

Registered in England and Wales
Company Registration No: 3899848

DIPLOMA DELIVERS

DIPLOMA PLC

Annual Report 2022

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CONTENTS

Strategic Report

- 02 Diploma at a Glance
- 04 Highlights
- 06 What we do
- 14 Our Business Model
- 16 Chair's Statement
- 18 CEO's Review
- 22 Strategy
- 34 Delivering Value Responsibly
- 58 Key Performance Indicators
- 60 Sector Reviews
- 72 Section 172 Statement
- 76 Q&A With Our New CFO
- 77 Financial Review
- 80 Internal Control and Risk Management
- 89 Viability Statement

Governance

- 90 Chair's Introduction to Governance
- 92 Governance at a Glance
- 94 *Board of Directors*
- 102 Audit Committee Report
- 108 Nomination Committee Report
- 114 Remuneration Committee Report
- 139 Directors' Report

Financial Statements

- 142 Consolidated Income Statement
- 143 Consolidated Statement of Comprehensive Income
- 143 Consolidated Statement of Changes in Equity
- 144 Consolidated Statement of Financial Position
- 145 Consolidated Cash Flow Statement
- 146 Notes to the Consolidated Financial Statements
- 170 Group Accounting Policies
- 176 Parent Company Statement of Financial Position
- 176 Parent Company Statement of Changes in Equity
- 177 Notes to the Parent Company Financial Statements
- 179 Independent Auditors' Report
- 187 Subsidiaries of Diploma PLC
- 190 Financial Calendar, Shareholder Information and Advisors
- 192 Five-Year Record

EVERYTHING WE DO IS
DRIVEN BY OUR PURPOSE

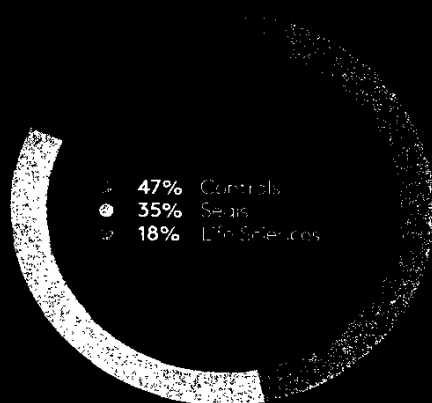
**Our purpose is
to consistently
deliver value
and reward our
stakeholders
by making a
difference to our
colleagues, our
customers and
suppliers, and
our communities.**

DIPLOMA AT A GLANCE

Diploma PLC is an international group distributing specialised products and services to a wide range of end segments in our three Sectors of Controls, Seals and Life Sciences.

We are a well-diversified and resilient business and our decentralised model means our businesses are customer-oriented, accountable and empowered to deliver.

OUR SECTORS (REVENUE)*



The Controls Sector businesses supply specialised wiring, cable, connectors, fasteners, adhesives and devices used in a range of technically demanding applications.



The Seals Sector businesses supply a range of seals, gaskets, cylinders, components and kits used in heavy mobile machinery and a diverse range of fluid power products with Aftermarket, OEM and MRO applications.



The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the healthcare industry.

REVENUE BY GEOGRAPHY*



* Figures are based on revenue for the year ended 31 March 2022 and are not necessarily comparable to other companies.

Our businesses design their individual value-added business models to closely meet the requirements of their customers, offering a blend of high-quality customer service, deep technical expertise and innovative solutions. Local cultures are created through our decentralised management structure but we recognise a set of values that exist throughout the Group and unite us as Diploma.

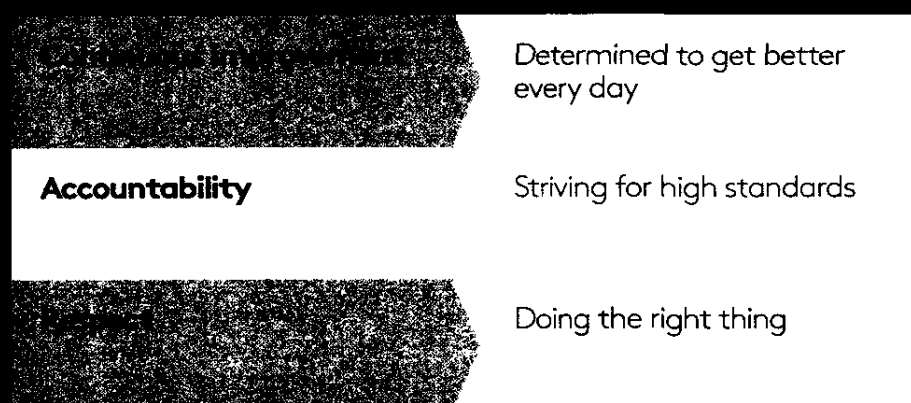
VALUE-ADD IS AT THE HEART OF WHAT WE DO

Technical expertise

Service-led propositions

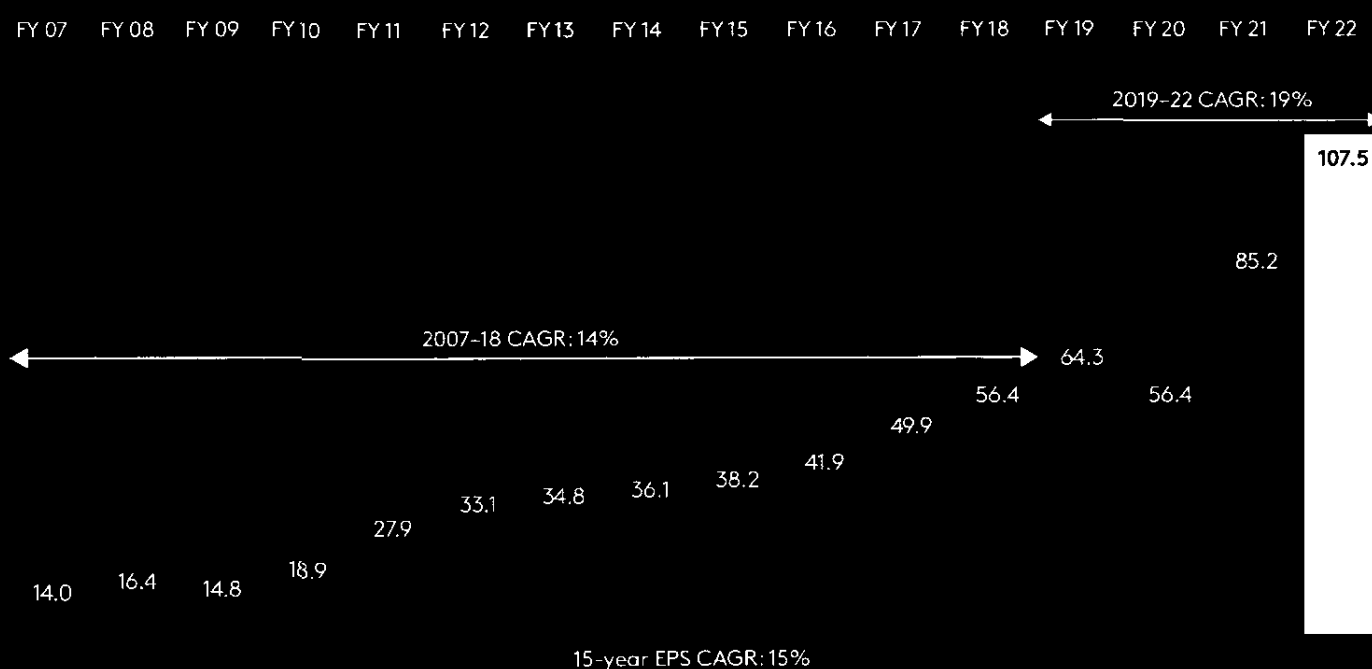
Innovative solutions

WE HAVE A DECENTRALISED BUSINESS MODEL WITH SHARED AND ALIGNED VALUES



TRACK RECORD OF COMPOUNDING GROWTH

Adjusted EPS (pence)



HIGHLIGHTS

YEAR ENDED 30 SEPTEMBER 2022

FINANCIAL PERFORMANCE

Organic growth

15%

Model: 5%

Reported revenue growth¹

29%

Model: 10%+

Free cash flow conversion¹

90%

Model: ca.90%+

Net debt/EBITDA¹

1.4x

Model: <2.0x

Adjusted operating margin¹

18.9%

Model: 17%+

ROATCE¹

17.3%

Model: High teens

Adjusted EPS growth¹

26%

Model: double digit

Dividend cover¹

2.0x

Model: ca. 2.0x

FOR OUR STAKEHOLDERS

Our Colleagues

We have worked hard to retain great talent by engaging colleagues across the Group. Our Engagement Index is testament to our businesses' efforts.

Our Customers

Responsive customer service is one of the key ways that our businesses deliver value, we are proud that they are recognised by their customers.

Our Suppliers

During the year, our businesses have engaged their key suppliers meaningfully on human rights, labour laws and the environment through our Supplier Code.

Our Communities

As a decentralised Group, we want to support the local communities and causes that matter most to our businesses. We will continue to match our businesses' fundraising in FY23.

	FY 2022	FY 2021	% change
Revenue	£1,012.8m	£787.4m	+29%
Adjusted operating profit	£191.2m	£148.7m	+29%
Statutory operating profit	£144.5m	£104.5m	+38%
Adjusted EPS	10.75p	85.2p	+26%
Statutory EPS	76.1p	56.1p	+36%
DPS	53.8p	42.6p	+26%

¹ Figures are reported on a constant currency basis and exclude the impact of foreign exchange.

79%

Colleague Engagement Index

"Since beginning a business relationship with Hercules OEM in 2003, we have seen a supplier relationship grow into a true partnership. Over the years the level of service has continued to excel."

Neptune, a Hercules OEM customer

578

Key suppliers identified

75%

Increase in donations to charity

DELIVERS FOR OUR STAKEHOLDERS

KEY ELEMENTS OF OUR LONG-TERM VALUE CREATION STORY

- 14 Our business model
- 22 Our strategy
- 34 Delivering value responsibly
- 60 Sector reviews
- 90 Governance





WHAT WE DO

DIPLOMA DELIVERS

DIFFERENTIATED VALUE-ADDED SOLUTIONS

Our value-add distribution model underpins everything we do and is the foundation of the Group's success. We supply products and services critical to customer needs. Our service component builds loyalty and resilience, pricing power and margins.

VALUE-ADD ORGANIC GROWTH SCALE



WHAT WE DO

DIPLOMA DELIVERS

SUSTAINABLE ORGANIC GROWTH STRATEGY

Organic growth is our number one priority. All of our businesses have fantastic opportunities. We are focused on business revenue diversification to drive organic growth, build scale and increase resilience. Operating in fragmented markets, we also seek to make complementary acquisitions to accelerate organic growth.

CONSISTENT

GREAT SERVICE

TECHNICAL EXPERTISE

VALUE-ADD

ORGANIC GROWTH

SCALE

RESPONSIBLY

POSITIVE IMPACT



WHAT WE DO

DIPLOMA DELIVERS

SCALING OUR VALUE ADDED MODEL

As our businesses grow and scale, they need to evolve their operating model to continue to deliver their value-add customer proposition. Alongside this, we are quietly evolving the structures, capability and culture of our decentralised Group to support the businesses on their journey to scale.

TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD



WHAT WE DO

DIPLOMA DRIVERS

DELIVERING VALUE RESPONSIBLY

Delivering Value Responsibly, our ESG framework, puts environmental and social impact at the forefront of our strategy and culture. We are focused on the key areas in which we can make a difference to our colleagues, customers and suppliers, communities, and shareholders.

RESPONSIBLY POSITIVE IMPACT VALUE-ADD

OUR BUSINESS MODEL

DRIVEN BY
OUR PURPOSE

Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

OUR VALUE-ADDED BUSINESSES

Our businesses deliver value-added services and solutions to a wide range of customers and end segments. Our value-add component creates customer loyalty and share of wallet; reputation and market share growth; and pricing power and margin.

Responsive customer service



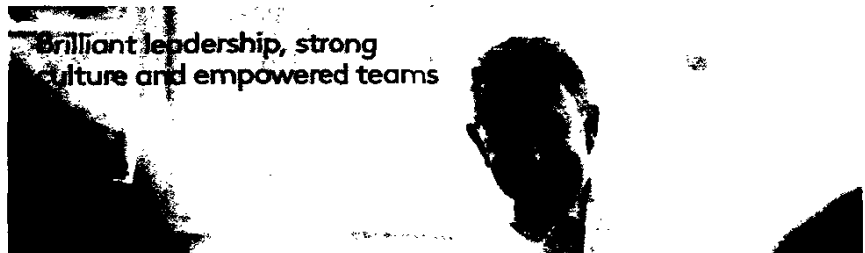
Technical expertise



Innovative, value-added solutions



Brilliant leadership, strong culture and empowered teams



THE GROUP

As a customer-service organisation, our decentralised approach is central to our success. The Group has an important role to play in supporting our businesses.

Build Diploma identity

Governance and execution

Best practice guidelines and networks

WE DELIVER
FOR OUR
STAKEHOLDERS

Our Customers & Suppliers

We have closely worked with our customers and suppliers to ensure that we are able to deliver the best possible service to our customers.

Our Colleagues

We have a strong focus on our colleagues and their development. We have a number of initiatives in place to support our colleagues and their growth.

Our Colleagues Engagement Score of

79%

Our Communities

We have a strong focus on our communities and their development. We have a number of initiatives in place to support our communities and their growth.

Our Shareholders

We have a strong focus on our shareholders and their development. We have a number of initiatives in place to support our shareholders and their growth.

Our Shareholder Return CAGR

13%

Overview

Strategic Report

Corporate Governance

Financial Statements

Other Information

David Lowden
Chair

CEO'S REVIEW

I am delighted with our 2022 financial performance and strategic progress. The management team and all my Diploma colleagues do a brilliant job – thank you.

Very strong results and excellent strategic progress

I am delighted with our 2022 financial performance and strategic progress, proving the strength of our model and continuing our long track record of growth and value creation. Our colleagues have been brilliant and the team has risen to the challenges presented by the external environment.

Our execution has been very strong. Organic growth is the Group's number one priority. So many parties have praised that we have delivered 15% this year. We have also successfully maintained our adjusted operating margin at 18.9% with our resilient value-added services and providing cushioning to offset inflation. We have invested \$187m in seven strategic key important businesses, which will accelerate future organic growth and provide key drivers for value.

Our strategy is one part of the strategic plan. Future success also depends on effectively managing our business and the Group to align with a sustainable financial business. We are steadily developing their target operating model and continuously improving the core competence of our value-added model. At a broader level, we continue to build our infrastructure, including our data and future technology.

One of the most exciting aspects of 2022 has been the way in which our witnesses and colleagues have embraced our 'Living Value Beyond' (LVB) and ESG.

By driving our ESG initiatives and executing initiatives, together with our five LVB focus areas, we have developed a framework for our commercial strategy and culture and we are on track to meet our 2025 targets and key milestones in our material areas.

A very strong financial performance

Financial results for the year were very strong across the key metrics of our model. Organic growth of 15% reflects the success of our revenue diversification, resilient, positive demand and pricing.

- Controls +24%:** excellent. Wind City, Wind WCV, performance, international. Controls accelerating growth in existing end segments while broadening US and European exposure.
- Seals +14%:** accelerated market share gains in North America. Aftermarket and broad-based growth in international. Seals against a robust comparator.
- Life Sciences -4%:** return to growth in Q4 as expected, organic growth of 2% excluding last year's Covid-related revenues, was moderated by hospital staffing shortages.

Organic growth

+15%

Very strong organic growth driven by our revenue initiatives, positive demand and pricing

Reported revenue growth was 19%, including a positive contribution from high quality acquisitions and a 5% benefit from foreign exchange movements.

We are very pleased to have maintained a robust operating margin at 18.9% (2021: 18.9%) despite a challenging operating environment and inflationary pressures. This was driven by pricing initiatives across the Group together with the benefits of our value-added models. We grew an adjusted earnings per share of 26%.

Our 15% organic growth, including free cash flow conversion, was in line with our target of 10%. This has resulted in good performance in the second half year and net debt was \$4.8b (2021: \$5.1b), underpinning our resilience and providing good flexibility to continue investment in growth. We have good liquidity with undrawn facilities of \$204m, 50% of our gross debt is at fixed interest rates (2021: 38%).

Sustainable organic growth strategy: revenue diversification driving growth, building scale and increasing resilience

The Group's strategy is to build high quality, sustainable revenue, organic growth. All our businesses have fantastic opportunities and our strategy is focused on growing, diversifying and scaling in three ways:

1. Positioning behind high growth end segments: many of our end segments lead to a robust, high-growth, high-quality impact (see pages 46-49).

Technology: investment, including in data centre, digital transformation, cloud, AI, machine learning, and cybersecurity, is creating exciting opportunities for growth.

Renewable energy and infrastructure investment: growth and leadership in generating power and controls.

Accelerating diagnostics spending: accelerating innovation and health care spending, which is fundamental to our long-term success. In addition, we are also investing in health care to be a strong health care provider in the future, both in the pandemic and in the long term.

2. Geographic penetration of core developed economies: we are enhancing our penetration in our core developed markets, in North America, Europe and EMEA.

3. We are also looking to expand our presence in emerging markets, including North American Aftermarket: we are enhancing our presence in the North American Aftermarket and M&A opportunities in the US and Europe.

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Europe and Asia, together with the US and Europe at International Controls (IC), in order to expand the range and improve the quality of our product and geographical footprint.

The acquisition of Airtex Corporation (Airtex) and Airtex in Australia in 2012, together with our programme in **Australian Seals**, where over the last three years we have built a much stronger higher quality business. We continue to build a business in **Europe in Life Sciences** with the acquisition of AusScience.

3. Product range extension to expand addressable markets: we do this by either entering with the customer, and/or portfolio level.

The acquisition of **R&G Fluid Power Group (R&G)** represents a step change for **Seals** in the UK, expanding Seals' fluid power offering.

- Continued development of our **exciting Adhesives business line in Controls**: Technologies published last year have delivered impressive organic growth, and the track record acquisition of S-Richie Solutions further strengthened our position in the UK.
- Across our portfolio, **incremental product adjacency initiatives** have been a key part of growth in the year, with future plans including supplier diversification, internal product development and M&A. Our product development in 100 MPa China at various IC Seals relating to Chemicals, Hydraulics and gas cylinders, and bringing Life Sciences and automotive development in new, innovative technologies, for example, in developing artificial intelligence, artificial vision.

Focused portfolio development

Focused portfolio development is key to the sustainability of our organic growth. As the Group grows, we maintain a portfolio where lines from past acquisitions are well understood, which we are the best positioned to grow and scale. This means being hands-on at acquisition and development.

Acquisitions to accelerate organic growth

Acquisition are a key part of our growth strategy. It is a disciplined approach to business, with many criteria, including distribution, share market, margin, and unit costs, as well as the ability to grow and market in the future. During 2022, we continued to acquire high quality businesses to expand our footprint and improve our operating performance.



CEO'S REVIEW CONTINUED

- LJR Electronics (Controls):** acquired in February for £23m (annualised revenue ca. £10m) to give Interconnect improved access to the large, attractive and growing US interconnect market.
- R&G (Seals):** a value-added aftermarket distributor of a diverse range of industrial hydraulic and pneumatic products, including seals and gaskets, acquired in April for £101m (annualised revenue ca. £69m). The business has added seals in the UK and broadened the Seals product portfolio to expand addressable markets.
- Accuscience (Life Sciences):** a market-leading life science and med-tech distributor in Ireland, acquired in May for £31m (annualised revenue ca. £28m), adding scale in Ireland, continuing the build-out of the European pillar of Life Sciences and adding access to the exciting diagnostics segment.
- ACT (Seals):** a specialist provider of sustainable materials engineering and corrosion control solutions. Acquired in July for £7m (annualised revenue ca. £4m), highly complementary and a further step in building a high quality sealable Australia platform for growth.
- Silicone Solutions (Controls):** acquired for £3m in September (annualised revenue ca. £2m), continuing to build out and diversify our new adhesives businesses.
- Two small bolt-ons at R&G (Seals):** R&G continued to incorporate smaller regional players, acquiring two businesses for £4m (annualised revenue ca. £5m).

Our acquisition pipeline is encouraging, albeit given the wider market uncertainty we will maintain our strict financial discipline. Nonetheless, we continue to invest in value-additive options at very attractive multiples. Since our H1 results and prior to year end, we invested £14m in four additional sight years and R&G has completed a further two bolt-on acquisitions for £5m. These purchases were acquired for a five to tenx average multiple.

Portfolio discipline

As part of a disciplined approach to portfolio management, we made two significant disposals in the year. In early May, we disposed of all our interests formerly part of the Life Sciences Sector for £17m (annualised revenue ca. £10m). In November, last year, we also disposed of Kentex, our Russian filters business, for £11m (annualised revenue ca. £73m).

