traditionally been a **financial** risk-management tool: what is material is what can substantially benefit our financial performance, as well as what can substantially harm it. Within this traditional framework, materiality has assessed the financial impact of our actions, our plans, as well as the economic political and physical environment within which we operate. The purpose of such an analysis has been to identify those major factors which might support or derail our success, and to carve out a path which will maximise the positive while minimising any negative consequences that might arise.

While financial factors remain a dominant concern, there has been a growing realisation that a company's long-term success also depends on Environmental, Social and Governance (ESG) factors. We have been assessing our long-term resilience to environmental, social, and governance issues and this has led us to focus on ESG Materiality as a way to identify a broad range of factors that will contribute to our overall success.



ESG Materiality and why it matters

Rationale for ESG Materiality

An ESG Materiality assessment focuses on the ESG issues that confront business. It helps us connect our purpose to our ESG actions/goals, and it creates a 'bridge' that helps us fully understand how our ESG actions will impact on our long-term success.

Material issues are those which affect our performance as an organisation. They do so by having an impact on the efficiency and effectiveness of our operations. But our performance will also be impacted by our customers' needs and attitudes, and our ESG performance will significantly influence our ability to attract and retain employees, customers, and suppliers. And ultimately, our ESG performance will have an impact on our reputation and licence to operate.

It's important that we identify, understand and respond to the ESG factors that matter most to our stakeholders and our business. By focusing on these key priorities we can concentrate resources on activities where we can have the greatest impact and create the most value. Prioritising ESG factors will also guide our reporting strategy, helping us set and report on the metrics and targets we use to measure our performance in these areas.

Rationale for ESG Materiality

While the focus historically has been on meeting the needs of just one stakeholder group (the shareholder), at TVS we fully embrace the principle that businesses need to serve the interests of multiple stakeholder groups to achieve the outcomes that they seek.

We understand that our success very much depends on meeting the needs and expectations of our stakeholders. This is why we have focused on understanding the factors that all parties feel matter the most. By focusing on these key priorities, we can concentrate resources on activities where we can have the greatest impact and create the most value.

Prioritising ESG factors also guides our reporting strategy, helping us set and report on the metrics and targets we use to measure our performance in these areas.

We believe in the principles of improving the lives of our customers, our colleagues, and the communities in which they reside through our business actions and activities. We recognise that the relationships we have with the communities we and our supply chain work are crucial both to our business and the future prosperity, growth and sustainability of those communities. In short, their success will be our success. In undertaking this materiality assessment, we are putting these commitments to the test by asking our customers if they give the same importance to these factors as we do.



Whose voice matters?

Materiality is a key measure of what is important for us to pay attention to. But different audiences view materiality differently, and there is a growing need to understand, reconcile, and navigate the views of these different constituents. These stakeholders might include customers, suppliers, our employees, the community, government regulatory bodies and so forth.





We recognise that our stakeholders may have different priorities and we need to take this into account when setting the company's direction. While all viewpoints are valuable, for the purposes of this analysis we reviewed our stakeholder map and identified that we should focus first on our key customers, to identify if their concerns match those of the Board.





Defining the key ESG Materiality issues

In 2022, TVS reviewed a broad range of ESG factors, all of which can potentially have a bearing on the company’s overall success. In consultation with our ESG consultant Sustainable Advantage, we’ve identified 4 major dimensions which most closely align with our purpose, and which may be considered most important and relevant to our future success:

-  The Planet
-  Our People
-  The Community, Suppliers & Customers
-  Governance


Within each of these dimensions, we identified key indicators which would capture the major features of each dimension.

Having established this core set of 25 key ESG issues, TVS reached out to its key customers to understand how important these issues were to them, and to see if a consistent world view emerged as a result.

To do this we compared customers’ view with that of the Board itself, by asking both groups to rate the importance of each factor on a sliding scale from “very little importance” (0) to “Essential/ of great importance” (100).