Scaling our value-added businesses and the Group

Scaling our value-added businesses

As our businesses grow and scale, they need to evolve their operating models to continue to deliver their value-add, customer proposition. All of our businesses have defined their future target operating models and the strategy to achieve this.

As part of this, we were able to develop and evolve the **Core Competencies** of our business.

Supply chain: development of a more efficient and a proactive approach

Including category management techniques and evaluation of part, vendor and supplier criticality, including location, flexibility, environmental compliance and financial robustness, and unit volume. We have much more to do in our segment of our supply chain has been a differentiator in 2021, in the process better and more available, part supply. In 2021, we have enabled market share gains.

Commercial discipline (or pricing):

the determination of improving pricing processes and the value and delivery of our products and services in the product and pricing programs. We have more to learn and we are working with customers through working with our customers and greater transparency and pricing. We continue to do the right thing for all parties.

- Operational excellence:** another focus area this year as we improve warehouse processes across the portfolio as our businesses scale, they are making increasing use of automation. Through our network of best practices, we are also working to standardise processes.

We support the development of these Core Competencies through reinvesting in capacity in **Talent, Technology and Facility:**

- Talent:** investment in talent remains a key driver for future growth, with a number of important appointments made in the year – there range from 2b running appointments in Finance, Operations, Supply Chain and Commercial, to a newly created role heading up the Life Sciences European pillar. We continue to focus on retention and have made important progress with training and development available to colleagues and business leaders. Our approach to **Technology** is incremental and successful dependent on having the right people in place to successfully implement change. We have a number of on-going upgrade projects, ongoing at any one time, and many businesses are delivering their wet store capabilities.
- Our investments in **Facility** support the growth of our businesses as we are exploring opportunities to reduce unit costs and to improve our legacy working environments. During the year, we opened new facilities in Life Sciences in Australia and Europe, and we are in the planning stages for a further two new facilities over the next 18 months.

We have maintained high-teens margins of

18.9%

Scaling the Group

We continue to deliver value through the long-term productivity and culture of the Group. Over the last three years, we have evolved the organisational structure and processes to drive performance and have deepened our strategic and performance framework. At Group Centre, we retain a lean head office for use in providing services to the businesses and select key investing in leading innovations such as Finance, Legal, Corporate Development and Internal Audit.

As part of our powerful decentralised approach and strong local cultures, we continue to develop a complementary shared life and culture and identify shared best practice sharing.

Delivering Value Responsibly: embedding into our commercial strategy and culture

Over the past year there has been a renewed change in alignment with QIP and our ESG programme. Our colleagues and businesses are executing initiatives aligned with our five focus areas. We have improved reporting with metrics now embedded, supported by strong governance at Group, Sector and business level. Looking ahead, new targets will drive further progress. 2023 and beyond will continue the way to our net-zero target to the Science Based Targets initiative.

Key performance highlights of the year include:

- **Excellent and consistent colleague engagement score** (4.4/5 (2021) – 4.9) and a very high retention rate of 86%.
- A significant achievement given the challenging operating environment, and a team aligned with new leaders across the Group have worked hard to engage colleagues and engage last year's engagement survey feedback.
- **Increasing the diversity of our Senior Management Team (SMT)**: 16% female representation at SMT (increased from 14% (2021-24)) – driven by external recruitment (40% female) and a more than offset the attrition of our existing SMT members due to retirements and turnover.
- **Carbon emissions flat despite 15% organic revenue growth** due to a new energy use and our commitment to efficiency.

We are also announcing 2023 targets, aligned to our five focus areas. We are committed to net-zero emissions including value chain by 2030 at the latest, and have set an interim 50% reduction target for Scope 1 & 2 by 2030. We are currently evaluating our Scope 3 emissions in order to submit net-zero targets to the Science Based Targets initiative (SBTi) in 2023. For further details on our target, please see the Delivering Value Responsibly section on pages 34-37.

Increasing resilience underpins our outlook

While we are mindful of the uncertain economic outlook and prospect of a tougher demand environment, we remain confident in the Group's increasing resilience.

We have grown EPS by

26%

sustaining our impressive compounding track record

QIP has an excellent track record of compounding growth and delivering strong financial returns through the cycle. Our model is resilient and our strategic agility makes us more solvent than our peers. Diversification and local increasing revenue diversification means we are exposed to exciting structurally growing end segments. Our focus on value-added products and solutions critical to customer needs and operational and serving core budgets, together with our service excellence, fosters strong customer relationships and, through lower and supports controllable margins. Our highly cash-generative model and strong balance sheet underpin our resilience.

At the Stage 1 2023, we are looking to be in the top four and top ten index.

Organic revenue growth mid-single digit, consistent with our model and key to the weighted total.

Acquisitions announced to date are expected to add 30% to reported revenue growth.

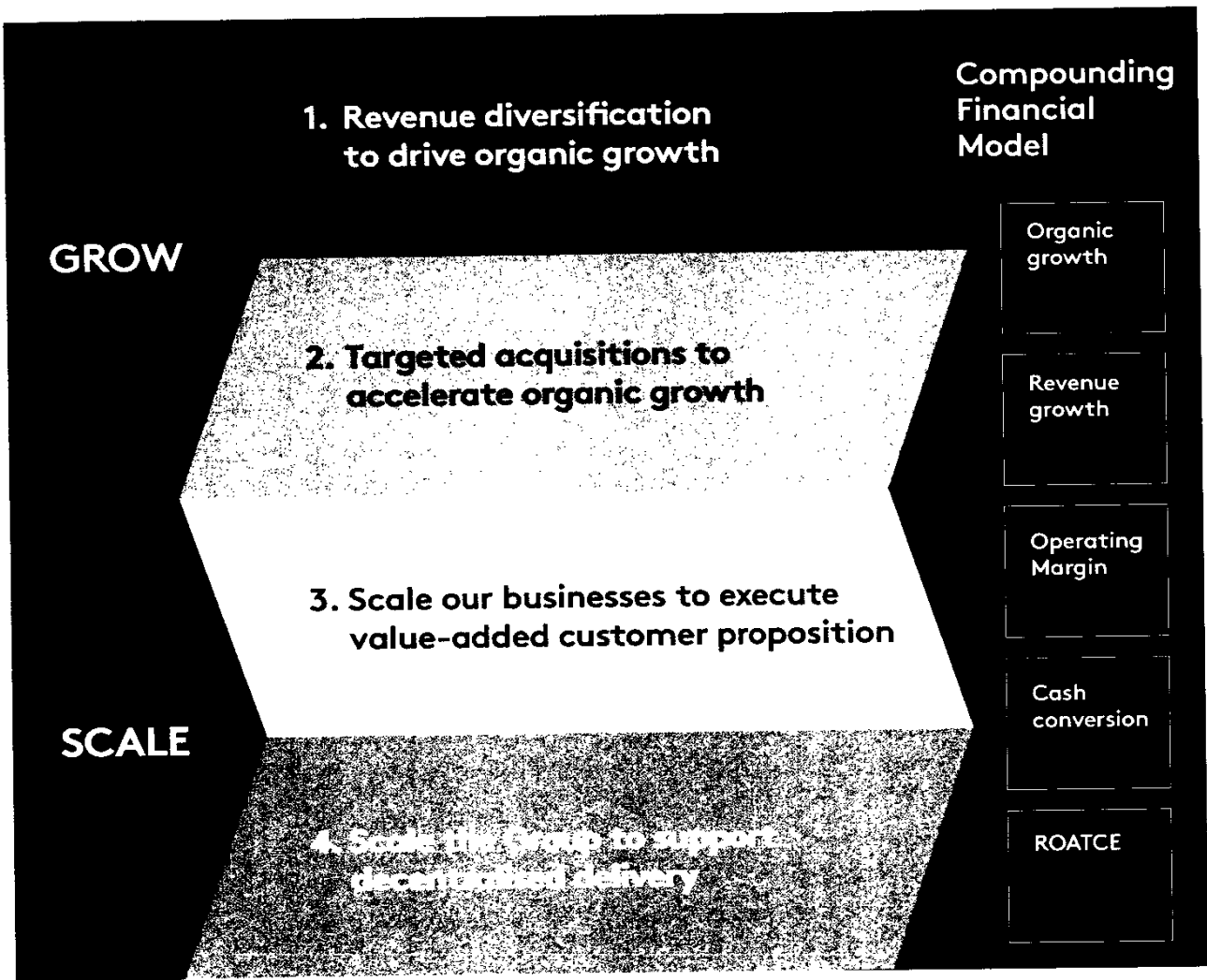
Strong dividend cover and margin in a range of 18-19%.

At the model, the high growth base benefit from weaker offering and higher interest rate are expected to be neutral to adjusted EPS.

By 2023, we have a well-structured with our guidance. We have focused on executing our strategy of adding high quality, scalable capacity for rapid growth and are confident in our ability to deliver long-term attractive value and high margins.

Johnny Thomson
Chief Executive Officer

Building high-quality, scalable businesses for sustainable organic growth



5. Delivering Value Responsibly

1. Revenue diversification to drive organic growth

Our sustainable growth strategy is focused on revenue diversification to drive organic revenue growth, build scale and increase resilience. Operating in a broad range of markets, all of our businesses have fantastic opportunities. Our strategy is focused on growing, diversifying and scaling in three ways:

01

Positioning behind high-growth end segments

All of our businesses have opportunities to tap into high growth end segments, many of which also have a positive impact on the environment or society.

02

Geographic penetration of core developed markets

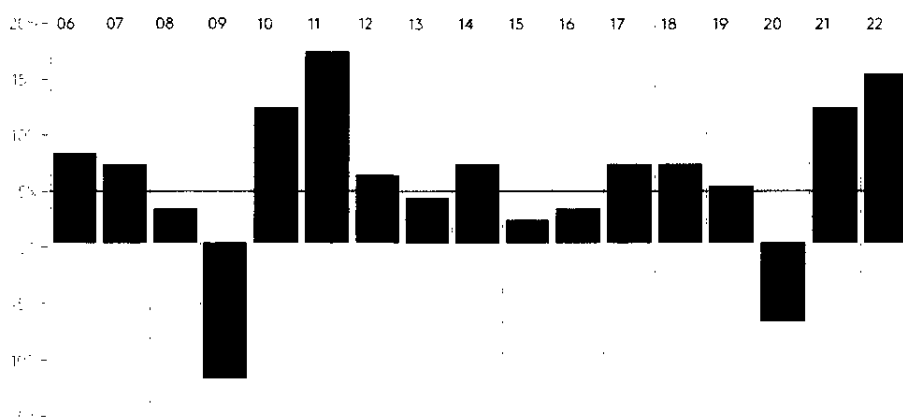
We are relatively underpenetrated in our core developed markets of North America, Europe and Australia where there is significant potential to increase market share.

03

Product range extension to expand addressable markets

We extend our product ranges incrementally within our businesses and at portfolio level.

STRONG ORGANIC GROWTH TRACK RECORD:



TARGET:
MID-SINGLE DIGIT
ORGANIC GROWTH

2. Targeted acquisitions to accelerate organic growth

Focused portfolio development is key to the sustainability of our growth strategy. As we grow, it is important that we focus on the key, scalable business lines that represent our model and which we are the right owners to grow and scale.

01

Acquisitions to accelerate organic growth

"During our five-year strategy period, we are adding high-quality value-add businesses that will accelerate organic growth. Fragmented markets, offering many opportunities and our strong platform, present growth as a key focus for us."

We plan to add £1.5bn revenue growth over M&A on average.



"Our approach to acquisitions has become more structured and strategic. This has expanded our acquisition pipeline, enabling us to take advantage of a busy market whilst also maintaining our strong financial discipline."

Steve Sargeant,
Corporate Development
Director

02

A disciplined approach

Our approach is characterised by highly disciplined investments and a focus on strategic fit, financial discipline and future growth. Our guiding principles are:

To be a value-add, disciplined approach, always with a view to a profitable outcome.

03

Success factors

Target attributes

- Value add, including high gross margins
- Organic growth and scale potential
- Scalable and sustained management teams

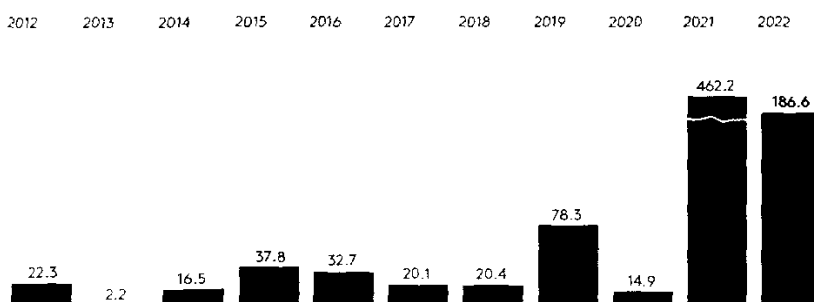
How we add value

- Investment in underlying private companies, using
- Operational expertise
- Management expertise, ensuring best practice
- Third party integration benefits

Strategically & financially disciplined

- Further focus on scalable businesses
- Structured origination
- Strong focus on financial returns
- ROIC/EBE

Historic M&A spend (£m)



CASE STUDY

Windy City Wire: accelerating organic growth for the Group

Windy City Wire is a leading value-added distributor of premium quality low voltage wire and cable.

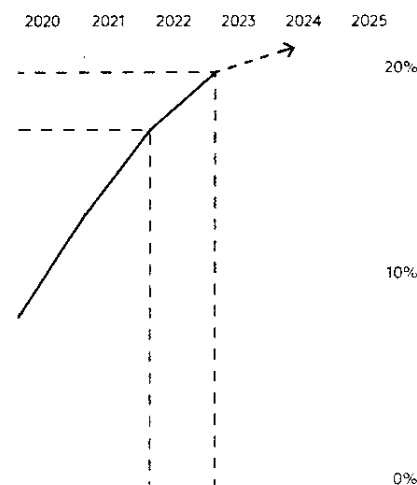
Acquired in October 2020 for £348m, the business represented a material strategic step forward, accelerating organic growth for the Group as a whole. Importantly, Windy City Wire diversified Controls into the large, attractive US industrials market and significantly increased the Group's exposure to high growth end segments.

Since joining the Group, Windy City Wire's operating profit has doubled and the business is significantly outperforming its acquisition base - ROATCE is now mid-teens, two years ahead of expectations.

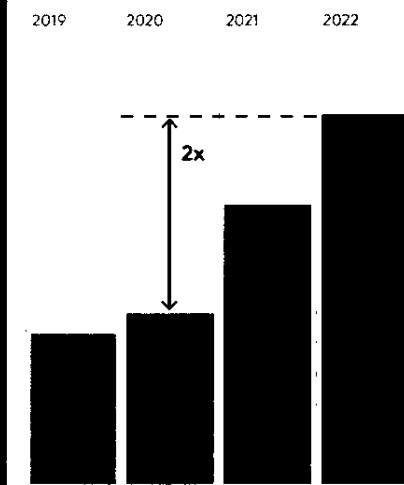
This has been driven by impressive volume growth and operating leverage on a well-invested platform.

Growth has been driven by exposure to high growth end segments - building automation, security access, data centres and digital antenna systems - as well as strong market share growth. A compelling customer proposition and superior product availability, underpinned by a secure and stable supply chain, have been a winning combination.

ROATCE



Operating profit (\$m)



STRATEGY IN ACTION: ACQUISITIONS ACCELERATING ORGANIC GROWTH

Acquisition of Accuscience in Ireland:
positioning behind high growth end segments
and penetrating core developed economies.

Acquisition of LJR Electronics in the US:
penetrating core developed economies and product
range expansion to expand addressable markets.



In early May we completed the acquisition of Accuscience in the Life Sciences Sector in Ireland. Accuscience has a diverse, high quality supplier portfolio which includes leveraged tier one manufacturers. The business also has a proven ability to identify, attract, develop and grow post-acquisition.

This has translated into a strong track record of growth and excellent sales across the brand of Ireland.

Characteristics:

- Market leading life sciences and medical distributor
- Established competitive brand of Ireland

Value drivers:

- Existing prospects for continued organic growth
- Access to fast growing offical diagnostic segment
- Strong product pipeline

Portfolio fit:

- Low working capital, one line business
- Adds scale in the attractive pharmaceutical
- Product diversification
- Access to new segments

We acquired LJR Electronics, a long established distributor of electronic interconnect products and with a strong sales contacts and protective working in various markets. LJR forms a part of our interconnect solution within the Turbine Sector and has expanded our presence in the high value and growing of interconnect market.

Characteristics:

- High value and distribution
- Electronic interconnect products
- Based in Ohio, US

Value drivers:

- Organic growth
- Suppliers with strong US presence
- High value and value added products

Portfolio fit:

- High growth interconnect
- Competitive advantage in the market
- In the US

CASE STUDY

Acquisition of R&G Fluid Power Group in the UK: penetrating core developed economies and product range extension

In April, we acquired R&G Fluid Power Group (R&G), a high-quality aftermarket distribution business for our Seals Sector in the UK, for ca. £100m.

R&G is a value-added distributor of a diverse range of industrial, hydraulic and pneumatic products (including seals and gaskets). Its value-added proposition is based on responsive customer service, technical advice, breadth of stock and product customisation. Over time, the management team has built a platform with extensive reach across the UK, including through consolidating a number of regional distributors to extend geographic and product reach.

Characteristics:

- UK value-added aftermarket distributor
- Extensive UK reach
- Fluid Power product range

Portfolio fit:

- Scale in core UK market and scope to drive revenue synergies with existing UK Seals business
- Expands addressable markets
- product diversification for global Seals

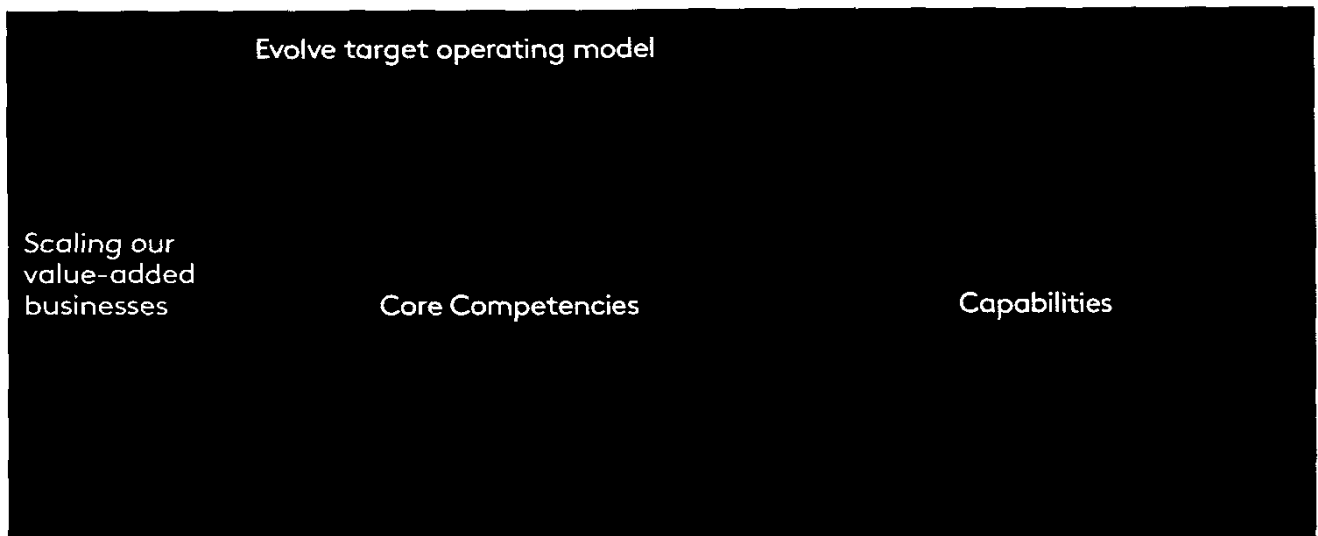
Value drivers:

- Excellent organic growth track record and significant potential through developing the aftermarket e-commerce channel, continued regional expansion in the UK, and further product cross-selling and diversification
- Continued 'buy & build' active pipeline with an opportunity to further consolidate small, regional competitors

3. Scale our businesses to execute value-added customer proposition

Our service component builds loyalty and resilience, pricing power and margins. As our businesses grow, they evolve their operating models to continue to deliver their value-add proposition at scale – how a £10m revenue business delivers for its customers is very different to a £100m revenue business.

We have created a framework for our businesses to plot their journey to scale, including defining the right target operating model of the future, developing the Core Competencies that underpin it and the capability that will deliver it.



Core Competencies

We seek to maintain, develop and drive the Core Competencies that underpin our model.

Supply Chain Management	Operational Excellence	Value-Add	Commercial Discipline	Route to Market
A resilient supply chain that deliver growth plans responsibly. A structured and more proactive approach to Supply Chain Management.	Efficient and customer centric operations that deliver growth.	Distributing value-added products and solutions driven by our core strengths in technical expertise, services-led proposition and innovative solutions.	Focusing on profitable growth. The combination of market leading pricing, products and the value we deliver to our customers.	Through customer proposition and value management to achieve growth plans.

4. Evolve the Group to support decentralised delivery

Our value-add distribution model underpins everything we do and is the foundation of the Group's success.

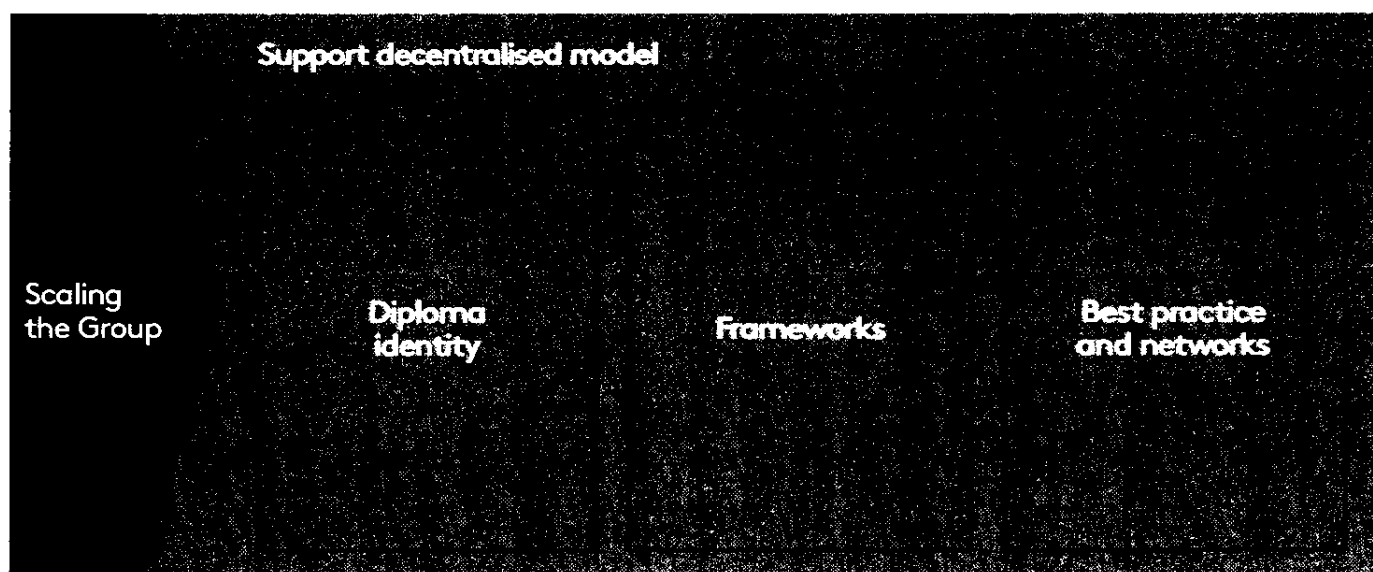
We continue to quietly evolve the structures, capability and culture of the Group to drive it for the long term.

Over the past three years, we have evolved the Group's organisational structure around core business lines. We have also successfully invested in resource to ensure a lean, skilled head office providing a service to the business – people, therefore, have been key functional areas.

As a matured organisation, the decentralised approach remains the foundation of our success. As a guide then, we continue to develop our complementary Dip and culture and identity.

The Group has an important role to play in providing strategic and performance frameworks, as well as acting as a conduit for knowledge and best practice sharing.

Through creating a community network, we provide our regions with the opportunity to share experiences as they grow and build their businesses.



Key capabilities

We support the development of these Core Competencies through our existing infrastructure.

Talent

Talent development and development of existing talent, through education, design, training and delivering talent.

Technology

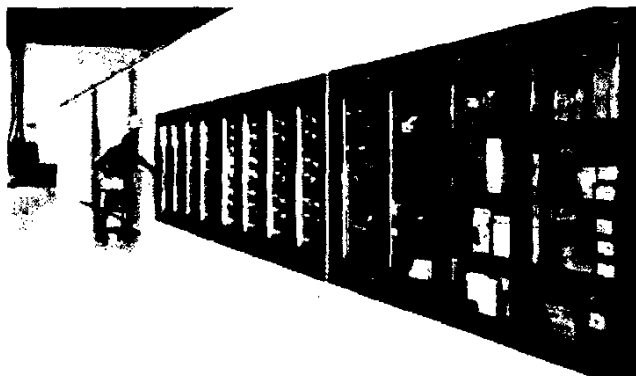
Our operations are heavily reliant on technology and our IT capabilities are a key competitive advantage. We invest in technology to support our growth.

Facility

Our investments in facilities support the growth of our business as well as providing opportunities to reduce energy costs and to provide a sustainable working environment.

STRATEGY IN ACTION: SCALING OUR VALUE-ADDED BUSINESSES AND THE GROUP

Australian Life Sciences: building a scalable platform for growth



In early 2022, we successfully completed the project to consolidate operations for our Australian Life Sciences businesses, Apurudax and Big Green Surfactant, into a single facility in Brisbane. A top-quality, state-of-the-art and modernised site, also consolidated into a single new office in Victoria.

Built on a new facility with capacity for future growth and expansion, this consolidation for the project. By combining the state-of-the-art and modernised site, the consolidated facility has created an opportunity to improve safety, health, environment and operational excellence through harmonising and optimising workflows, processes and systems. For colleagues, this is a more modern working environment with better collaboration, excellent safety standards and more career opportunities. The better facility will support progress with Health & Safety. Moreover, from an environmental perspective, the new facility will be energy efficient and aligned to the target.

There is no doubt, the project has opened up future opportunities to drive growth and innovation through implementing further technology and process improvements, and of course, better equipment and services.

Chicago June 2022: sharing best practice and building leadership networks



Our second ever Chicago Service Leadership Team (SLT) meeting was held in Chicago in June.

As well as our usual agenda, the focus of the Group Vice President's visit to Chicago was to share best practice and sharing into future, this event was a unique opportunity for our leaders to learn from one another and to develop a solid foundation to foster best practice sharing and the new beyond networks.

Our event in Chicago was both a celebration of success and a platform for future growth. It was a great opportunity to build a strong network and to develop a solid foundation for the future of our business.

CASE STUDY

Talent



“Investing in talent is critical to the sustainability of our growth”

Jill Tennant
Group HR Director

I'm delighted with our progress in Talent in 2022. For me, one of the key highlights of the year was the very high level of colleague engagement. Engaged colleagues perform better and, in a customer service business operating in challenging labour markets, retention is a differentiator. Our decentralised model fosters loyalty and engagement; alongside this, tools such as our Engagement Survey mean we are getting better at listening and responding to what colleagues want.

A successful Talent agenda starts with the right organisation design. During 2022, we've worked with our businesses to refine their target operating models. These inform succession planning, training and development, and external recruitment.

Investment starts with our existing team. For the Senior Management Team (SMT), we are helping leaders develop the skills and experience they will need to scale their businesses - from our newly launched 'Leadership at Scale' development programme to building leadership networks, not least through our event in Chicago in June. In response to last year's feedback, we have launched a new internal learning management system for colleagues.

The majority of external recruitment has been focused on our businesses. Building scale means building capability. Smaller businesses are typically built around a small number of key individuals who often

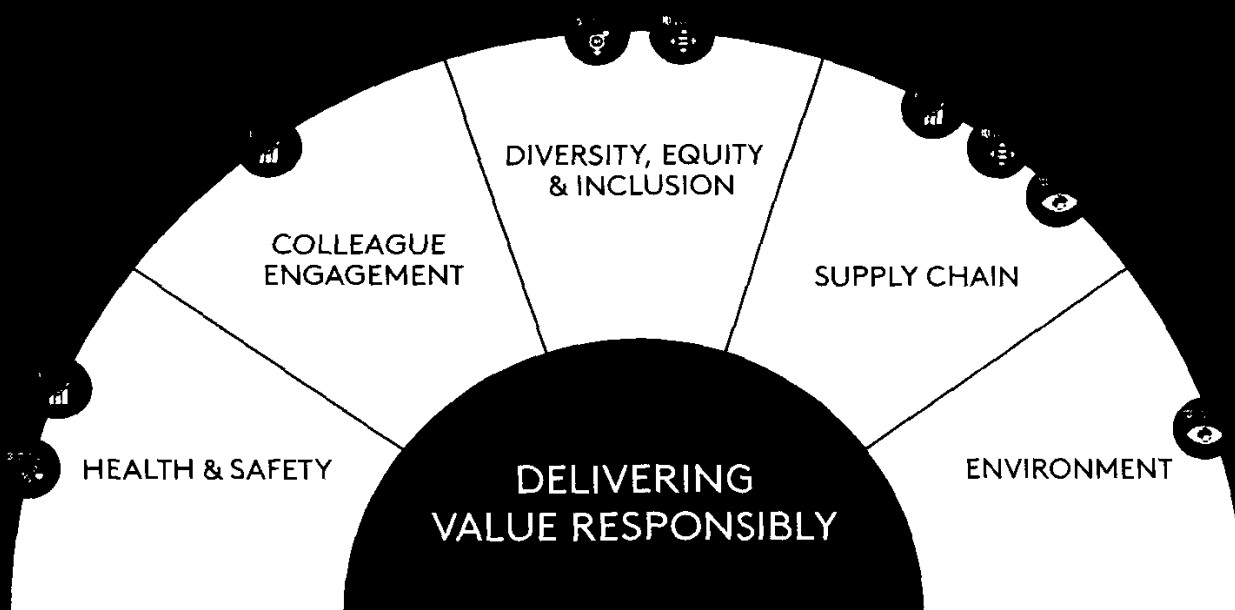
wear many hats. Incremental investment in functional expertise is critical to scaling. In 2022, we made 20 SMT hires focused on Commercial, Operations, Supply Chain, Finance and Human Resources. We are leveraging this external hiring to improve diversity - in 2022, 40% of external SMT hires were women, more than offsetting the impact of acquisitions (SMT additions <90% male), increasing female SMT representation to 27.5%. We are committed to achieving gender balance at SMT level by 2030.

Talent is also central to evolving our leadership structures to support scale. For example, in Life Sciences, having focused the Sector around three strong geographic pillars, we have created a new role heading up Europe and a single CEO role for Australia & New Zealand. We intend to maintain lean Sector structures and a small, skilled Group centre providing a service to our businesses. Here too we are selectively investing in key roles including US-based Corporate Development leads for North American Seals and International Controls at Group centre, we have made incremental investments in Human Resources, Finance and Legal.

In a fast growing organisation such as ours, there will always be more to do, but we enter 2023 with a great team, a clear strategy for how Talent will support future growth, and significantly improved internal tools and resources for colleague development.

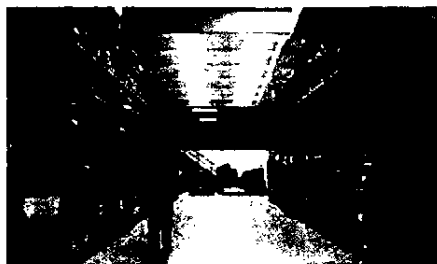
5. Delivering value responsibly

Our DVR programme is built on five, material focus areas and positioning ourselves for commercial growth with a positive impact on society and the environment. Embracing DVR is key to executing our strategy, fulfilling our purpose and scaling and managing our business sustainably.



By aligning our businesses with our five focus areas and positioning ourselves for commercial growth with a positive impact on society and the environment, we can play a meaningful role in building a more sustainable world.

Delivering for our People



Our people are our success. It is our priority to engage our colleagues and retain talent in our businesses. We also have a duty to help our colleagues reach their full potential and create an inclusive and beneficial working environment where all our colleagues are able to fulfil their potential.



Delivering for the Environment



Our people as a distributor play a key role in our activities, have a meaningful impact. We must leverage our relationships with key suppliers to take a waste, working time and energy into this will improve operational efficiency and deliver value for our customers, suppliers and the planet.



Delivering a Positive Impact



Many of our products and services have end uses that positively impact the environment and our society, whether it is safeguarding first responder communications, supporting the transition to renewable energy, or providing life-saving solutions.



OUR PROGRESS DURING THE YEAR

A step change in momentum. Business-driven initiatives are creating improvement across the Group.

Our businesses have established DVR committees and appointed persons responsible for performance and progress against targets.

Our DVR governance structure and policies are key to how we deliver value responsibly. We have improved reporting with metrics now embedded and targets to drive progress in FY23.

Read about our performance in each of our focus areas on pages 36-47.

Read more about our DVR metrics and targets on page 53.

Read about our DVR governance, responsible business practices, and policies and procedures on pages 50-57.



DELIVERING VALUE RESPONSIBLY

DIPLOMA DELIVERS FOR OUR COLLEAGUES

Our colleagues are the foundation of our business. They deliver value-add to our customers, execute against our strategy and are essential to our ongoing success.

Our decentralised Group employs ca. 3,000 colleagues across multiple businesses, geographies and communities. This year, we welcomed ca. 500 new colleagues through acquisitions. The safety, wellbeing and engagement of those colleagues is our primary concern and central to how we deliver value.

Developing, attracting and retaining talent in an equitable and inclusive environment will support our journey to scale, and is an important differentiator in a challenging labour market. Protecting our agile and accountable culture as we grow underpins our performance and helps us attract high quality acquisitions.

89%

of our colleagues are proud to work for their business

Brilliant leadership

Our decentralised model means that our Senior Leadership Team (SLT) plays a key role in progressing the culture and strategy of the Group, as well as the performance of their businesses and Sectors. Our SLT – comprised of our Executive team, the Managing Directors of our businesses and key Group roles – has demonstrated brilliant leadership during FY22, continuing to look after and support our colleagues, serve our customers and show great agility and resilience despite geopolitical and economic uncertainties.

In June this year, we brought together

75

members of the SLT in Chicago to celebrate their hard work and discuss our strategy. This was the SLT's first time meeting in person since the pandemic and a key opportunity to strengthen networks, build our culture and integrate new senior leaders

Building engaging and fulfilling careers

We continue to evolve our culture and support colleague engagement across the Group. We acquire new businesses every year and give careful consideration to how we onboard colleagues that join us through acquisition.

Group internal communication is a powerful tool for us – our CEO updates our colleagues directly through quarterly videos and information is shared across businesses and Sectors through our internal newsletter. This year we introduced a learning management system, which is currently being rolled out across the Group.

Development of talent supports our strategy, deepens engagement and is important at every level of our business. Many of our colleagues undergo on-the-job training, whether through apprenticeships or external certification. Through our DVR programme, we have started to develop networks that facilitate knowledge sharing across certain functions such as Health & Safety, Supply Chain Management, and HR.

Mental health and wellbeing

We are mindful of the potential impact that working environments and practices have on our colleagues. During the year we continued to hold wellbeing and resilience workshops with businesses and provided resources to mark World Mental Health Day, which was celebrated across the Group.

We are also acutely aware of external factors – Covid 19, political instability, the cost of living crisis – that may further impact our colleagues' wellbeing and mental health. We have worked hard to reassure existing colleagues, as well as those that join the Group through acquisition, and are pleased that 86% of colleagues feel that their job is secure, according to our engagement survey.

Further assistance is offered through our Employee Assistance Programme, which covers all existing businesses. Acquisitions are brought onto the programme during onboarding. Counselling is also offered to businesses where colleagues have suffered a bereavement or tragic event.

Engaging our Colleagues

Our vision is for all of our colleagues to be highly engaged

2022 Highlights

- 86% response rate
- 79% colleague engagement index
- 70% of Group colleagues are active on our new learning management system

86%

response rate

79%

engagement index

KPI

Engagement Index
(an externally benchmarked score from our annual engagement survey)

Target

Maintain an engagement index of 70%+

Ongoing Focus

- Build out our learning management system
- Continued focus on wellbeing and mental health
- HR network to support best practice
- Continued leadership development

Engaged colleagues perform better. Our colleagues have great technical expertise and in-depth knowledge of their products and markets. In a challenging labour market, engagement helps us to hold onto that talent, knowledge and expertise.

Our turnover remains consistent at 24.4% (2021: 22.8%) reflecting a restructure in Australia, Ireland and International Sales, increased automation at our Louisville facility, and a challenging talent market.

Our Colleague Engagement Survey is key to understanding how engaged our workforce is and helps us to identify their needs and areas of improvement on board. We have set a relatively modest target to maintain an engagement index of 70%+, which keeps us focused on understanding the real picture, improving engagement, and encouraging open and honest responses.

Action during 2022

Following the Engagement Survey, our business units are listening groups to discuss key themes from their survey and put HR engagement plans in place for the year ahead. They are supported by Group HR, which assists the businesses in understanding and responding to their results and shared key Group themes and best practice.

"It's really important to us that we continue to prioritise and engage our colleagues across the Group. Earlier this year we held our second engagement survey. The engagement index was 79% with over 2000 colleagues taking part."

Jill Tennant,
Group HR Director



We've also started to roll out our new leadership engagement framework, the Group 70+, which is a central hub for Group leaders in all our divisions, policies and documents, a platform for communication and a central support centre for HR and O&P.

Our engagement framework and rights of 70+ leaders were rolled out across the estate nationally across the Group in January. The Group's engagement index grew by 10% in 2022.

75%+

all of our businesses achieved an engagement index within a range of 75-85%

90%

of our colleagues believe that their work is meaningful, according to our engagement survey

88%

of our colleagues believe that their manager empowers them, according to our engagement survey

We've been an strong advocate of the rights of our colleagues to elect and manage them. 90% of respondents find their work meaningful, 83% of colleagues are proud to work for their business and 88% believe that their manager empowers them and gives them the authority to do their job.

Following the 2022 engagement survey, we identified three areas of focus: leadership style, learning and development and wellbeing. All three areas have shown an improvement in the last year and reflect the initiatives in place at many of our businesses.

Leadership style

75% +2%

2022	75
2021	73

Learning and development

70% +4%

2022	70
2021	66

Wellbeing

79% +1%

2022	79
2021	78

Learning and development and wellbeing continued to be ongoing areas of focus across the Group. We provide resources and guidance for our people on development and learning and performance feedback. We also offer a range of well-being support businesses and to ensure our latest management techniques and wellbeing.

CASE STUDY

M Seals UK Employee Working Group



M Seals UK set up an Employee Working Group in 2021 in response to the first Group Colleague Engagement Survey.

The Employee Working Group at M Seals UK is strong and meets quarterly. It includes colleagues from across the business and from every management level, department and site.

"I like that I can act on behalf of my colleagues to voice their concerns or issues. I also like that we develop a plan or response to each issue right there in the meeting so it gets sorted straightaway. It's a great way to communicate as all the branches of the business are there together at the meeting – whether it's a finance issue, a management issue, or a warehouse issue."

Sati Sing,
Warehouse Operative and
member of the Employee
Working Group at M Seals UK

Ensuring Health & Safety

Our vision is that no one is harmed at work

2022 Highlights

- Continuing to build a proactive Health & Safety culture
- More robust reporting
- Reduced severity rate
- Improvement in potential hazard reporting
- Improved governance at business and Sector level

10.6

LTI rate

44%

reduction in severity rate

KPI

Lost time incident (LTI) Rate
(number of lost time incidents per 1,000 employees)

FY23 Target

5% year-on-year reduction in LTI rate

Ongoing Focus

- Build positive mental health and wellbeing
- Continuous improvement and focus on Health & Safety culture
- Ensure process in place to reduce risks identified by potential hazard reporting

Keeping our colleagues healthy, safe and well is a prerequisite to doing business. We have a duty of care to any person who is working remotely, working at, or visiting a Diploma business.

In line with our decentralised model, our Managing Directors are accountable for managing Health & Safety under their Local Business Units. We build a strong Health & Safety culture driven by the Managing Director and across all our colleagues.

Our Senior CEO has ultimate responsibility for Health & Safety across the Group, including ensuring good governance and providing the safe working environment for all our colleagues.

Businesses are responsible for developing and implementing procedures and frameworks, with their specific and individual risks and levels of risk. However, we expect all businesses to comply with the statutory and minimum standards for all Group risks.

We have a clear position that no one should be harmed at work in order to achieve the value of our financial, innovation and operational Health & Safety culture. We are a strong advocate for reporting and open discussion of potential risks and incidents.

To further support our ongoing commitment, we have set an LTI reduction target of 5% year-on-year, supported with training and guidance.

Action during 2022

For the first time, our businesses reported monthly Health & Safety data for a full financial year. This allowed us to identify and support Group themes and risks quickly and share knowledge across the Group.