Key features of each dimension:

| The Planet  |
|--|
| Energy |
| Water |
| Waste |
| Pollution |
| Net Zero |
| Climate Change |

| The Community, Suppliers & Customers  |
|--|
| Customer Satisfaction |
| Community Engagement |
| Sustainable Products and Services |
| Supplier Diversity |
| Supply Chain ESG |
| Supply Chain Human Rights |
| Supply chain traceability |

| Our People  |
|--|
| Employee Engagement |
| Diversity, Equity & Inclusion |
| Health, Safety and Wellbeing |
| Pay |
| Skills development |
| Talent |

| Governance  |
|--|
| Ethics in Business |
| Human Rights Modern Slavery |
| Bribery & Corruption |
| ESG Risk Management |
| Digital Security |
| ESG in business practice |



What we found

Six Board members responded and in addition, TVS received 6 responses from customers. While this is quite a small data set, it does capture the views of a number of the company's major customers, and provides a revealing insight for TVS to work with.

Overview: Validating the importance of the 25 ESG measures

Our key finding is that there is significant overlap in interests and concerns between Board members and their customers, confirming that these 25 measures capture ESG issues which both parties consider to be important to TVS's business success.

There were, however, some notable exceptions:

- The Board consistently rates "people" issues more highly than its customers do
- There is more agreement between the parties on the impact of environmental issues on the company, although again the Board rates these more highly than customers do
- The picture is somewhat reversed when considering customers, the community and suppliers. Customers assign greater importance on average to these issues than board members do
- Likewise, customers are consistently assigning more importance to governance issues than the Board

A more detailed assessment of these differences is given in the following sections.



What we found

The Materiality Matrix

A traditional Materiality Matrix maps the directors' assessment of each ESG measure (on the horizontal axis) against the ratings made by customers (on the vertical axis). The Matrix for TVS is pictured below; it maps the relative importance of each of the 25 measures. The general upwards diagonal trend in the chart confirms our observation that Directors are generally in alignment with customers as to the relative importance of each of the measures.

However, while it shows these overall trends, a Matrix which includes all 25 measures does not provide a very clear picture at the detailed level; many of the most important measures are clustered so closely together that they cannot easily be identified from one another. To provide a clearer picture of the ratings, our Findings section below reports separately on the responses within each quadrant: Planet, People, Community, Customers & Suppliers, and Governance.

Comparing views of TVS customers vs TVS Board on the importance of key ESG factors

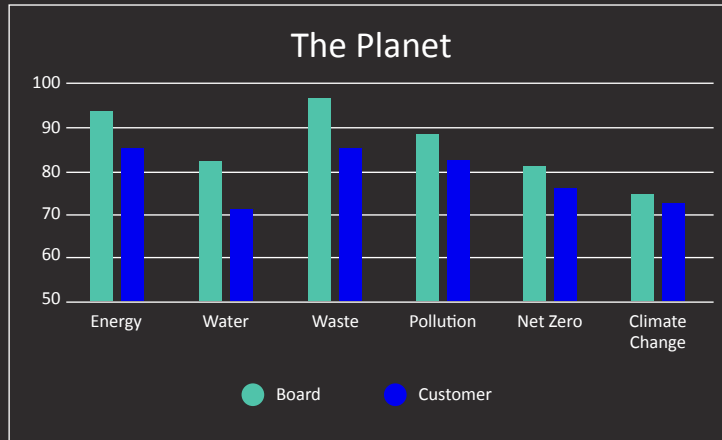




A more detailed view of the 4 quadrants



Environmental factors



In its 2022 ESG Review, the company identified a number of gaps in the management of key environmental issues. Specifically, the report recommended that much greater attention be given to energy tracking, management and reduction, with a similar focus on water and waste management, and this is now underway.

For energy, this includes a focus on identifying opportunities for renewable energy, auditing current usage, raising awareness, identifying areas where consumption can be reduced, and implementing these reductions.

TVS has also focused on tracking and reducing its waste, raising awareness and setting targets for recycling. The company also recognises the importance of air and water pollution in its operations, and has identified measures which reduces waste streams which cause pollution.

This emphasis on the environment is reflected in the high level of importance that directors are now attaching to the 6 key environmental factors in their Materiality Assessment.

In each case, directors have attached greater importance to the environmental issue than their customers have done. This is particularly true of energy, water and waste. So, for instance, while Directors rated the importance of energy and waste management in the 94-96% range, customers gave these issues a significantly lower weighting of 85%.

This suggests that Directors are ahead in their thinking about these issue; having raised the bar for themselves, there may be value in highlighting the importance of these issues with its stakeholders, and with customers in particular. This is an opportunity not just for communication, but education and developing shared values on ESG matters with the company's key customers.