As a result, we have asked businesses to be more proactive in reducing risks associated with driving vehicles, reduced our focus on mental health and wellbeing, and introduced an immediate reporting protocol for all LTIs. These have been included in our updated Health & Safety Policy for the year ahead.

We were pleased that Health & Safety culture is starting to embed across the Group, with 86% of colleagues feeling that their business takes Health & Safety seriously. Health & Safety will continue to be a key consideration for all business and a theme in boarding.

86%

of colleagues feel that Health & Safety is taken seriously in their business, according to our Colleague Engagement Survey

Promoting Diversity, Equity & Inclusion

Our vision is to build a diverse workforce, where all of our colleagues feel able to bring their full selves to work and fulfil their potential.

2022 Highlights

- New Group Diversity, Equity & Inclusion Policy
- Unconscious bias workshops
- Training for Senior Leadership Team on inclusive leadership
- Ethnicity reporting

27%

of the Senior Management Team are women

KPI

% of women on the Senior Management Team

FY30 Target

Women represent 40%+ of Senior Management Team

Ongoing Focus

- Succession planning
- Implementing the Diversity, Equity and Inclusion Policy across the Group
- Further learning and knowledge sharing

We remain committed to better representation across our Group and businesses, particularly in management and leadership positions.

We continue to build awareness around Diversity, Equity and Inclusion (DEI) and during FY22, we held workshops on unconscious bias, with colleagues across our businesses.

Our inclusive leadership webinars were attended by all business MDs and other members of the Senior Leadership Team. We also have resources available in our learning management system.

During the year, we developed and published our Group DEI policy, which provides guidance on standards for our businesses to follow, including requesting diverse shortlists from recruiters. We held workshops on the new policy with colleagues responsible for progressing DEI in their business, including senior management and HR.

During these sessions, we shared key points in the Policy, our DEI targets and our focus areas for FY23. This also gave our people the opportunity to ask questions, share best practice and build networks.

40%

of external hires into the Senior Management Team during the year were women

% of women on SMT

2022	27%
2021	24%

Gender diversity (as at 30 September)

	Male	Female	Total
Board	4	3	7
Executive team	4	2	6
SMT	34	36	70
All employees	1,096	910	2,006

We have seen an 8% improvement in Senior Management Team (SMT) to reach just over 40% women. We have made some progress towards this, during the year, with 40% of external hires into the SMT being women. However, the recruitment of women remains a challenge, with just 40% female representation amongst the shortlist on the SMT through positions during FY22.

We will continue to focus on improving the gender diversity of those entering the SMT through internal recruitment and building a pipeline of diverse talent. Beyond the SMT, our ambition is to achieve gender balance across our workforce.

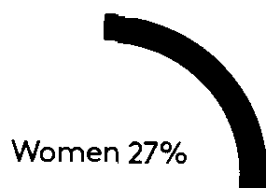
Ethnic diversity (as at 30 September)

	Non-minority	Ethnic minority	Prefer not to say	Total
Board	6	0	1	7
SMT	45	13	12	70

We have not started to release ethnicity data for the FY22. We are aiming to start the release of this data in FY23, as part of our commitment to transparency and reporting on our DEI progress. We will continue to work on improving the ethnic diversity of our SMT and all employees during FY23.

Diversity of our Senior Management Team

Gender diversity

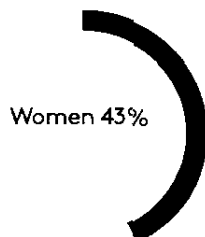


Ethnic diversity

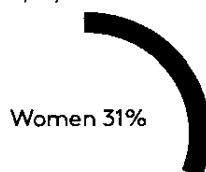


Gender diversity across the Group

Board



All employees



CASE STUDY

International Women's Day



International Women's day was celebrated by businesses across the Group on 8th March 2022.

Businesses brought their teams together at lunches, discussion groups and through fundraising events to discuss bias and the challenges faced by women in the workplace.

All colleagues were also given the opportunity to attend a #BreakTheBias workshop, which highlighted examples of unconscious bias and the role that we can all play in tackling it at work.

DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS FOR THE ENVIRONMENT

We are a Group whose businesses, supply chain and end users stretch across the globe. As a distributor, our operational emissions are relatively modest, and the vast majority of our emissions will sit in Scope 3.

Calculation of our Scope 3 emissions is a complicated undertaking in a decentralised Group, such as ours. We are working to do this ahead of submitting a net zero target to the Science-Based Targets Initiative (SBTi) during FY23.

The climate crisis is urgent and global, we recognise the impact of our wider footprint and the narrowing window of opportunity to make a positive contribution in tackling this crisis. Beyond the moral obligation that we feel, we also see the contribution to the long-term value creation and growth of our businesses.

Our colleagues are increasingly passionate about climate change and expect the Group to drive progress and support their initiatives. There is also the opportunity to deliver value to our customers by offering more sustainable products and solutions, building our knowledge and expertise, and working to be a more carbon efficient business that can support their net zero goals.

Our positive impact revenue initiatives help us to position ourselves for commercial growth with a positive impact on society and the environment.

Sustainable Supply Chain Management

Our vision is for all of our key suppliers to be compliant with our Supplier Code.

2022 Highlights

- Active engagement with our suppliers on the environment
- Key suppliers identified and the process has started to align with our Supplier Code

59%

of our identified key suppliers are aligned with our Supplier Code

KPI

% of identified key suppliers aligned with Supplier Code

FY30 Target

80% of key suppliers are aligned with our Supplier Code

Ongoing Focus

- Continue to ensure alignment of key suppliers with Supplier Code
- Align our Supply Chain Policy and processes with our net zero targets
- Build our understanding of supplier emissions

Management of our supply chain is key to our broader social and environmental impact as a Group, and a key part of our strategy and commercial proposition. Our focus is to work with our suppliers to tackle climate change and reduce our own impact through more sustainable packaging, logistics and products.

Percentage of identified key suppliers aligned with our Supplier Code



FY22 was the first full year of implementing our Supply Chain Policy and engaging our suppliers on our Supplier Code. FY22 business have worked hard to engage their suppliers and ensure their alignment with the Supplier Code through a backdrop of supply chain disruption that was exacerbated by Covid-19.

During the year our business have identified their key suppliers. These are categorised by the business but must represent in aggregate for at least 75% of annual supplier spend. In addition, key suppliers may also include any high volume supplier or critical component supplier or non-substitutional supplier.

Our Supplier Code and Supplier Code ask our key suppliers to commit to our sector's ethical principles, including high ethical, professional and legal standards, including those relating to human rights, labour laws, anti-bribery and corruption and international trade laws and sanctions. We also ask that our suppliers work with us to reduce waste and emissions within our value chain.

In the first year of requirement against this metric, 100% of 878 key suppliers were identified by the Group. Not all of the identified suppliers have been engaged in the Supplier Code. Engagement is underway and so far 69% of key suppliers have been engaged and aligned with the Supplier Code. We will continue to engage their main subcontractors, key suppliers and other key suppliers in our network.

We have also been working with supply chain stakeholders, suppliers, as well as several other third parties, best practice and build understanding in the impact of our supply chain management on our business.

We will continue to build this network and develop them into a Supply Group 3, emphasising the technical and supply chain management capabilities in our network. We will also continue to partner with them to reduce emissions and carbon footprint.

Tackling Emissions and Waste

To be net zero across our operations by 2040 and net zero across our value chain by 2050 at the latest.

2022 Highlights

- Emissions flat, excluding the impact of new acquisitions during the year, despite strong organic growth
- Waste measured for the first time
- Business-driven initiatives

Total Scope 1 and 2 emissions

10,615

Tonnes CO₂e

Emissions KPI

% reduction of Scope 1 and 2 emissions (tonnes CO₂e) against FY22 baseline (10,615 tonnes CO₂e)

Waste KPI

% of total waste to landfill

FY30 Emissions Target

50% reduction of Scope 1 & 2 emissions on FY22 baseline

FY30 Waste Target

Less than 15% waste to landfill

Ongoing Focus

- Set SBTi net zero target
- Build internal knowledge of Scopes 1, 2 & 3
- Divert waste from landfill
- Set out a clear roadmap to our 2030 targets

We are committed to net zero emissions across our value chain by 2050 at the latest. We have set an interim 50% reduction target for our own operations by FY30. We are currently calculating our Scope 3 and will submit our net zero targets for verification by the SBTi in FY23.

We are hugely grateful to our businesses and the trillion colleagues that have worked during the year to put sustainable initiatives in place at their facilities, including upgrading to LED lighting, introducing electric company car policies and reducing their waste.

We have worked with ERM and an Accredited Emissions Auditor to review our Scope 1 & 2 emissions and set on FY22 base year for our SBTi-aligned target to reduce Scopes 1 & 2 by 50% by 2030.

The target is aligned with our science-based net zero emissions across our operations by 2040.

The introduction of new energy efficient heating, cooling and lighting our facilities with Scope 2 representing 74% of our operational emissions. We intend to achieve our target by using an energy efficient initiative and increasing the renewable electricity generation, as well as the current and renewable electricity.

		FY22	FY21	FY20
Greenhouse Gas Emissions	Scope 1 emissions	3,256	2,534	1,137
Greenhouse Gas Emissions	Scope 2 emissions	7,359	2,111	1,018
	Gross Emissions	10,615	4,645	2,155

Tonnes CO₂e per £1m revenue

10.5

2022	10.5
2021	12.5
2020	8.0

Purchased electricity kWh

14,033,971

2022	14,033,971
2021	13,947,147
2020	7,762,447

Gross emissions

10,615

2022	10,615
2021	9,825
2020	4,331

DELIVERING VALUE RESPONSIBLY CONTINUED

There are some on-site facilities at the majority of our facilities are leased, which can prohibit solar panel installation or energy efficient upgrades. However, we have started to incorporate environmental criteria into our facility requirements when negotiating or renewing leases.

As part of the work we are doing to submit net zero targets to the SBT, we have reviewed our reporting methodology and will focus on a greater transparency of Scope 1 & 2 emissions going forward.

During FY20, which is our base line year, we used a data driven approach to the majority of our businesses (FY20 Group revenue and operating income and other remaining businesses (Metall) are reported quarterly by their owners). For the majority of our businesses, our electricity is estimated on a percentage of revenue basis, mobile consumption is estimated by applying the average vehicle (fleet) to total of all our vehicles and purchased electricity is estimated on a percentage of revenue basis. Landfill and recycling is reported.

Group emissions for existing businesses have remained relatively flat at 151 tonnes CO₂e less than FY20. The Group's emissions of 151 tonnes CO₂e per FY20 revenue has decreased from 154.1 tonnes driven by increased revenue. Total greenhouse gas for the Group was 17,615 tonnes CO₂e of which 18% (3,145 tonnes CO₂e) was attributed to the UK.

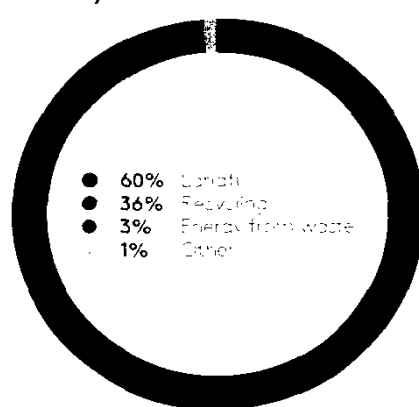
Consolidating and upgrading facilities has been particularly effective and we have seen a 30% reduction in the number of sites at our head office. Aftermarket businesses in the US due to moving operations into more energy efficient states (Arizona). We have also seen some benefits from energy efficiency measures such as upgrading to LED lighting.

Consumption of water and electricity for the Group was 13,941,147 litres and 4,111,666 kWh. Our water consumption was 11

Waste

As part of our Scope 3 calculation, we have started to measure our waste across the Group. This will be incorporated into our Scope 3 calculation and net zero targets but is also an important metric for us to manage.

Waste by destination



Waste per FY revenue (FY20)

Waste per FY revenue (FY20)	Waste per FY revenue (FY20)
Landfill	3.53t per million lbs

Our current external production has contributed to waste and waste by destination in every quarter, an exercise that has significantly improved our understanding of waste across our businesses. There have been challenges to collecting this data due to the volatility of the waste market to measure waste received by third parties in each region and a number of issues that waste is generated in.

There has been a reduction of 33% in the volume of waste of which 60% goes to landfill.

CASE STUDY

Packaging



Packaging initiatives are being put in place across the Group. For many businesses, the focus has been on creating a more circular packaging system.

Some businesses have invested in shredding machines in order to reuse incoming cardboard packaging as packing material for outgoing orders. Other businesses have focused on removing non-recyclable elements from their packaging by replacing plastic tape with paper tape – removing more than a tonne of plastic for their customers. Another scheme has completely removed branding from all packaging. By working closely with our suppliers to have products delivered in plain, cardboard boxes, product packaging can be reused by our businesses and customers.

All of these initiatives support our ambition to reduce our waste-to-landfill and overall waste. It also supports our customers in achieving their own net zero and waste reduction initiatives.



CASE STUDY

Facility upgrades

During FY22, our European Life Sciences business, Simonsen & Weel, moved into a new location that benefits from more efficient heating and cooling, solar panels, state-of-the-art insulation and electric vehicle charging. The business also decided to improve biodiversity in the surrounding area by sowing wildflower meadows on its surrounding land.

DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS POSITIVE IMPACT

Our businesses deliver positive impact through products and services that benefit our society or environment. Growth initiatives in these areas offer exciting commercial opportunities and support our purpose.

Positive impact revenue is generated across all businesses from the sale of products, services and solutions that benefit our society or environment and support the transition to a more sustainable future. Growth initiatives in these areas offer a key opportunity to positively impact our stakeholders.

There are huge opportunities to be found in the scale of transformation required to create a more sustainable, low-carbon economy, such as the adhesives we sell into electric vehicle assembly or the seals sold into renewable energy generation.

Our businesses also supply products that support healthy and safe communities, such as the highly-stranded silicone cable, supplied by our Controls Sector, that is used in defibrillators and ECG electrodes.

Our Life Sciences businesses offer diagnostic solutions that make it quicker and easier to identify life-threatening diseases, including cutting-edge technology that allows for early detection of diseases in newborns, and home-testing kits for remote communities.

Our MRO seals business sells fluid sealing solutions and trademarked products specifically designed to prevent fugitive emissions.

Our decentralised model gives us the agility to capitalise on opportunities in these new and fast-growing end segments as we work with our suppliers and their industries to innovate new, specialised products and solutions.

Our positive impact revenue streams are an important component of our organic growth strategy and each Sector has growth plans in place.

DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS RESPONSIBLY

Our Group purpose is to consistently deliver value and reward our stakeholders by making a positive difference to our colleagues, our customers and suppliers, and our communities. We are committed to fulfilling our purpose in a way that is environmentally, socially and ethically responsible.

DVR governance

Our DVR governance structure is lean and reflects our decentralised model. The Group has responsibility for providing direction and support, and the Board has ultimate oversight and responsibility for DVR across the Group.

Operational execution takes place in our businesses, close to our customers. Managing Directors are responsible for DVR performance of their business and are given flexibility to prioritise DVR focus areas in line with materiality to their business. Targets are set at Group and Sector level and the Executive team, which includes the Group CEO and Sector CEOs, is responsible for performance within their area of responsibility.

In line with our 2021 pledge, DVR KPIs are now integrated into our regular management reporting, including biannual updates on our emissions. Our businesses report their emissions data quarterly to the Group, where it is reviewed by the senior finance team and managed for improvement by the Sector leadership team.

Positive Impact Revenue data is collected from each business and analysed twice a year as part of management reporting. This analysis is considered a useful tool for assessing climate-related risks and opportunities. This data is reviewed by the Sectors, Group Finance, DVR steering committee and the Board.

The role of the DVR Steering Committee, which is chaired by the Group CEO, is to outline Group strategy against the DVR framework, set Group initiatives and targets, support the Sectors and Businesses, and monitor and communicate progress. The challenge of a decentralised business can be to ensure alignment with Group objectives and drive meaningful progress. Communication is key to the effectiveness of DVR management across the Group and DVR features heavily in regular internal and SLT communications.

Our Senior Leadership Team (SLT), which includes business MDs, is updated quarterly on DVR during regular SLT updates from the CEO. They also attend in-depth sessions with members of the DVR Steering Committee to review performance and DVR governance, receive updates on DVR strategy and policy changes, and share their successes and best practice.

The Executive team is updated on DVR along with the SLT but also hold more detailed sessions biannually as part of the Executive Meetings. Sector CEOs meet biannually with the DVR Steering Committee for a DVR Governance meeting to discuss DVR strategy, governance, climate-related risks and opportunities, and review progress and initiatives.

The Board holds an annual DVR session to review DVR strategy, objectives and progress. Climate-related risk management is integrated into Group risk management.

Our DVR governance structure



Our metrics and targets

FY22 is our first year of reporting against six of our D in metrics and KPIs. We have set targets against each of our D in

Focus Area	KPI	Target	Target date	FY22	Our long-term vision
Employee Engagement	Engagement Index	Majority 70%	FY30	74%	90% of our employees are highly engaged
Health & Safety	LTI rate (lost time incidents per 1,000 employees)	5% reduction year-on-year	FY30	10%	100% injury-free at work
Diversity, Equity and Inclusion	% of women on the Senior Management team	Women represent 40%+ of Senior Management team	FY30	27%	A diverse and gender-balanced workforce
Supplier Chain	% of identified key suppliers aligned with the standards of the Diploma Supplier Code	50%+ suppliers are aligned with the Supplier Code	FY30	63%	All key suppliers are compliant with the Supplier Code
Environment	% reduction of Scope 1 and 2 emissions against FY22 baseline	50% reduction	FY30	Baseline year 10,000 tonnes CO ₂ e	Total net emissions (Scope 1+2+3) of 2340 and net deforestation of 0.5 Hectares in 2050 at the latest
Waste	% of total waste to landfill	Less than 5% waste to landfill	FY30	60%	100% waste to landfill avoided

1. Key supplier performance is aggregated across all suppliers we do business with. 2. Key supplier performance is aggregated across all suppliers we do business with. 3. Key supplier performance is aggregated across all suppliers we do business with. 4. Key supplier performance is aggregated across all suppliers we do business with. 5. Key supplier performance is aggregated across all suppliers we do business with. 6. Key supplier performance is aggregated across all suppliers we do business with. 7. Key supplier performance is aggregated across all suppliers we do business with. 8. Key supplier performance is aggregated across all suppliers we do business with. 9. Key supplier performance is aggregated across all suppliers we do business with. 10. Key supplier performance is aggregated across all suppliers we do business with.

Responsible business

We are committed to undertaking business dealings in an ethical and responsible fashion, including the partnership with employees, customers, suppliers, shareholders and society.

In line with our decentralised model, business dealings are managed at a local level, and the Group expects senior management to ensure the highest standards of integrity, ethics and professionalism.

Charitable donations

Our businesses operate across multiple communities. It is important that our colleagues can support and provide to the communities that they belong to. During the year, charitable donations from the Group totalled £22,737 (FY21: £79,374), the majority of which was donated to support those affected by the war in Ukraine. Charitable donations were made:

DELIVERING VALUE RESPONSIBLY CONTINUED

Taskforce on Climate-related Financial Disclosures (TCFD): our response

We recognise that climate change is an urgent and global issue, and we are committed to build our understanding of its potential impact on our Group as well as making a positive contribution to a low-carbon future. We operate a decentralised model across a large number of geographically spread businesses with lean management structures. Our approach to climate impact reporting has focused initially on developing a sound understanding of our own emissions (Scope 1 and 2) in order to set credible and sensible reduction targets (published on page 53 of this report). With many thousands of supply chain partners, we are on a journey to understand our Scope 3 emissions and, as a consequence, our ability to create credible climate change scenario analysis. We have already engaged third party expertise, engaging S&P Act in FY22, and will increase internal resources in this area in the coming months. This will enable us to make material progress during the first half of FY23. We expect to have fully compliant TCFD reporting by the end of FY23.

At the time of publication, we have made climate-related financial disclosures consistent with the TCFD recommendations against the following:

- Governance (a) and (c)
- Strategy (a)
- Risk management (a) and (c)

Our strategy disclosures (a) and (c) further work is underway to understand the impact of climate-related risks and opportunities, and we are planning to undertake scenario analysis during FY23. Our understanding of these risks will be further strengthened, and we will during FY23, in consultation with metrics and targets (discussed in (a) and (c)). We have published our Scope 1 and 2 emissions and targets in this report as well as some of the related risks. We are not currently fully consistent with TCFD's requirement to disclose climate-related risks and opportunities for Scope 3 emissions and targets. However, we have engaged S&P Act to develop a plan to understand our Scope 3 emissions and to publish our Scope 3 footprint and support us in submitting near-term targets to the IRT in FY23 that our long-term target (align with our net-zero goal) and later than 2050.

The further work outlined above, and which is required for compliance with the recommended TCFD disclosures, will be completed during FY23 and the findings will be disclosed in our FY23 Annual Report.

GOVERNANCE

Describe the main climate governance and climate-related risks and opportunities.

Board Oversight

The Board is responsible for the Group's climate performance, climate change and has ultimate oversight of climate-related risks and opportunities as well as our DNV strategy. In FY22, the Board informed and monitored progress in making the DNV climate change regulations and updates during the year, including:

- Reports on major risks and trends including the risks of climate change that allow the Board to review the Group's climate risk and emerging risks together with mitigation actions
- Quarterly risk updates
- Monitoring TCFD's emerging and trends from FY20
- Group DNV updates

DNV Group's 2022
Annual Report

Climate Change and
Risk Management
pages 50-55

Governance
pages 90-91

Climate Change
Climate Change Report
pages 109-117

The Board also approves the overall strategy integration of climate-related risks into the Group's overall risk management framework. The Board expects to require the Board to engage external expertise, including Axioma, to assist in the engagement of PwC and the use of our methodology for calculating our Scope 1 and 2 emissions and to disclose our Scope 3 footprint and submit our near-term targets to the IRT in FY23.

Management's role

Management is responsible for planning and managing the climate strategy and reporting to the Group DNV. Management is responsible for the Group's climate strategy, and progress, including setting emissions targets and achieving performance. Senior DNV is responsible for identifying and assessing climate-related risks and opportunities for the Group. Our Group DNV is responsible for identifying and managing climate-related risks and opportunities for the business.

Our DNV plan and strategy have been approved by the Board and are aligned with the TCFD recommendations.

RISK MANAGEMENT

How the organisation identifies, assesses and manages climate-related risks

We take the same approach to identifying and monitoring climate-related risks as we do for strategic operational, financial and other major risks as outlined in the internal control and risk management section of the Annual Report.

Internal control and risk management: pages 80-88

Our decentralised model means that local businesses are responsible for identifying, assessing and managing risks to their businesses. The businesses use a framework to map risks, based on both likelihood and impact to the business. As part of the Board's DvR governance process, these risks are reviewed by the DvR Steering Committee and Senior Leadership.

The Board holds ultimate responsibility for risk management and oversight and for ensuring any relevant systems or controls are in place, as well as horizon scanning for emerging and potential risks. They are informed of the outcomes of risk reviews ahead of reviewing and approving strategic risks. The Audit Committee ensures the effectiveness of the internal control environment for the Group and that the Group's risk management, governance and internal controls are operating effectively.

METRICS AND TARGETS

Disclose the metrics and targets used to assess climate-related events, climate-related risks and opportunities

We recognise that the emissions captured as a result of our operations and value chain contribute to climate change and global warming. We also recognise the opportunity to participate in global efforts to tackle climate change as well as our exposure to climate transition and risks in making positive efforts to reduce our emissions.

Emissions metrics: page 83

We measure and manage our businesses on their actual Scope 1 and 2 emissions, as well as a combined emissions ratio for Scope 1 and 2. These are reported annually by our business units, along with qualitative reporting on initiatives and progress. These metrics and our performance against them can be found on pages 26-41.

Governance: pages 90-141

Audit Committee Report: 102-137

During the year, we have worked with S&P Act to review our Scope 1 and 2 reporting metrics and calculation methodology and are currently working with them to finalise and validate our Scope 3 emissions.

We have announced a 50% reduction target for Scope 1 and 2, by FY30 against an FY21 base line. This target aligns with the analysis of our value chain emissions and Scope 3 calculations currently being undertaken ahead of submitting net zero targets to the SBTi in line with the 1.5 degree pathway. Our target for Scope 1 and 2 will reduce our own contribution to the increase in global climate impacts and help us to focus on improving the energy efficiency of our facilities. Achieving the calculation of our Scope 3 footprint and net zero targets, it will reduce our exposure to some transitional risks.

Our Scope 3 calculation will also help us to better understand the carbon impact of our business operations, to both physical and transitional climate-related risks.

Our policies and procedures

Anti-bribery & Corruption	The Group has a policy in place to prevent and protect against bribery in line with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure continued and effective compliance in all businesses around the world. We provide training to all of our businesses through our Learning Management System, including senior management and employees in customer and supplier management roles.
Code of Conduct	Our Code of Conduct sets out the expected standards of conduct and behaviour of all employees across Diploma as they relate to corporate governance and the law, social media and stakeholder engagement. Much of the Code of Conduct is underpinned by other Group policies, including Modern Slavery, Anti-steering, Diversity, Equity and Inclusion and Health & Safety.
Diversity, Equity and Inclusion	Our Diversity, Equity and Inclusion (DEI) Policy applies to all our businesses and employees and how we work, and we believe our business leaders play a key role in creating an inclusive, diverse and equitable workplace. We believe that an effective DEI strategy will add value to our business, contribute to employee well-being and satisfaction, and allow us to recruit and retain a wide pool of exceptional talent.
Equal Opportunity	We are an equal opportunity employer. We will not discriminate on the basis of race, religion, disability, ethnicity, age and sex in recruitment, promotion, pay, benefits, programs and materials, employee and contractor management and other employment-related matters. We comply with all applicable DE and non-discrimination regulations and standards and apply responsible standards where education is inadequate. We encourage all members of Diploma to call out discrimination and discriminatory behaviour either through the online manager or through our Whistleblowing policy.
Environmental Policy	Our Environment Policy applies to all businesses and assets that they own, in line with the standards and requirements set out. These include compliance with all existing or applicable environmental laws, understanding the risks and opportunities related to the environment and climate change and how they might impact the business. All businesses are required to submit a statement of environmental impact.
Health & Safety Policy	Our objective is to ensure the Health & Safety of our employees, visitors and partners through proactive safety measures, standards, good governance and policies resulting in incidents. Group performance and protocols are reviewed regularly to ensure that suitable standards are maintained and the Board reviews Health & Safety protocols and performance annually. The Group SaC has ultimate responsibility for Health & Safety across the Group, including ensuring provision of a safe workplace environment. Operating businesses are responsible for delivering planned and unplanned work activities in line with risk level.
Human Rights and Labour Conditions	The Group's activities are primarily carried out in countries with strong human rights legislation, which the Group complies with in the countries in which it operates. Our businesses carry out due diligence in the supply chain and our suppliers are asked to comply with our Supply Chain Code of Conduct standards and requirements related to human rights and labour practices. Our policy is regular and provide with a safe, secure and healthy environment in which to work and we adhere to employment standards programmes.
Modern Slavery Statement	The Group has a zero tolerance approach to slavery and human trafficking, and no form of trafficking, forced labour and modern slavery. Each business undertakes an annual risk assessment of modern slavery within the business and the wider supply chain. Group businesses also monitor and carry out due diligence of suppliers based on these assessments and the risk level in the environment, the nature of the partners across the Board has been assured that slavery and human trafficking is not used within the Group. Our Modern Slavery Statement is available on the company website.
Whistleblowing Policy	We have a Group-wide Whistleblowing Policy that applies to all employees and businesses and is monitored by the Audit Committee. The Policy is designed to protect all of our businesses. Employees are encouraged to raise concerns about all matters that might harm the business and demonstrate a commitment to integrity and a sustainable B4TBSF. We have a clear Whistleblowing procedure in the Group Company Handbook to ensure all corporate allegations with the appropriate internal and external channels are properly reviewed.

KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

We measure our performance against a number of financial and non-financial metrics which reflect how we are delivering against our strategic objectives (as set out on pages 22-33), our financial model (see page 22) and our ESG framework (see pages 34-57).

FINANCIAL KPIs

Organic revenue growth

Organic revenue growth is the Group's number one priority. We focus on products and solutions which are critical to customers' needs, giving resilience to revenues. We target mid-single digit organic growth.

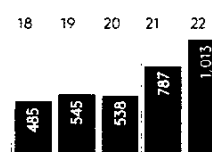
6%
Five-year average



Reported revenue growth

We aim to deliver sustainable double-digit growth through a combination of organic growth and high-quality, value-enhancing acquisitions which accelerate our organic growth.

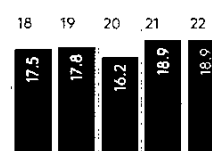
18%
Five-year compound



Adjusted operating margin

Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins. We target a margin of 17%+.

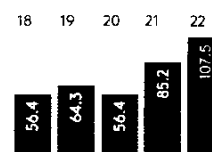
17.9%
Five-year average



Adjusted EPS

EPS growth is a measure of how successful we have been in growing organically and through acquisition, including capital allocation and tax considerations. We target double-digit EPS growth.

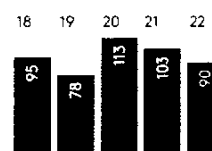
17%
Five-year compound



Free cash flow conversion

A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends. We target free cash flow conversion of 90%+.

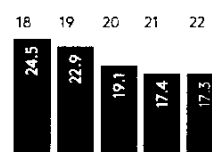
96%
Five-year average



ROATCE

This measures how successful we are at generating returns on the investments we make. We target ROATCE in the high teens.

20.2%
Five-year average



NON-FINANCIAL KPIs

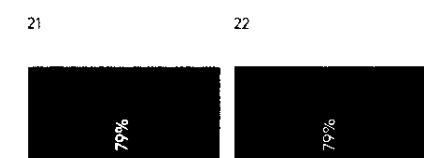
OUR COLLEAGUES

Engagement index

An externally benchmarked score from our annual engagement survey

TARGET

maintain **70%+**

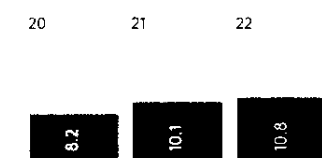


Lost time incident (LTI) rate

Number of LTIs per 1,000 employees

TARGET

5% year-on-year reduction



% women on the Senior Management Team (SMT)

FY30 TARGET

40%+



OUR ENVIRONMENT

% key suppliers aligned with Supplier Code¹

FY30 TARGET

80%

of key suppliers aligned with Supplier Code by FY30

2022

59%

% of total waste to landfill

FY30 TARGET

<15%

waste to landfill

2022

60%

% reduction of Scope 1 & 2 emissions against FY22 baseline

FY30 TARGET

50%

reduction in Scope 1 & 2 emissions

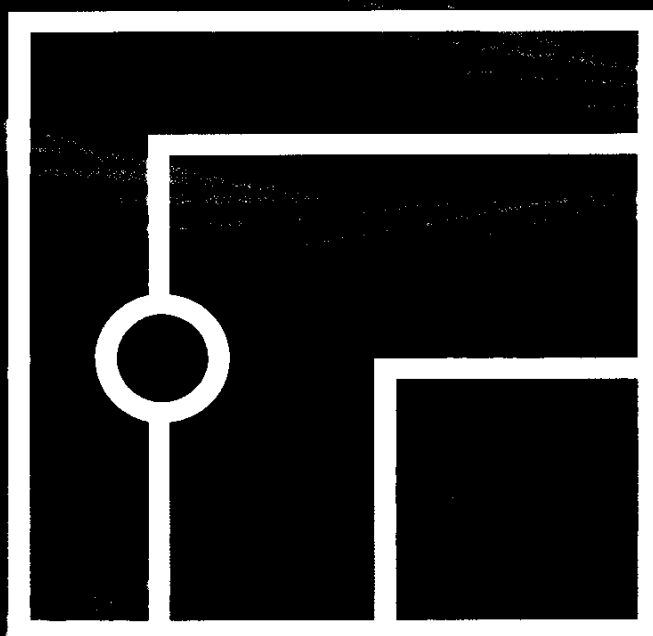
2022 (baseline year)

10,615 tonnes CO₂e

¹ Key suppliers are required to cover in aggregate at least 50% of supplier spend. In the first year of reporting against this metric, 578 key suppliers were identified across the Group. Engagement with the suppliers is ongoing and will continue to increase engagement, in line with the standards of the Supplier Code.

SECTOR REVIEW

CONTROLS SECTOR



The Controls Sector businesses supply specialised wiring, cable, connectors, fasteners, control devices and adhesives for a range of technically demanding applications.

Windy City Wire (WCW): 50%

A leading value-added distributor of premium quality low voltage cable and wire. WCW's comprehensive cable management systems generate significant time and cost savings for customers.

Wire & Cable (UK): 9%

Specialist and flexible cable products and cable identification, termination and management products, and cable management solutions across a broad base of customers in Europe.

Interconnect: 22%

Harness components and specialist connectors used in technically demanding applications across multiple industries in Europe and the US. Our businesses supply a range of products and value-add services and products including protective sleeving, cut-to-length tubing, kitting, connector assembly and prototype quantities of customised multi-core cables.

Specialty Fasteners: 10%

Specialty, premium quality fasteners together with technical support, quality specification and other value-added services for customers in Civil Aerospace, Motorsport, Defence and general Industrial. We also support key customers with our automated inventory replenishment solutions.

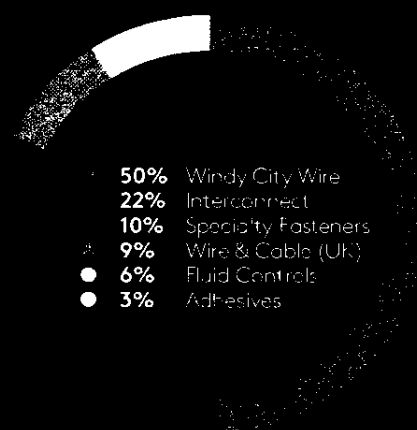
Fluid Controls: 6%

Fluid controllers, compressors, valves, temperature and pressure measurement devices, and specialised liquid dispensing components primarily for customers in the UK Food & Beverage sector.

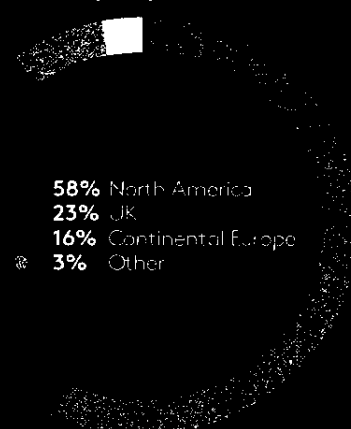
Adhesives: 3%

Specialty silicones, adhesives and sealants together with technical support and other value-added services.

Revenue by segment¹



Revenue by geography¹



Reported revenue (£m)
(compound growth over five years)

+30% p.a.

22

492.8

¹ Pro forma revenues adjusted for acquisitions and disposals completed during the year.



"Our International Controls businesses have shown tremendous energy in building momentum – it's been great to see their hard work pay off this past year."

David Goode
Sector CEO, Controls



"It's been another great year for Windy City Wire thanks to our great proposition, winning culture and ability to deliver for the customer."

Rich Galgano
CEO, Windy City Wire

FINANCIAL HIGHLIGHTS

	FY 2022	FY 2021	Change in the year
Revenue	£492.8m	£343.3m	+44%
Organic revenue growth	+24%	+16%	
Adjusted operating profit	£105.8m	£72.4m	+46%
Adjusted operating margin	21.5%	21.1%	+40bps

- Share gains in high growth end markets and compelling customer proposition driving an excellent WCW performance: organic revenue growth 32%, including double-digit volume growth
- International Controls organic growth 18%, with accelerating growth in attractive end segments while also broadening US and European exposure
- Product extension; excellent organic growth in our new Adhesives business line, with a bolt-on acquisition to add scale and diversify end markets

Sector financial performance

The Controls sector delivered a very strong full year performance with reported revenue materially higher, up 44% to £492.8m (2021: £343.3m). This growth is organic growth of 24% and the contribution from acquisitions and a 3% foreign exchange tailwind.

Adjusted operating profit increased 46% to £105.8m (2021: £72.4m) with the adjusted operating margin 40bps higher year on year at 21.5%. Both International Controls and WCW contributed to this margin expansion, with scale benefits and performance more than offsetting investment in growth and mix effect.

International Controls – Bulk of Sector revenue enjoyed a successful year and as a result of organic revenue initiatives and market share gains, contributed an overall particularly solid performance. This translated into organic growth of 18%, with sustained momentum throughout the year and double-digit profit growth in our core markets. Positive pricing contributed but volume growth was the primary driver of organic growth. The overall International Controls margin improved slightly with positive operating leverage and volume growth partially offset by an investment in growth and mix effect, including product

extension in our **Control Wire & Cable** business. Global Fibres performed very well against a strong comparator. This reflects robust volume growth and a revenue mix shift to higher growth revenue mix with the high performance and high margin, including electric vehicle distribution centres, data centres and new sales. The sector's R&D last year has also improved significantly, the sector's very active market and the sector's diverse opportunities.

Double digit organic growth at **Interconnect** reflects strength across the global partnership, our Bermon energy business, where organic growth with a double digit revenue growth, the major focus of our growth strategy. Other key growth segments include Industrial, process and medical in Europe, with investment in a plant in the US that will be an excellent start delivering double digit organic revenue growth with higher margins, elevated and sustained demand underpinning growth and adding. The overall investment in R&D is strong to support the innovation. The overall operating margin is strong, improved and future performance is expected to be strong. Revenue has been impacted by a mix of growth and product mix.

Specialty Fasteners delivered a strong performance taking share in increasing demand for high quality specialty fasteners. The business has a strong product and high quality. A strong mix of products and

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www.diploma.co.uk

last year, have been integrated into our existing operations. The acquired businesses will bring new contracts and opportunities for revenue, due to the demand. Geographic diversification has also been a theme in performance with growth in Asia and an important contribution from Europe's major hosting manufacturers. Newer end markets such as space are growing rapidly while growth in high performance road vehicles and Rail & Suburban changes have also contributed.

Fluid Controls had another good year, delivering solid and diversified growth and adding to the recovering food and Beverage market.

• **Adhesives** The Adhesives business performed well with strong organic growth in revenue and EBITDA in 2014. Adhesives have many applications. The business has a portfolio of end users from the automotive to consumer products and is working on new products with customers looking into the EV and to electric vehicle markets. In September we completed our acquisition of a new plant in the US and are now both producing and assembling products. Since the start of 2014, we have added new and existing markets.

Windy City Wire had a record revenue. WCCW had another excellent year and another solid market. Continued growth was 30% with solid organic growth opportunities in computer cables for the data centre and other years on year opportunities. The introduction of a new product through the end of the year allowed us to start to take a margin on products. The business has benefited from its exposure to organic growth and growth in demand related to building automation, security, access control and digital antenna systems. Over and above this, WCCW has taken market share and new customers, adding customer orders and new revenue and margins to the business.

With the growth combined with lower manufacturing and material costs, we have managed to bring in large and solid margins. In 2014, we have delivered the highest gross margin WCCW has in its operational history and growth in operating margins and production and generation of cash from WCCW in 2014. This is a very good performance.

Strategic progress

Delivering our growth strategy:

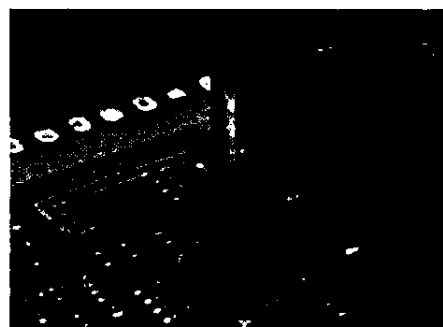
- Our Controls businesses are benefiting from initiatives to capture growth in structurally growing end segments, from data centres and digital antenna systems at WCCW to electric vehicles and energy in International Controls which is also pushing into emerging markets such as space and unmanned aerial vehicles.
- Continued geographic diversification of International Controls, building scale outside the UK – our German energy business has delivered excellent growth. Fasteners is winning share in Asia and Europe, and acquisitions in Fasteners and Interconnect are now delivering strong organic growth in the US.
- Product approaches remain an important component of our business growth including through supplier diversification and cross-selling.
- M&A to accelerate organic growth.
- Strategic acquisition of LJR Electric in February for £2.1m to build scale in the world's largest developed interconnect market, adding and our existing operation, and amplifies the ability to leverage LJR's supply chain.
- Continued build out of our new adhesives business, the within the acquisition of Sirena Solutions for £3m, further diversifying end markets.

- Building scale in our value-added businesses. Acquired last year, we have fully integrated AHV into our existing US Fasteners operation, merging our facilities at Long Beach and Huntington Beach. The US business is now a single, streamlined entity, under one management team and on a single ERP system.
- Continued progress with the project to move our UK table businesses to words, a single management structure and ERP.
- Ongoing investment in talent, including sales hire, to drive growth and supply chain and operations directors to support the execution of our core competencies.
- Continued investment in technology and facility, including building an interconnect in the UK and a number of other E&E projects.