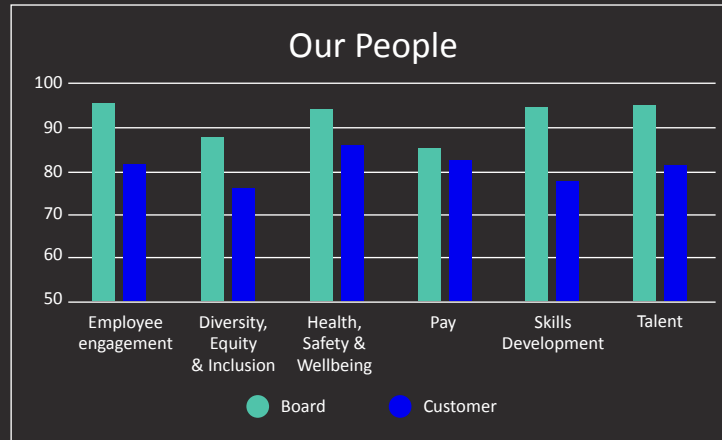
The company's use of energy and resources, and its disposal of waste, has an impact on the environment and eventually impacts on climate change, as does its plans to achieve Net Zero. Customers are one step removed from these environmental issues, and it will help build TVS's credibility if they can share their experience and their progress with customers. Additionally, as ESG standards are introduced into the management of supply chains, the importance of these environmental issues will shoot up for both TVS and for its customers.



A more detailed view of the 4 quadrants



ESG people measures



As may be expected from a service-focused business, there is a strong focus within the TVS Board on the people providing this service, with an understanding that their skills, talent, and wellbeing are all critical to the company's success.

The company scored highly on all 6 measures with an average importance rating of 93. TVS recognises that effective workforce management is essential to ensuring productivity and innovation, and these scores reflect the attention to a number of initiatives;

- Developing the company's people management skills
- Building career plans and developing technical skills
- Focusing on employee wellbeing
- Designing increased feedback channels through engagement surveys
- Mapping out all salaries to develop a pay scale or framework for the company

- Ensuring fair and equitable pay
- Implementing a DE&I policy and strategy
- Embedding HR systems and processes to support recruitment, retention and development of key talent within the organisation

Understandably, perhaps, customers assigned less importance to each of these factors, reflecting the fact that they are not directly impacted by issues related to the day-to-day management of the workforce; they are more focused on the delivery of the products and services, and less focused on the individuals delivering them. This was evident across the full range of people issues. On average Customers scored people issues approximately 81 out of 100, and DE&I issues scored lowest at just 76.

It is clear that TVS's people issues are unlikely to be a top-of-mind topic for customers, even though it is of vital importance to the company.

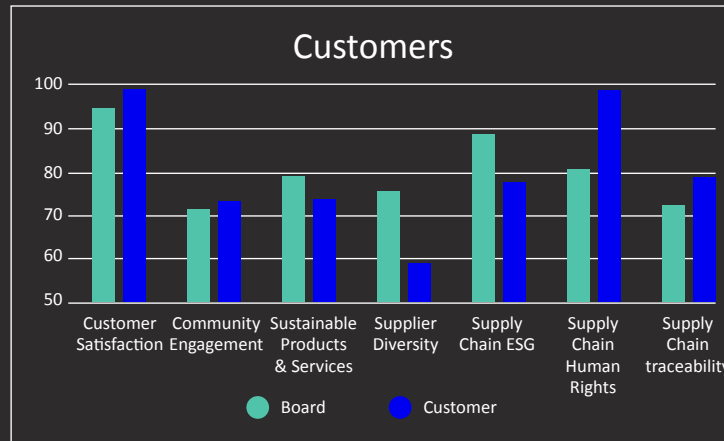
On the issue of People Management and its importance to the success of the business, the Board once again appears to be out ahead of its customers. TVS can address this by increasing its attention to Stakeholder communications, to help customers see the link between these ESG issues, and TVS's strength, its stability, and its ability to reliably deliver the services that customers require.