We have made good strategic progress in Controls as we diversify end segments, to increase resilience and broaden our geographic and product addresses markets. The US, for example, offers a strong and low competitive cost to our customers.

CASE STUDY

High growth end markets



Our Adhesives business delivered >20% organic growth, helped by exposure to high growth end markets. Our products and solutions have many applications, including in electronic control units for electric and autonomous vehicles and for waterproofing connections as part of a large scale fibre optic roll-out in the UK by a major telecommunications company.



Read more

diplomapl.com/about-us/our-sectors/controls

SECTOR REVIEW

SEALS
SECTOR



The Seals Sector businesses supply a range of seals, gaskets, cylinders, components and kits used in heavy mobile machinery and a diverse range of fluid power products with Aftermarket, OEM and MRO applications.

International Seals: 47%

Our Seals businesses in Europe and Australia supply seals, gaskets, pumps and related accessories, custom-moulded and machined parts, hydraulic cylinder components, and a diverse range of fluid power products to Aftermarket, OEM and MRO customers.

North American Aftermarket: 23%

Supplies a variety of seals, generally on a next-day basis, for a broad range of mobile machinery used in heavy Construction, Mining and Agriculture. Products are used in repair and maintenance after equipment has completed its initial warranty period or been sold on the pre-used market. Customers are mainly repair shops, engine and transmission rebuilders and other heavy equipment parts distributors.

US Industrial OEM: 18%

Supplies seals, gaskets, O-rings and custom-moulded and machined parts. The business works closely with customers to specify the most appropriate seal design, material and manufacturer for the application; provides technical support during product development; and delivers the logistics capabilities to support small to medium-sized production runs.

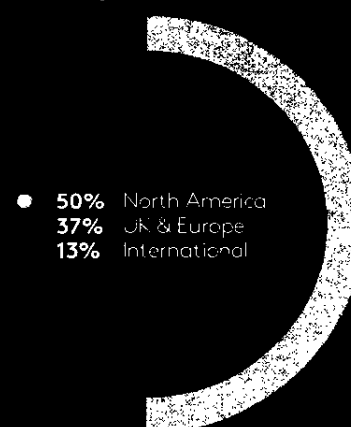
US Maintenance, Repair & Overhaul (MRO): 12%

Our MRO business, VSP Technologies (VSP), supplies high quality gaskets and fluid sealing products to critical services in high cost-of-failure applications. The business works directly with customers to improve sealing performance, providing expertise, product recommendations and training. VSP sells primarily to transportation, chemical processing, power and marine customers.

Revenue by segment¹



Revenue by geography¹



Reported revenue (£m) (compound growth over five years)

+11% p.a.

22

331.4

¹ Pro forma revenues adjusted for acquisitions and disposals completed during the year



"The team has been the standout highlight of my first year – they've shown great leadership in driving growth in a tough supply chain environment. I'd like to thank them all for their commitment."

Ted Messmer
Sector CEO, North American Seals



"2022 was a transformational year for International Seals: we've welcomed around 400 new colleagues from R&G and other businesses and enter the year ahead better positioned than ever."

Alessandro Lala
Sector CEO, International Seals

FINANCIAL HIGHLIGHTS

	FY 2022	FY 2021	Change in the year
Revenue	£331.4m	£263.7m	+26%
Organic revenue growth	+14%	+7%	
Adjusted operating profit	£62.6m	£46.5m	+35%
Adjusted operating margin	18.9%	17.6%	+130bps

- Geographic penetration: Louisville giving access to previously untapped Western and Midwestern states, driving accelerated market share gains in North American Aftermarket
- Diversification in growth end segments: International Seals organic growth 11% with broad-based growth against a strong comparator
- Product extension: strategic acquisition of R&G in April to build scale in the UK and

- broaden the Seals product portfolio into pneumatics, expanding addressable markets
- Building scale: acquisition of ACT, a supplier of innovative anti-corrosion products and solutions, adds further scale to the high quality platform for growth we have built in Australia over the last three years

Sector financial performance

Reported revenue in FY 2022 of £331.4m, (2021) £263.7m, reflecting 26% organic growth, backed by contribution from acquisitions and initial one-off benefits from an exchange translation.

Adjusted operating profit outperformed revenue growth, increasing from £46.5m (2021) £62.6m, with the adjusted operating margin 18.9bps higher (year on year) of 18.9% (2021) 17.6%. This was primarily due to a step up in the North American region which benefited from the acquisition of running pumps and pneumatic cylinders at Louisville as well as gains in MRO. The Sector margin has also benefited from positive operating leverage, higher volumes and the discipline in the low margin truck business, particularly by the production of R&G.

North American Seals

£37.1m Sector revenue delivered organic growth of 10%, reflecting very strong growth in our MRO and Aftermarket businesses.

North American Aftermarket

A strong and successful year with Louisville better positioned extended service hours and extended hours and very first time in opening new regional market share gains in both the truck and the Marine and Agriculture markets.

been coupled with a commercial initiative, including investment in sales and marketing tools, a plan for relocation in newer locations. Organic growth in the US was over 20%, growth in such Western markets was higher and the International Aftermarket businesses grew up a step ahead with double digit organic growth as they continue to diversify into new markets, especially industrial and non-traditional regions.

Organic growth was very strong for **MRO**, driven by revenue diversification initiatives and growth in new market demand and investment in upgrading the business's value proposition and new product offerings and product innovation into new customer lines and market share capture. The end market condition was positive with customer demand strong in our markets and a strong and strong growth in the truck and agricultural markets.

US Industrial OEM

had also delivered and remained ahead of organic growth, with high customer and market diversification. The business saw some softening of demand in mining and construction related end markets towards the end of the year but not in mining and agriculture related end markets. The business has been able to diversify its end markets to a healthy and profitable position.

Management's performance and prudent capital allocation decisions have enabled

value added services and improved supply chain capabilities. This leaves the business well positioned for the year ahead.

International Seals 47% of Sector revenue had another strong year with organic growth of 27% building on a track record of excellence and consistency that reflects the business's diverse profile.

In the UK, **FPE** delivered double-digit organic growth against a strong backdrop of excellent service and better stock availability, not least the continued robustness of demand in manufacturing and the recovering oil & gas segment. The acquisition of **R&G** in April has been transformative, materially increasing stock in the UK, following a successful integration. R&G's organic growth continues to support the trend. This is a result of excellent customer service, existing product range and excellent cross-selling opportunities with multiple partners to drive value for end users. M&A activity to support M&A programmes continues with a further four initial acquisitions since April, with two completing just year end.

Elsewhere, **Kubo** had another solid year with high single digit organic growth against a strong and consistent background. Kubo continued the growth in Eastern Europe 2021, the focus of which has successfully started to include a further product availability versus competitors also underpinned by excellent product. Double digit growth in Australia reflects recovering end markets as well as geographic penetration gains in ordinary.

Similar high single digit organic growth at **M Seals** following strong growth in Sweden and the UK, reflecting a wider Danish and Chinese demand. Growth in Sweden was on an accelerated path to develop key product lines as the resumption of production and production during the year being further supported by organic growth in Germany, while the new UK based UK fleet service is well taking on the benefits of a competitive and highly innovative to drive growth. M Seals also recently increased its footprint in the UK, including supply line to a new plant in Scotland and markets.

Finally, growth over the year due to increased demand for pumps and supply chain efficiencies at **Australian Seals** funded a successful pump overhaul and conversion programme, which will improve productivity, improve maintenance and reduce the risk of failure in the field.

Strategic progress

Delivering on our growth strategy:

- Revenue diversification underpins the Sector's consistency. For most businesses this reflects incremental benefits from revenue diversification initiatives focused on growth segments, geographic penetration and product extension.
- Additionally, our facility in Louisville has delivered a step change for North American market with the team successfully converting their portfolio into accelerated share gains. The facility is also delivering a capability and efficiency improvement; we plan to invest in expanding the outstore to increase capacity in the year ahead.
- M&A to accelerate organic growth
- Acquisition of R&G in April for £201m, a key milestone not just for the UK, but the Sector Sector as a whole. A value-added aftermarket distributor, R&G had added scale in the UK and significant experience on the Seals product portfolio, expanding addressable markets.
- Both on acquisition of ACT in July 2021. This is a specialist provider of sustainable material engineering and corrosion protection solutions, a highly complementary to our existing Australian Seals business with potential revenue and cost synergies.

Building on our value-added business strategy. Completion of the integration of DMR into M Seals and rebranding the combined business is now leveraging a single go-to-market strategy and coordinated commercial activity to drive growth.

- Integration of Telsa Seal and four other entities in Australia. Over the last three years, we have transformed Australian Seals through acquisitions to add scale and structuring the business into two strategic pillars in the East and West, creating a high capacity platform for growth. Across the Sector, all businesses continue on their journey to scale with a customer, investment in talent, automation solutions and capabilities, including new machining capability to support product innovation.
- M&A team made really good strategic decisions in Seals in the year. The Sector is more resilient now than ever, supported by equipment exposures such as medical food and beverage and renewable energy, as well as the immediate greater infrastructure investment through the year in the UK. We are confident about the Sector's prospects.

CASE STUDY

Product range extension delivering organic growth



New proprietary products helped to drive organic growth of >20% in US MRO. The business's Service Equipment Rebuild Kits (SERK™) provide customers with technical expertise and a kitting solution that saves time and money, and reduces the total cost of ownership. Sales of the kits tripled in FY22, attracting new customers and driving market share gains.

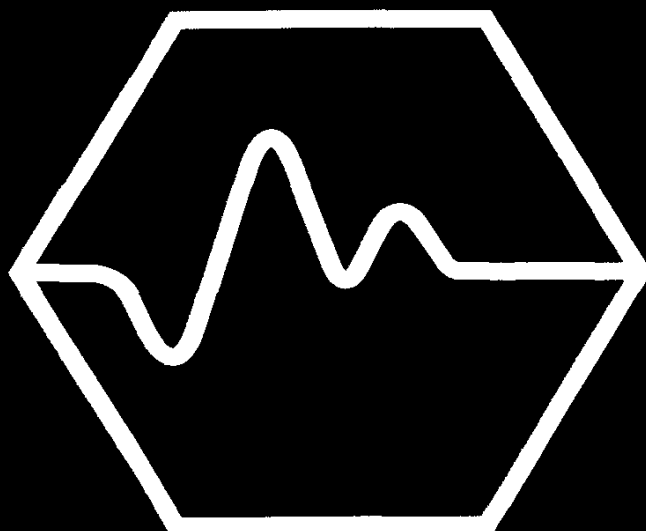


Read more

diplomapl.com/about-us/our-sectors/seals/

SECTOR REVIEW

LIFE SCIENCES SECTOR



The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the Healthcare industry.

Canada: 43%

Our market-leading Canadian businesses supply clinical diagnostics instrumentation and products, and specialty surgical devices together with related consumables and services to public hospitals, private clinics and pathology laboratories.

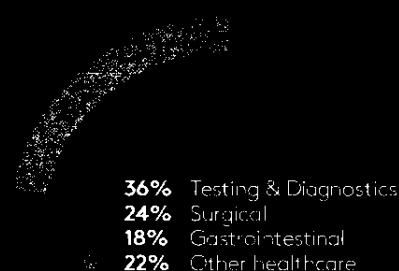
Australasia: 21%

A leading supplier of instrumentation and consumables to the pathology, scientific research and medical segments. Operating in Australia and New Zealand, the businesses also supply specialist surgical equipment and consumables used in hospital operating rooms.

Europe: 36%

Our Irish & UK business distributes leading-edge technologies, focused on specialist laboratory diagnostics and specialty medical devices. Our Scandinavian businesses supply devices, equipment and patient monitoring technologies used in operating theatres as well as medically supervised nutrition.

Revenue by segment¹



Revenue by geography¹



Reported revenue (£m) (compound growth over five years)

+8% p.a.

22

188.6

¹ The figures herein are calculated for our divisions and disposals completed during the year.



"Our Life Sciences businesses have done a great job of developing our product pipeline, focusing on innovative products that will improve patient outcomes and position us in high growth areas. Our prospects are exciting."

Dan Brown
Sector CEO, Life Sciences

FINANCIAL HIGHLIGHTS

	FY 2022	FY 2021	Change in the year
Revenue	£188.6m	£180.4m	+5%
Organic revenue growth	(4)%	+14%	
Adjusted operating profit	£41.0m	£43.2m	(5)%
Adjusted operating margin	21.7%	23.9%	(220)bps

- Organic revenue growth was 2% excluding last year's Covid-related revenues and was moderated by hospital staffing shortages; returned to organic growth in Q4 as expected
- Strong diagnostics and endoscopy performance
- Sector well-positioned for growth: exposed to rising diagnostics spend and significant elective surgical backlogs

- Strategic acquisition of Accuscience: increases exposure to high growth testing, diagnostics and medical segments; continues the build out of our European footprint
- Disciplined portfolio management: disposal of all-envirosciences

Sector financial performance

In FY2022, Life Sciences Sector revenues increased £11m to £188.6m (FY21: £180.4m) with organic revenue up 4% over the full year. Acquisition contributed £10.5m to the total with the contribution from Accuscience and between 5 and 8 medical disposals more than offsetting the disposal of all-envirosciences in May and all GulfCo unit year foreign exchange movements. Increased reported revenues of £2

Excluding last year's Covid-related revenue, the sector delivered 2% organic revenue growth. Growth was also somewhat moderated by hospital and medical staffing shortages in the UK, Canada and Australia on surgical markets.

Adjusted operating profit was £41.0m over the year (FY21: £43.2m). The adjusted operating margin of 22.0% (FY21: 23.9%) and operating leverage of 1.0x (FY21: 1.1x) reflect the effects of rising the impact of purchasing and selling. Return of capital is 1.0x.

Underlying segment performance was as follows:

- Testing and diagnostics** – with our trusted brands such as T2D, iQura and Accuscience, Australia delivering high single digit organic growth against strong FY2021 diagnostics. While COVID-19 testing volumes have ebbed, our new, improved diagnostic tests capture significant growth in our specialty

units that focus on clearing backlogs and our customers have remained loyal with customers. Accuscience was added in May, injecting into the Group well with exciting prospects in high growth segments such as the equine diagnostic.

Our **surgical** businesses were impacted by extended hospital and in Canada and Australia together with hospital capacity constraints, reducing sales teams' access and demand for consumables. Both AMT in Canada and BGS in Australia experienced organic revenue declines with surgical throughput running well below pre-COVID levels. We expect throughput to slowly improve in the year ahead with some underlying one-offive surgical backlogs but need to manage constraints and likely to persist in the near term.

In **critical care**, our market in Sweden & West in Denmark have organic revenue growth was negatively affected by the continued high ventilation equipment need due to our other medical businesses acquisition. Bioradoper in Portugal and a few hospitals in Sweden had a very good year with some exciting new product introductions. Outpatients have also been much well impacted by COVID-19 with sales dropping and our turnover of long product life cycle organic growth.

Strategic progress

Delivering our strategy with resilience

- Delivering organic growth in line with our 2022 strategy and challenging market conditions, whilst ensuring the long-term health of our business. The Sector's prospects remain positive, however, underpinned by effective supply chain recovery, rising demand for spending and our robust balance. Across the Sector businesses have been investing in their product lines, with our new suppliers developing innovative products which will enable us to continue in the post-pandemic market when demand is rising.
- M&A to achieve organic growth: strategic acquisition of Accuscience, a world leader in minimally-invasive urology, to strengthen our medical device portfolio. This acquisition increases our exposure to the high growth diagnostic segment and our medical device portfolio. The acquisition was added to Life Sciences' portfolio and continues to complement the broader European offer.

Addressing the value added business needs

- Continued commitment to our investment in the plant in the UK, Australia and Germany, alongside our other sites in Ireland. The continued investment in operations and innovation at our Australian production facility, in partnership with our local government, will create efficiencies and enable our environmental footprint to be minimised for future growth, investing in capability and talent in key functional areas including Finance and Operations.
- Developing regional leadership structures, including appointment of new Managing Director in Australia.
- New Director & Sustainability in Denmark to work with us to improve energy and waste efficiency and provide leadership in a better working environment.

Delivering our financial strategy

- Dividend of 10p per share in May.

We have made great strategic progress in Life Sciences and the Sector, maintaining our balance and therefore resilience to our portfolio. We did not find improving momentum into the new year and the medium term outlook is exciting with the 'bet' on winding life expectancy and drugs as well as increasing diagnostic innovation.

CASE STUDY

Innovative products driving growth



A key highlight for the year was Life Sciences' success with Fuji CAD EYE™, an innovative endoscope utilising AI technology. Our team partnered with Fuji to commercialise this cutting edge product, which has been a huge success and an important contributor to our strong performance in endoscopy in the year.



Read more

diplomapl.com/about-us/our-sectors/lifesciences/

ENGAGEMENT WITH STAKEHOLDERS AND SECTION 172 STATEMENT

Section 172 of the Companies Act 2006 requires the Directors to promote the success of the Company for the benefit of the members as a whole, having regard to the interests of stakeholders in their decision-making.

Our business strategy is shaped and informed by the views of our stakeholders and we have a way of believing that stakeholder engagement is vital to building sustainable business.

In discharging their duties, each Director will seek to balance the interests, views and expectations of our various stakeholders whilst recognising that not every matter will be equally relevant to each stakeholder nor every stakeholder equally relevant to a positive outcome for the Group. We will be consistent with Diploma's purpose and principles, promote the long-term success of the Group

Stakeholder engagement

The Board's commitment to effective engagement with stakeholders and transparent and robust decision-making ensures that our matters associated with our business and operations, the views and interests of a wide range of stakeholders and a focus on sustainable growth and performance are reflected in our strategy, which informs our goals, objectives and continuous evolving.

Stakeholder information flows into all levels of the Group and our external communications strategy, that we recognise and value the diversity of stakeholders that decisions are made on the appropriate way. The Board's commitment to engage directly with stakeholders is reinforced by the appropriate nature of the Group and relevant representation of our stakeholders in our stakeholder and engagement. It is our responsibility to our stakeholders. Our governance framework recognises the importance of stakeholder engagement to the Board and the Board's role in the governance of the company. The Board, Directors and management take account of the views of the stakeholders in their decision-making and in their management to ensure we deliver on our strategy and

achieve the highest standards of conduct in line with overarching Group governance.

The Board receives and debates regular reports from the Executive team, who in turn have continuing dialogue with Sector and business management, to help it understand and assess the impact of our business and the interests and views of our key stakeholders on its business strategy, financial and operational performance, as well as innovation and covering areas such as: key risks and legal and regulatory compliance. At Group and subsidiary Board levels, it is our mandate that relevant stakeholder perspectives and needs have been considered as part of the decision-making process. As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enable the Directors to comply with the requirements under 172 of the Companies Act 2006 and therefore improve decision-making. Please see pages 93 to 101 for details on how the Board operates and the way in which the Board and its Committees reach decisions including the matters we discussed during the year.

How stakeholder interests have influenced decision-making

Decisions taken by the Board and its Committees, taking into account the interests of our key stakeholders, are the result of these being taken and the need to foster the Diploma's business relationships with customers, suppliers and other stakeholders. The Board does not suggest that not every decision is driven by a majority view in a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By understanding the Group's purpose and values together with the strategic priorities and having a clear line of sight for decision-making, the Board aims to balance these different perspectives.

Throughout this General Report the Board has sought to demonstrate how the views of our stakeholders are embedded in how we do business and by our year on year. Details of the matters considered by the Board during the year can be found on pages 100 to 101.

Set out below are some examples of decisions made by the Board in the year

Dividend

One of the principal decisions considered by the Board over the year has been in relation to returning value to shareholders. In making its decisions regarding the 2021 final dividend and 2022 interim dividend the Board considered our shareholders' expectations, the Company's liquidity position, and the requirement to maintain a prudent level of dividend cover taking into account the financial resources required to execute our strategy.

Acquisitions

Acquisition opportunities remain central to our strategy, but the Board is also mindful of their potential impact on our existing stakeholders. Throughout the year, the Board discussed and approved several new opportunities and projects across our Sectors. The Board receives detailed proposals from our CEO and Corporate Development team in respect of a potential acquisition to consider the long-term impact, allowing us to make careful investments in businesses that possess essential Diploma characteristics, particularly high-quality, value-add customer servicing distribution and great management teams. The Board balances the financial commitment required against the risks and anticipated return, the relative benefits of capital investment within existing businesses, potential cultural differences, and regulatory or compliance impacts as well as how it will be perceived by investors. The Board was particularly cognisant that investors would want to understand how any acquisitions would fit within the existing financial framework and the impact, if any, on cash flow and capital investment.

OUR COLLEAGUES

Why we engage

Our brands success is dependent on its ability to attract and retain qualified and experienced employees.

How we engage

- Group-wide annual Engagement Survey
- Steering group of staff engagement plans
- Regular Employee Life
- Consistent talent and performance management approach
- International communications through People Pages, our Group-wide internal newsletter, e.g. all CEO's decisions and internal metrics
- Consistent learning and development for talent and development. Our Regionals are all contributing to the People Forum, our learning management system
- Workshops on Diversity, Inclusion, Health & Safety, and the Environment

How the Board engages

As part of their role, the Board must consider the needs of our colleagues. They engage with them through:

- Regular updates from the Group CEO
- Group HR Director and Sector CEOs
- Reports and feedback from the Group-wide Employee Engagement Survey
- Briefings for all levels

Outcomes/action taken

As a result of the engagement survey and key engagement activities, both the Group and Board are aware of areas of improvement related to mental health and wellbeing, Diversity, Inclusion, and the next steps being taken and agreed on the following action was taken:

- Colleagues highlighted opportunities regarding mental health and wellbeing and diversity
- Training elements were rolled out the People Portal and working closely with the businesses to roll this out
- Include leadership training, DE training, inclusion and participation in DE activity
- Quarterly performance management, communication, and feedback discussion via Bi-Penny and annual compensation performance review

For more information on how we engage with our employees and colleagues, please refer to:

OUR BUSINESSES

Why we engage

Given the nature of our decentralised model, it is imperative that we maintain good levels of engagement with our businesses to support overall engagement. Ensure alignment with our Group strategy, evolve our culture and facilitate knowledge sharing and best practice.

How we engage

- Quarterly business reviews
- Regular business visits from Group
- Quarterly Senior Leadership Team meetings
- Senior Leadership Team conference

How the Board engages

As part of their role, the Board must consider the needs of our businesses. They engage with them through:

- CEO updates
- Regular updates from Sector CEOs
- Business visits
- Review of proposed acquisitions

OUR CUSTOMERS

Why we engage

Our brand is focused on customer satisfaction and delivering a value-add experience for all above and beyond. It's important for us to remain engaged with our customers to be able to receive feedback for continuous improvement and to build long-lasting relationships.

How we engage

- Providing value-add services
- Decentralised model and localised support have close customer relationships and are responsive to their needs
- Conferences and trade events
- Long-term relationships

How the Board engages

As part of their role, the Board must consider the needs of our customers. They remain engaged with them through:

- CEO Reports
- Updates from Sector CEOs
- Risk management

OUR SUPPLY CHAIN

Why we engage

Our supply chain is fundamental to Diageo's business and we engage with our suppliers to encourage and maintain collaborative and transparent working relationships.

How we engage

- Strong, mutually beneficial partnerships
- Decentralised model – individual businesses maintain close relationships with suppliers
- Strategic alignment and growth opportunities
- Collaboration to reduce environmental impact
- Regular engagement, including audits, as appropriate
- Global Supplier Code and Fair Labour Practices
- Clear payment practices

How the Board engages

- Support of their role: the Board must oversee the integrity of our supply chain. The Board will be informed on key matters through:
 - Updates from Global CEO and Senior E&P Supply chain reporting
- Modern Slavery Statement
- Risk management

For more information on how we engage with our supply chain please see page 44

OUR INVESTORS

Why we engage

We are committed to maintaining an open and constructive dialogue with our shareholders, providing investors with objective information about performance and strategy in order to enable them to put a fair value on the Company and ensure our continued access to capital.

How we engage

- Investor presentation and by CEO and CFO
- One-on-one meetings undertaken by CEO, CFO and Head of Investor Relations throughout the year, including route to market
- Annual General Meeting
- Trading updates, results, investor days and analyst briefings
- Transparency in our financial reporting
- Regular communication with investors

How the Board engages

- Approval of the Group's ESG strategy and consideration of the needs of our investors. They engage with them through:
 - Annual General Meeting
 - CEO and CFO roadshows and webcasts
 - Engagement with the Chair and Chair letter
 - Investor Day and analyst briefings
 - Collaboration with shareholders on key issues and initiatives
 - Board meetings and investor relations updates by the Head of Investor Relations
 - Annual General Meeting and Investor Day
 - Regular communication with investors

ENVIRONMENT AND COMMUNITIES

Why we engage

Acting responsibly and being commercially successful go hand in hand. We value engagement with our communities and, in line with our decentralised model, businesses pursue their own local initiatives supported by Group funding. We appreciate the importance of conducting business sustainably and are committed to significantly reducing our carbon footprint and creating long-term benefits and value for stakeholders.

How we engage

- Charitable donations and fundraising initiatives, both at Group and business level
- Group Environmental Policy
- More frequent group-wide governance reporting
- Integrated waste reporting
- Positive impact level reporting
- D&P governance and workshops
- Investing in sustainable infrastructure

How the Board engages

- Approval of the Group's ESG strategy and consideration of the needs of our investors. They engage with them through:
 - CEO roadshow
 - Updates from Global D&P Committees
 - Training opportunities and education

Outcomes/action taken

- As a result of the aforementioned engagement activities the following actions were taken:
 - Investing in next generation technology across the Group, including cloud with multiple existing solutions
 - Business reduction of greenhouse gas emissions
 - Continuing to transition to renewable energy by partnering with electric companies and investing in technological development

For more information on how we engage with our communities and stakeholders please see pages 34 to 67

Relocation of Abacus dx and Big Green Surgical

This year, two of our Australian Life Sciences businesses successfully integrated their operations at a shared facility. The objective was to create better operational efficiency and improve service to customers and suppliers. Careful consideration was given to colleague wellbeing, engagement and career progression, including through internal communication, colleague consultation, and openly addressing any concerns raised. The move has improved employee engagement and development, as well as Health & Safety. The new facility also benefits from LED lighting, better insulation and more efficient heating and cooling systems.

A number of our businesses have been recognised by their customers, suppliers and colleagues this year.

Feefo Trusted Service Award
at Shoal Group

A1 award

Techsil won the A1 Distributor Awards for the fourth year running from a major supplier

Silver EcoVadis award at VSP Technologies

96%

customer satisfaction at M Seals

M Seals UK shortlisted in Developing Future Talent Category for Make UK

Filcon Electronics awarded best 2021 European Distributor by a major supplier

Q&A WITH OUR NEW CFO



“Our strong performance and strategic progress in such challenging circumstances are testament to our outstanding colleagues.”

Chris Davies
CFO

Q

What attracted you to Diploma?

A

Diploma is a great business with a track record that speaks for itself. The Group's growth opportunity was an obvious attraction but I'm equally excited to join a team that is building scale and focused on the sustainability of that growth.

I believe that this is a role that I can really get my teeth into in a business with abundant opportunities for continued profitable growth. I have been able to get a good feel for the culture. Diploma is a down-to-earth environment where people matter and I think will fit in well here. We have so much to go for and I'm very excited to be part of the team.

Q

What do you bring to the role?

A

First of all it's my energy and enthusiasm to partner with my colleagues to continue to grow and develop this business. Over my career I have accumulated a range of skills and experience which will stand me in good stead.

I have lots of experience of contributing to performance strategy, and a robust financial framework. This has been honed in my previous FTSE CFO role but also through what I have learned as a Group Controller, a Treasurer and in large Divisional CFO roles.

I've worked in many sectors across multiple geographies, including in customer service organisations. Importantly, I've achieved a lot of the things I've spent working in decentralised organisations and I know how a central team can be.

Q

What are your priorities for the year ahead?

A

Very much no hurry. Diploma is in great shape. We have a strong trading team, the business is very profitable and cash generative and our balance sheet is strong. My onboarding process has been excellent and in the months ahead I'm looking forward to meeting all colleagues but our focus is building relationships and continuing to develop my understanding of the Group.

It's too early to be thinking about priorities, but my focus will be to work with the team and the senior team to ensure we can continue to deliver the same great financial performance and strategic execution.

Clearly things are working well here but as we grow there is a natural need for us to evolve, mature and build a top-down buy-in by the full group to ensure that the Group continues to realise the growth opportunity ahead of it whilst maintaining robust financial control.

What I have inherited is a strong but there will be opportunities to go to help support the growth of the Group.

Other Information

$\frac{1}{2} \left(\frac{1}{2} \right) = \frac{1}{4}$

FINANCIAL REVIEW CONTINUED

Free cash flow conversion 90%

Free cash flow represents cash available to invest in growth through value enhancing acquisitions or to return to shareholders. Free cash flow increased 11% in the year to £120.4m (2021: £108.6m). Free cash flow conversion for the year was 90% (2021: 103%), in-line with our targeted 90% demonstrating the high cash-generative qualities of the business model despite very strong organic revenue growth and targeted investment in inventory. Free cash flow benefited from fixed asset disposal proceeds of £19.9m (2021: £4.5m).

The working capital outflow of £28.7m (2021: £12.6m) outflow was driven by increased inventory and receivables reflecting the strong growth in trading activity and targeted investment in inventory to support customer value in the year. We are focused on maintaining mid levels of inventory, forming strong customer working capital management and customer service. The Group's working capital to revenue at 30 September 2022, improved to 15.6m (2021: 15.5%).

Group tax payments increased by £16.4m to £40.6m (2021: £24.2m). Our underlying basis cash tax payments improved 20% (2021: 17%) not including profit before tax. Our effective cash tax rate lower than our Group effective tax rate is only due to acquisition goodwill which is deductible for US tax purposes. Our cash tax rate is higher than last year both due to costs paid during the period and the benefits from enhanced deductions on capital spend in the prior year.

The Group's capital expenditure was higher this year at £15.4m (2021: £6.2m) largely consisting of ongoing investment in new fixed equipment in the Hepatocare business of £6.8m (2021: £0.0m) with the majority supporting revenue growth. Excluding capital expenditure, increased £4.4m to £5.6m, consisting of infrastructure and equipment spend to support efficiency for growth, £3.9m, and improvements or replacements of legacy IT systems plus investments into new cultured businesses £0.7m.

The Group spent £86.0m (2021: £42.2m) on acquisitions and £56.4m (2021: £53.2m) on paying dividends to both Company and minority shareholders.

Acquisitions to accelerate our growth

Acquisition spend of £186.0m, which includes fees, mainly comprises the initial spend for R&G (£91.7m) and Accuservice (£49.9m) as well as an additional £31.4m principally relating to five smaller businesses. The total spend also includes £6.5m of acquisition fees and deferred consideration of £17m. We remain highly disciplined in our approach with all of these high quality value add acquisitions offering our Sectors opportunities to accelerate their organic growth and create value.

Following at 30 September 2022 was £212.0m (2021: £260.7m). Goodwill is assessed each year to determine whether there is any impairment in the carrying value. It was confirmed that there was no impairment headroom on the valuation of this goodwill compared with the carrying value at the year end.

Disciplined portfolio management

The Group completed two disposals in the year: the disposal of all unclassifieds in May 2022 for proceeds of £11.4m, and the sale of its 90% interest in Kentex in November 2021 for proceeds of £10.0m. All unclassifieds and Kentex generated revenue of £1.0m and £1.9m in the year respectively. The proceeds are not included in free cash flow and the net profit or disposal of £1.3m which included in adjusted non-recurring profits.

Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2022, increased by £17.0m to £31.4m (2021: £23.9m) and comprises liability to options to purchase ordinary shares and share dividends and warrants issued or payable to vendors of businesses acquired during the current and prior year.

The liability to subscription rights, share dividends outstanding at 30 September 2022, increased to £20.7m (2021: £17.0m) and comprises £14.7m (2021: £11.7m) relating to M-Gen, PR, iStock and Tech, and £6.0m (2021: £5.3m) relating to R&G. These options are valued at £14.4m (2021: £5.0m) based on the Directors' best estimate of the earnings before interest and tax (EBIT) of these businesses when these options crystallise.

The liability for deferred consideration payable at 30 September 2022, was £24.0m (2021: £18.5m). This liability represents the Directors' best estimate of any outstanding amounts likely to be paid to the vendors of businesses, based on the expected performance of these businesses during the measurement period. The increase in the year is primarily due to the acquisition of R&G.

ROATCE: strong returns

ROATCE is a key metric used to measure our success in creating value for shareholders. As at 30 September 2022, the Group's ROATCE was 10.3% (2021: 10.4%), in line with our long-term target. The full year outcome reflects a number of moving parts with the temporary dilution from recent acquisitions and to get our inventory levels and partially offset by WCV contributing to patient growth and optimising our sales and distribution acquisition activity. We expect ROATCE to increase in FY 2023.

Adjusted trading capital employed is defined in note 27 to the consolidated financial statements.

Strong balance sheet

Strong free cash generation has allowed the Group to be average more than £1m per expected. At 30 September 2022, the Group's Net Debt (excluding IFRS 9 hedge liabilities) stands at £328.9m. The Group continues to maintain a robust balance sheet with net book debt comprised of borrowings of £370.0m, less cash funds of £41.1m.

On 13 October 2022, the Group entered into a term facility, agreed with SP4, which comprised a three-year term loan for an aggregate principal amount of £136.0m (50% LTM) and a committed revolving credit facility for an aggregate principal amount of £135.0m, which was expected to £185.0m during the previous financial year.

During the year, the Group had amended the SP4 to increase the total facility cap. As at 30 September 2022, the SP4 comprises a commitment of £136.0m (50% LTM) for an aggregate principal amount of £136.0m, and a further committed term loan for an aggregate principal amount of £174.2m (50% LTM) and a further committed term loan for an aggregate principal amount of £159.0m (50% LTM) and a further committed term loan for an aggregate principal amount of £149.3m. The SP4 is due to expire in December 2024 and there is an option to extend for a further 12 months period.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$100m, \$89.6m of debt. The effective fixed rate debt was 1.4% as a proportion of total debt. Subsequent to the year end, the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional \$100m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA was 1.4x. We have strong liquidity with headroom of £204m (See table 3)

Employee pension obligations

Pension benefits to existing employees in the UK and overseas are provided through defined contribution schemes at an aggregate cost in FY 2022 of £5.6m (2021: £5.5m).

The Group maintains a legally funded defined benefit pension scheme in the UK. The Group is currently funding this scheme with cash contributions of £0.6m (2021: £0.6m), which increases annually to £1.0m by 2025.

In Switzerland, local law requires our food business to provide a contribution-based pension for all employees which is funded by employer and employee contributions. The pension plan is managed for Kuba through a separate multi-employer plan or non-associated Swiss companies, which plans the funding split between participating companies. In Switzerland, Kuba's annual cash contribution to the pension scheme was £0.6m (2021: £0.5m).

Both the UK defined benefit scheme and the Swiss contribution scheme are funded in line with IAS 19 revised. At 30 September 2022, the aggregate accounting benefit in Switzerland in these two schemes moved from a deficit of £4.9m to a surplus of £6.4m reflecting the sharp increase in bond yields as at 30 September 2022, which in turn reduced the value of the schemes' liabilities. The next formal actuarial funding valuation of the UK scheme is due on 30 September 2022, with completion expected in the second half of FY 2023. Further information on these schemes is included in note 14 to the consolidated financial statements.

FX tailwind and interest headwind largely offsetting

Whilst there is no material currency risk over future interest rates and exchange rates, looking ahead to 2023, it is likely that exchange rates, especially Sterling, will provide a credit to reported earnings whilst increasing interest rates will increase costs. With around 50% of the Group's debt floating at fixed USD and EUR rates, and at current levels we would expect the two effects to largely offset each other.

Organic revenue growth

15%

Reported revenue growth

29%

Adjusted operating margin

18.9%

Free cash flow conversion

90%

Net debt/EBITDA

1.4x

Table 3: Composition of net debt

Type	Currency	Amount	GBP equivalent	Interest rate exposure
Term loan	USD	£147.5m	£173.3m	Fixed at 3.0%
RDF	USD	£8.0m	£10m	Fixed at 3.0%
RDF	GBP	-	£100.0m	Floating
RDF	EUR	£8.0m	£10m	Floating
Guaranteed but not held interest	-	-	£17.7m	-
Gross debt drawn at year end			£370.6m	
Cash & equivalents at year end			£41.7m	
Net debt at year end			£328.9m	

All amounts in millions of pounds sterling

INTERNAL CONTROL AND RISK MANAGEMENT

Effective risk management is integral to our strategic ambitions and provides a solid foundation for our businesses to scale.

Our risk management framework supports informed risk taking by our businesses, it sets out those risks that we are prepared to be exposed to and the risks that we want to avoid in line with the principles and internal controls necessary to evaluate the exposures and ensure they remain within our overall risk appetite. This framework also provides the basis for the businesses to anticipate threats to achieving their performance and ensure we are resilient to risks we have limited control over.

Our risk management governance continues to evolve to ensure that it supports the Group's ongoing growth and strategic objectives. A robust and adaptive

approach to the management of risk is fundamental to the continued success of the Group. By improving our understanding and management of risks, we provide greater assurance to our shareholders, employees, customers, suppliers and the communities in which we operate.

Our approach

Risk management and oversight of appropriate systems of control are ultimately the responsibility of the Board. Due to the decentralised nature of our Group, each risk unit business is well positioned for managing risk effectively to take advantage of opportunities. This is done while ensuring necessary mitigation and controls are incorporated with

appropriate oversight, review and challenge from the Group. This is an integral part of our decentralised business model which encourages operational autonomy. The Board and our Group employees have a continuous improvement focus including how to better identify, evaluate and manage risk and enable growth. We have continued to broaden our risk management and governance in 2022 by developing our top down approach, horizon scanning for emerging and principal risks, and enhancing efficiency of management and governance procedures. We have undertaken initiatives to develop risk reporting, thinking and culture while embedding the necessary capabilities to drive strategic and reliable risk performance.

The Audit Committee are primarily responsible for overseeing the effectiveness of the internal control and risk management framework. An external audit function is being introduced to provide independent assurance over the Group's risk management, governance and internal control processes and presentation effectiveness.

Our risk management framework



Top down

The Group manages horizon scanning for emerging risks, review of principal risks, internal controls, processes and risk management frameworks

Bottom up

Our businesses continually identify risks and opportunities to feed into sector and Group risk reviews

Risk appetite

The Board recognises that there are limits to the level of risk that the Group can take and that it is necessary to determine an appropriate level of risk. Our risk appetite reflects our view of our core values and a commitment to pursue our strategic objectives. The appropriate level of risk is assessed on an annual basis by the Board which defines its risk appetite against a set of criteria, including potential impact on the Group's reputation and ability to realise risk through mitigation. This ensures alignment between acceptable risk exposure and the strategic priorities of the Group.

Identifying and monitoring material risks

Each year the Group's principal executives (the "risk and operations committee") meet regularly with the Board to evaluate how well the Group is managing and controlling whether material risks are identified and whether any further action is required. Material risks are identified through a portfolio of views and analyses, including management views and a consideration of the strategic and operational environment of the Group.

The risk and operations committee will therefore work to determine how to manage risk which is inherent in the Group's financial and operational activities, risk accounting, and its impact on the business. Each risk is evaluated on the basis of the risks that there are in not taking a risk or in not controlling it to provide a score and then be considered to either be the next level of potential justifying the identified risk or to require further mitigation. Each risk is evaluated then determined as either a Group level or divisional risk and is either a picture or narrative risk with the Group in the process of managing it or a risk which the Group has determined is not a material risk and that it will manage the risk through its products in the current or near future.

At our top-down approach to principal risks, the Head of Legal meets with the Executive team and key functions to review and update their material risks, as well as horizon scanning for new disruptions. These are then reviewed and approved prior to the updated principal risks being reviewed and approved by the Board.

During this process, the operational risks identified are reviewed to ensure there are no new principal risks or material risks affecting multiple businesses or sectors. Any actions for improvement or management of risks are shared across the business by the relevant Sector. During the year updates from management to the board covered all our principal risks. With the assistance of the Audit Committee, the Board retained assurance that the Group's risk management and internal control framework was operating effectively and therefore was satisfied that risks were being managed in line with risk appetite.

Risk management roles or internal control activities to ensure accurate accounting and to help mitigate the principal risks of the Group. The governance process within the framework ensures that the Group's internal control risks and a detailed list of mitigating actions are appropriately reviewed by the Executive team and are reported to the Board on a regular basis.

Emerging risk

The Board also considers potential risks, threats and opportunities that could impact our Group in the future. These emerging risks have no track record or previous experience, while the potential impact (either on profits or on the understanding of) could nevertheless significantly influence the performance of the Group.

The risk management framework enables early identification of emerging risks so they can be tracked and evaluated thoroughly at the appropriate juncture with any potential exposure pursued. This shows the Board to determine if the Group is adequately prepared for the situation.

The following emerging risks have been identified with potential future material risk and will be monitored in a regular basis.

Emerging risk	Description
Technology evolution	The risk that the Group does not manage its response to evolving technologies effectively.
Climate change	The risk that the Group fails to anticipate the impact of climate change including the increase in frequency and severity of natural disasters and impact on financial markets and products.
Digitalisation	The risk that the Group fails to keep up to date with new digital services. Having to switch to new services or products.