A more detailed view of the 4 quadrants



Community, Suppliers & Customers



Most of TVS's key customers have well developed ESG strategies, with a primary focus on environmental issues, including intentions to move to electrification of their vehicles in the short to medium term. Many are also focused on supply chain issues, and are looking to their suppliers to support their own Net Zero ambitions, by requiring them to reduce carbon emissions (which would serve to reduce the client's own Scope 3 emissions).

It speaks volumes of TVS' culture and its intense focus on the customer, that customer satisfaction tops the list for both the Board and its customers. Given the complexity of its products and services, a laser focus on customer satisfaction is essential for the company's success.

More surprising is the focus on human rights in the supply chain, with almost every supplier giving this the maximum score possible. There has been a significant increase in focus on this issue both during and after Covid-19, and it is clear from these results that this focus has not waned. It would be useful for TVS to investigate this further to understand exactly what is placing this issue at the top of their clients' lists, and to understand if it is a general concern or one which is particularly aimed at TVS's own practices.

Although all of TVS's Tier 1 suppliers are UK-based, many of the components they use are sourced from Italy or China. There may be value in developing closer relationships with the company's suppliers to have a greater understanding of their workforce practices and ensure there is no forced labour. It will also help to improve traceability of the components; it's noted that clients have also given traceability a higher rating than the Board has done.

This may indicate a need for TVS to place a greater priority on the company's interaction and assessment of its Supply Chain, and taking a more active role in ensuring its values are reflected in the suppliers it deals with, and looking further into Tier 2 and Tier 3 suppliers, in addition to its direct suppliers.



A more detailed view of the 4 quadrants



Community, suppliers and customers (continued)

Given the close attention paid to human rights in the supply chain, it is perhaps surprising that customers are not as focused on the overall ESG performance of TVS's suppliers, and supply chain traceability, and that they have limited interest in the diversity of their supply chain. Nevertheless, the overall level of interest in supplier ESG issues is still high and TVS should be able to demonstrate to customers its ESG commitments across all areas of supply chain management.

There is moderate level of interest in TVS selecting and using sustainable products and services, with Board members recognising the importance more than customers do. TVS can take a lead on this issue, and demonstrate to customers their commitment to sustainable sourcing of products and services, while recognising that this may be secondary in the customer's eyes when compared to issues of technical expertise, reliability, and continuous service. This message will have greater impact if TVS can demonstrate a link between greater sustainability and other outcomes the customer is looking for, such as longevity of the product and stability of supply, for instance.

Being able to demonstrate the sustainability of its products and services is particularly important for TVS. As customers begin to engage more deeply with ESG and Net Zero matters, they will expect their suppliers to provide meaningful information on the carbon footprint and sustainability of their supply chain. TVS will be in a strong position with its clients if it is able to supply this information at will.

There is good agreement between the Board and its customers on issues of community engagement, which is moderate. TVS has historically managed community engagement activities within its HR function; while a more strategic approach may be useful for the future, the company is focusing on other strategic matters, and there doesn't appear to be any external pressure to pay closer attention at this stage.

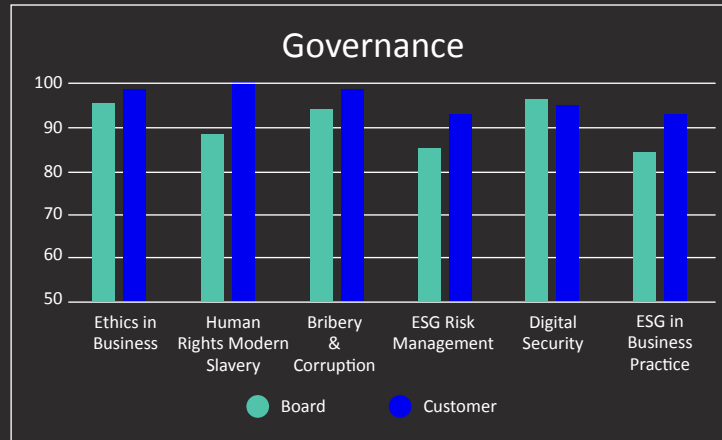
Ultimately, the majority of the findings in this section point to an emphasis on transparency – from human rights to supply chain traceability, for example. It's reassuring that customers place such critical elements in high regard and by focusing on these areas, TVS can begin to demonstrate how it will meet these expectations.



A more detailed view of the 4 quadrants



Governance



In most instances there is very close alignment between the Board and its customers, on critical governance issues like ethical business practices, anti-bribery & corruption, and human rights & modern slavery – the bedrock of an ethical business.

This is clearly an area of intense interest for TVS's customers, and they attributed greater importance to most governance factors in contributing to TVS's business success. While all areas were rated highly by all respondents, Customers were particularly focused on ethical business systems and

practices, specifically as they related to protecting human rights, preventing modern slavery, and the elimination of bribery and corruption.

Customers also place greater emphasis on ESG risk management, and the integration of ESG into day-to-day business practices. It would be useful for TVS to explore this more fully, as the lack of awareness of ESG factors in everyday operations can pose a significant risk to the success of any organisation. There are many aspects of the company's design and build process which are exposed to significant environmental risk, (as well as social and governance risks), and it's possible that the company's customers are looking for increased reassurance that these risks are being well managed across their supply chain, including TVS.

Digital security is absolutely critical to TVS's operational and commercial success, and reassuringly this is reflected in the results: both parties have a keen interest in ensuring data security, data privacy and cyber security.



At a glance: Where directors and customers agree and where they diverge

When looking at the overall importance of each area of ESG, we compared Directors' views with those of Customers. While there was general concordance between the parties that each of the 25 factors is important to the success of TVS's business, there were some significant differences in the degree of importance attached to many of the items.





Gaps

While celebrating the high agreement observed between the Board and its customers, it is important to acknowledge areas where there are differences, and explore whether this is uncovering areas for TVS to work on in terms of its ESG objectives, or areas for improving communication with its customers, to showcase the work that the company is doing to embed its ESG credentials.

The most immediate areas for attention are:

- Communicating the ESG journey that TVS is on, with its increased focus on environmental issues such as energy consumption, water utilisation, waste management and pollution control.
- Promoting the people side of ESG, demonstrating the relationship between the way the company supports its workforce, and long-term business success
- Understanding the intense focus on Human Rights issues within the supply chain and supply chain traceability
- Examining the intense focus that customers are placing on corporate governance issues

These investigations may help the company to understand what is expected of them, and may lead to changes in company practices to better align with these expectations. It may also suggest ways in which TVS can better communicate its ESG practices and achievements in this area.

| Dimension | High Agreement | Directors More Concerned | Customers More Concerned |
|---|--|--|---|
|  The Planet | Climate Change, Net Zero | Energy, Water, Waste, pollution | None |
|  People | Pay | Employee Engagement; Skills Development; DE&I; Talent; Health, Safety & Wellbeing; | None |
|  Community and Suppliers | Customer Satisfaction; Community Engagement | Sustainable Products & Services; Supply Chain ESG; Supplier Diversity | Supply Chain Human Rights; Supply Chain Traceability |
|  Governance | Ethics in Business; Digital Security; ESG in business practice | | Anti-bribery & Corruption; ESG in business practice; ESG Risk Management; Human Rights & Modern Slavery |



Conclusions on materiality

This materiality analysis has provided important information on customer expectations, which can be used as a benchmark to assess the Board's current strategy. It also offers an insight into which ESG issues may need additional attention, so that they better align with our values when it comes to sustainability.

The Materiality assessment confirms the importance not just of environmental factors, but also governance and compliance, risk management, people management, stakeholder engagement and proactive communications, all of which form the basis of our sustainability framework.

It's evident from the results of this materiality assessment that the views of the customer do generally align with TVS' Values and Vision. While Directors and Customers recognised the importance of all the ESG priorities, they gave greater prominence to a small number of key ESG issues:

The Planet

Energy, water, waste and pollution are clearly uppermost in Directors' minds.

People

TVS is highly focused on those ESG factors which impact on employees, customers much less so.

Customers & Suppliers

Both customers and Directors recognise that Customer Satisfaction is crucial to the company's success. There is significant work needed to explore the issues surrounding TVS' oversight of its supply chain in terms of human rights management and traceability.

Governance

The importance of these factors is well understood by both parties to be of critical importance. TVS should remain alert to the fact that its customers assign even greater importance to almost all governance issues, to ensure they are responsive to customers' requirements for ESG governance, especially the areas of ESG risk management and ESG business practice integration. Directors' minds.



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