Principal risks and uncertainties

The Group's decentralised operations, which have different Sectors and geographical spread, helps mitigate the potential impact of these principal risks.

Set out in this section of the Strategic report are the principal risks and uncertainties affecting the Group. These have been determined by the Board, using the robust risk evaluation described on the previous page, to have the greatest potential impact on the Group's future viability.

The principal risks are each classified as either macro/external, strategic or operational, and are not presented in order of probability or impact.

The risks summarised below represent the principal risks and uncertainties faced by the Group, and the steps taken to mitigate such risks. These risks are considered to be material to the development, performance, position or future prospects of the Group. However, these risks do not comprise all of the risks that the Group may face and accordingly this summary is not intended to be exhaustive.

There have been some changes to the Group's principal risks arising from the evolved risk identification process together with the increased scale of the Group and revenue diversification strategies being successfully implemented:

- Customer Concentration and Inventory Obsolescence are no longer considered to be principal risks, although will continue to be monitored and evaluated.
- Inflationary Environment has been reclassified to be a principal risk previously being considered an emerging risk.
- Supplier Concentration, Loss of Key Suppliers and Supply Chain disruption have been amalgamated into Supply Chain, which will also include the risk of supplier discontinuation.
- Loss of key personnel has now, with Talent Diversity, and will also cover the risk of having wrong talent, risks from diversity failure to attract, retain, nurture and inadequate development.
- Tax Compliance has evolved into Non-compliance with Laws and Regulations, which also covers non-compliance with environmental regulatory and the increasing international compliance requirement burden.

Principal risk

Downturn/instability in major markets

Risk category

Macro/external risk

Board risk appetite

Averse

Change in risk



This risk remains at a similar level to last year and is addressed continuously in our risk management process.

Risk description and assessment

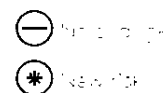
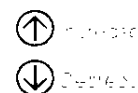
Adverse changes in the major markets that the businesses operate in can result in slowing revenue growth due to reduced or delayed demand for products and services, or margin pressures due to increased competition.

Mitigation

The businesses identify key market drivers and monitor trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand.

A number of characteristics of the Group's businesses moderate the impact of economic and business cycles:

- The Group's businesses operate in three different Sectors with different characteristics and across a number of geographic markets.
- The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs.
- A high proportion of the Group's revenue comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.



Principal risk

Supply chain

Risk category

Strategic risk

Board risk appetite

Cautious

Change in risk



Supply chain disruption has reduced since last year but operational interruptions at customers and suppliers continue.

Risk description and assessment

The ability to service our customers in a timely manner is a key part of our value-added proposition.

For manufacturer-branded products, there is the risk that existing distribution agreements and vertical integration of suppliers is cancelled, therefore losing access to key distribution channels.

There is also the risk of:

- A supplier taking away exclusivity.
- Manufacturing lead times increasing as a result of supply chain shortages. We have experienced this, particularly with suppliers based in Asia, in the current year.
- Supply chain partners not operating to the same ethical standards as Diploma.

Mitigation

Management continues to pursue diversification strategies and regularly seeks alternative sourcing.

Long-term, multi-year exclusive contracts have been signed with suppliers with change of control clauses, where applicable, for protection or compensation in the event of acquisition.

We maintain strong relationships with suppliers and keep customers updated in the event of change to retain key business.

Meeting with key customers regularly to gain insight into their product requirements and market developments.

We work with our supply chain partners to help them meet our standards of acceptable working conditions, financial stability, ethics and technical competence. If they are unable to meet these standards then we will source product elsewhere.

Inflationary environment

Risk category

Macro/external risk

Board risk appetite

Cautious

Change in risk



Significant or unexpected cost increases by suppliers due to the pass through of higher commodity prices or other price increases, higher trade tariffs and/or foreign currency fluctuations, could adversely impact profits if businesses are unable to pass on such cost increases to customers.

Improved pricing processes and the value-added activities undertaken by the businesses mean we are better able to pass cost increases to customers.

A number of characteristics of the Group's businesses moderate the impact of economic and business cycles:

- The Group's businesses operate in three different Sectors with different characteristics and across a number of geographic markets.
- The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs.
- A high proportion of the Group's revenue comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

Principal risk

Unsuccessful acquisition

Risk category
Strategic risk

Board risk appetite
Tolerant

Change in risk



The acquisition pipeline remains healthy and Diploma retains its disciplined approach to bringing high-quality, value-enhancing businesses into Diploma.

Risk description and assessment

Diploma has a strong history of disciplined acquisitions. The business model of the Group is based on successful acquisitions in large and developed markets and sectors.

The following are the key risks of an acquisition process:

- The Group may overpay for a target.
- The acquired business may experience limited growth post acquisition.
- Loss of key customers or suppliers post integration.
- Potential cultural misfit as smaller businesses are faced with the new requirements of a listed Company.

The above may be the result of inadequate due diligence, poor integration or unrealistic assumptions used in the investment case.

Mitigation

A clearly defined acquisition strategy is in place with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group.

An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the CEO.

A formal due diligence process is followed for every acquisition, with close supervision by the CEO and relevant Group senior management. A formal governance process is in place up to Board level.

A disciplined post-acquisition integration process covers operational, financial, governance, legal and reporting matters. The Board reviews performance of recent acquisitions annually.

Geopolitical disruptions

Risk category
Macro/external risk

Board risk appetite
Averse

Change in Risk



This risk remains elevated in certain geographies, including due to ongoing events such as the conflict in Ukraine.

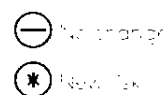
Diploma operates in established economies with stable political and legal systems.

Geopolitical events that could disrupt the Group's operations are mainly related to:

- Interruption of trade agreements.
- Tariffs.
- Change of trade relationships amongst countries in which we operate (e.g. Brexit).
- Government budget spending.
- Political elections.

We continue to diversify our supply base and invest in product range development to mitigate exposure to any single market or region.

Whenever possible, we capitalise on Group synergies and leverage inter-company trading.



Principal risk

Health & Safety

Risk category

Operational risk

Board risk appetite

Averse

Change in risk



Relative to FY21, there has been a significant decrease in Health & Safety risk as a result of the conclusion of the Covid-19 pandemic and improvements in processes arising from the pandemic.

Risk description and assessment

Some Diploma businesses are exposed to Health & Safety risks, including via the environment in which their employees, contractors, customers, and suppliers operate, or through the products they sell.

Mitigation

The Covid-19 pandemic placed a greater focus on Health & Safety and preventive measures to limit the spread of Covid-19. Implementing and continuously evolving these measures has improved Health & Safety across the Group.

Additionally, management continues to promote mental health and wellbeing, offering support to colleagues and access to an employee assistance programme.

Technology & cyber

Risk category

Operational risk

Board risk appetite

Cautious

Change in risk



The risk of cyber attacks remained high in 2022.

The businesses maintained a high standard of cybersecurity whilst accommodating remote working practices in territories where strict lockdowns were in place as a response to the Covid-19 pandemic.

Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses and serve their customers' needs.

Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable.

Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber-attack may also lead to disruption, including fraud.

The decentralised nature of the Group, including stand-alone IT systems for each business, limits the potential impact to any individual business. There is good support and back-up built into local IT systems.

All businesses in the Group have a robust cybersecurity programme and we regularly engage with cybersecurity experts to continuously improve and strengthen our IT systems.

A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business.

Business continuity plans exist for each business with ongoing testing.

Principal risk

Talent & diversity

Risk category
Operational risk

Board risk appetite
Cautious

Change in risk



This risk has increased in the year, mainly due to current market labour conditions with the tightening of labour markets affecting candidate availability and retention, upward pressure on wage levels in certain geographies and changing expectations of working environments.

Risk description and assessment

The success of the Group is built on strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have an impact on performance for a limited time period.

Not having the right talent or diversity at all levels of the organisation to deliver our strategy, resulting in reduced financial performance.

Mitigation

Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term.

The Group places very high importance on planning development, motivation and reward:

- Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses.
- Implementing a structured talent review process for the development, retention and succession of key personnel.
- Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Product liability

Risk category
Operational risk

Board risk appetite
Averse

Change in risk



This risk remains at a similar level to last year.

There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability.

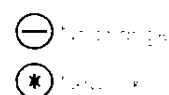
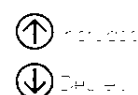
The Group may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason.

In situations where a Group business is selling own-branded products and cannot subrogate the liability to a supplier, the business will be liable for failure of the product.

The Group has liability insurance in place providing appropriate cover for each business

Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake product risk assessments and comprehensive supplier quality assurance assessments.

The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers to limit any liabilities.



Principal risk

Foreign currency

Risk category

Financial risk

Board risk appetite

Cautious

Change in risk



This risk has remained at a similar level to last year.

Risk description and assessment

The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, due to operating businesses' revenues or product costs being denominated in a currency other than their local currency.

Translational foreign exchange risk arises primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro.

A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit by approximately £17.0m (9%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £31.6m (5%).

Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.

Mitigation

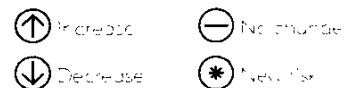
The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets.

The Group's businesses may hedge up to 80% of forecast (for a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts.

Rolling monthly forecasts of currency exposures are reviewed on a regular basis.

Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 26 to the consolidated financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED



Principal risk

Non-compliance with laws

Risk category
Operational risk

Board risk appetite
Averse

Change in risk



Laws governing businesses continue to increase in volume, scope and complexity. As the Group scales, businesses are increasingly subject to the regulations of multiple jurisdictions that may not all align with one another.

Our businesses are facing a large number of regulatory changes over the coming years in respect of environmental commitments and controls.

Risk description and assessment

The Group's businesses are affected by various statutes, regulations and standards in the countries and markets in which they operate. Diploma PLC itself is a listed entity subject to regulation and governance requirements.

Mitigation

The board of each business is accountable for identifying and monitoring what laws are relevant to their business, including any emerging or changing legislation, and for ensuring commercial legal risks are appropriately managed.

The Head of Legal advises on legislative and regulatory changes relevant to the Group as a listed company and has oversight of all material transactions including acquisitions.

VIABILITY STATEMENT – DIPLOMA PLC

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 September 2025, which is a longer period than the outlook required in adopting the going concern basis of accounting.

A period of three years has been chosen for this assessment having considered the speed and degree of change possible in key assumptions influencing the Group, as well as the likely impact of each of the footprint of the Group, and on a conservative basis the Directors' ability to predict beyond the period of three years. Given the pace of change in the virtual and/or physical in which the Group operates, the Directors believe that three years represents the most appropriate time period over which to assess the Group's viability. The timescale is consistent with the Board's strategic review, which is undertaken by experts in each business area. As part of this assessment, the Directors have considered the Group's future growth rate of the existing businesses, and the sustainable performance of existing businesses.

The Directors confirm that this robust assessment of all provisions the principal risks to the Group, as described on pages 80 to 89, and the potential impacts these risks could have on the Group's business model, future performance, solvency or liquidity over the assessment period. The Board is aware of the adverse nature of the virtual and/or physical in which the Group operates, and the potential to exacerbate the impact of all of these risks on the Group.

The viability assessment considers severe but plausible scenarios aligned to the principal risks facing the Group, where the reduction of these risks is not being remote, and considering the effectiveness of the Group's risk management and controls and current risk appetite.

A robust financial model of the Group's position as a business, by business, and the metrics for the Group's key performance indicators (KPIs) are reviewed for the assessment period. The Group's KPIs have been selected to set at 5% annual target, including flexibility on both of the main assumptions, namely future revenue growth, incorporating adverse trading conditions on the Group arising from a downturn in the global and markets in which the Group operates, operating margins and a favourable working capital movement, driven by further cash generation. The degree of severity applied in this restricted scenario was based on management experience and knowledge of the Sectors in which the Group operates.

The results of testing these assumptions in aggregate to reflect a severe but plausible scenario are used to determine whether additional bank facilities will be required during this period. The Group has significant financial resources, including bank facilities as detailed on page 157. The Group has a broad spread of international and local, but is different geographical and independent market sectors, often secured with longer term agreements. The Group is further supported by a robust balance sheet and strong dividend cash flows.

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as set out in the next three years to September 2025. The Directors' assessment has been made with reference to the resilience of the Group, as assessed by its robust performance during the past 14 months and the Group's resilience to changing business conditions and cash generation, the Group's current strategy, the Board's risk appetite and the Group's ability to fund and how they are managed as described in the Strategic Report.

CHAIR'S INTRODUCTION TO GOVERNANCE

Compliance with the UK Corporate Governance Code

It is the Board's view that for the financial year ended 30 September 2022, the Company has been compliant with all of the principles and provisions set out in the UK Corporate Governance Code 2018 (the Code), with the exception of provision 38 (alignment of executive director pension contribution rates with those available to the workforce), for which arrangements are in place to ensure compliance by 31 December 2022, as detailed in the Remuneration Report on page 121. The current Remuneration Policy also provides that, for directors appointed since the Policy was approved, the annual maximum pension allowance or contribution will be aligned to the maximum rate available to the majority of the wider UK workforce.

Principles of the UK Corporate Governance Code 2018

More information

Board leadership and company purpose

Diploma is led by an effective and committed Board, dedicated to promoting the long-term sustainable success of the Company, generating value for shareholders and stakeholders, and contributing to wider society.

Read more on pages 72 to 75, and page 99.

Division of responsibilities

The roles of the Chair and the Group CEO are separate and there is an appropriate balance of Executive and Independent Non-Executive Directors.

Read more on pages 96 to 98.

Composition, succession and evaluation

Appointments are subject to a formal, rigorous and transparent procedure. Succession plans are in place for the Board and senior management. An evaluation of the Board and its committees is undertaken annually, in line with the Code.

Read more on page 96, and pages 108 to 113.

Audit, risk and internal control

Formal, transparent policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions, and the integrity of financial and narrative statements, and to manage and mitigate risks.

Read more on pages 80 to 88, and pages 102 to 107.

Remuneration

Diploma has remuneration policies designed to attract the best talent and promote long-term sustainable performance aligned with shareholder interests. Executive remuneration is aligned to the Company's purpose and values and is clearly linked to the delivery of long-term strategy.

Read more on pages 114 to 133.



Dear Shareholder,

On behalf of the Board, I am delighted to present the Company's Corporate Governance Report for the year ended 30 September 2022, which is my first report as your Chair. One of the responsibilities of my role as Chair is to promote and oversee the highest standards of corporate governance within the Board and across the Group. The Board plays a critical role in ensuring that every part of our Group conducts its business in a manner which is consistent with ethical standards appropriate to a responsible corporate citizen. A sound corporate governance framework with the right systems and controls is key to ensuring sustainable long-term success: we are also very conscious that effective governance is not purely a matter of regulatory compliance but encompasses many issues including operating with integrity and honesty, promoting diversity and enabling better decision-making through inclusion to ensure we balance the needs of all stakeholders and operate in a fair and transparent manner.

This year will be the 30th anniversary of the publication of the Cadbury Committee's report on corporate governance, the founding document for today's UK Corporate Governance Code (the Code). The report highlighted the importance of an effective board in creating and maintaining good corporate governance and set out the fundamentals of good governance which remain in the current Code. As the environment in which corporate citizens operate has evolved and our Group has continued to grow in scale and complexity, we have continued to develop and improve what constitutes good governance with a particular focus on stakeholders, sustainability, and long-term value creation.

"The high standards of corporate governance underpin everything we deliver."

The Board is very conscious of the role it plays in ensuring that Diploma operates in a manner which is consistent with the highest standards of corporate governance. The pandemic has accelerated the evolution in the approaches of shareholders and other stakeholders to these and broader topics. Financial performance is no longer the sole guiding reason for a corporation, instead it must consider its place and role in society, its resilience and its ability to create value over time for a wide range of different stakeholders. Throughout the last few years, we have developed our approach and thinking around shareholders and stakeholders, how we capture their views and deliver their interests. A core element of this is the work that the Board has done over the year to ensure that Diploma contributes to wider society through sustainable, long-term practices as well as through our Delivering Value Responsibly (DVR) targets. Further information on our sustainability programmes can be found on pages 42 to 53. We have also continued to evolve and embed our DVR programme throughout the Group. Insights from our DVR programme have been used to inform steps taken by the Board, executive management and our businesses to improve the efficiency of systems and processes, with the goal of further empowering our colleagues, increasing agility and speed in execution and enhancing local accountability.

Effective leadership and optimal colleague engagement depends on a healthy, empowered and positive business culture. Diploma has a strong purpose, set of values and cohesive cultural fundamentals which govern our actions and provide guidance across our varied businesses even in recent challenging times. The importance of culture has been particularly acute this year as our colleagues continued to adapt to new ways of working. Further details on how the Board has monitored and assessed culture can be found on page 99.

We will continue to refine and develop our governance processes, to ensure robustness and efficiency at Board level and throughout the Group, in a way which enables the creation of sustainable long-term value for our shareholders and stakeholders.

Board succession and evaluation

Board succession remains a key area of activity and focus. Following the retirement of John Nicholas at our Annual General Meeting (AGM) on 19 January 2022, I assumed the role of Chair of your Board. Barbara Gibbes stepped down as CFO on 30 September 2022, and Chris Davies was appointed to the role on 1 November 2022. Anne Thorburn and Andy Smith are due to retire prior to the 2024 AGM and therefore the Board has commenced the process of seeking suitable candidates to take over their Committee Chair positions. The Board is keenly aware of the need for diversity and inclusion, which is a key component of the Group's DVR programme. The Board will continue to set the right conditions and lead by example through its own approach to inclusion and diversity across its composition; further information can be found in our Nomination Committee Report on pages 108 to 113.

A key aspect of good governance is for the Board to critically self-analyse itself, its members and Committees, in order to continually improve its effectiveness. The Board carries out effectiveness reviews annually, and in FY22 this was undertaken internally in line with the Code. This evaluation has also enabled the Board to identify opportunities for it to further improve its effectiveness; additional detail on the evaluation results and areas of agreed focus can be found on page 113.

The Board's priorities for 2023 remain consistent, with a continued focus on the implementation of the Group's strategy; challenging and empowering management; succession planning and management of risk. Your Board is well placed to execute its stewardship role to ensure that the Group continues to evolve, scale and deliver long-term sustainable growth. We will also continue to be agile, adapting our thinking and priorities and promoting the interests of our investors, employees and other stakeholders over the coming years.

Our AGM will be held on 18 January 2023. I hope that as shareholders in the Company, you will be able to attend to meet with the Board of Directors and discuss any matters you feel are important to the future success of the Group.

David Lowden
Chair

GOVERNANCE AT A GLANCE

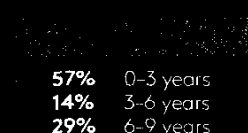
Ethnic diversity



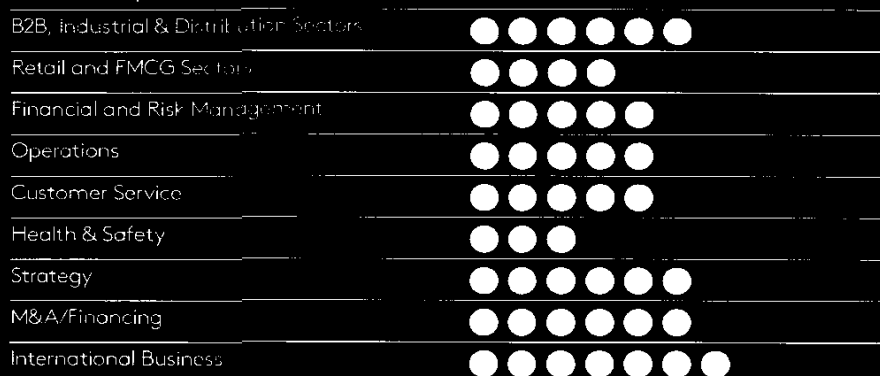
Gender diversity



Length of tenure



Skills and experience



Board and Committee attendance FY22 (as at 30 September 2022)

Member	Board	Audit Committee	Nomination Committee	Remuneration Committee
David Lowden	8/8	–	4/4	6/6
John Nicholas	3/3	–	1/1	1/1
Johnny Thomson	10/10	–	–	–
Barbara Gibbes	9/9	–	–	–
Anne Thorburn	10/10	5/5	5/5	6/6
Andy Smith	10/10	5/5	5/5	6/6
Geraldine Huse	10/10	5/5	5/5	6/6
Dean Finch ¹	9/10	5/5	4/5	6/6

1. Dean Finch was unable to attend the Remuneration Committee and three meetings prior to and the appointment of David Lowden as Chair, as they were called on short notice.

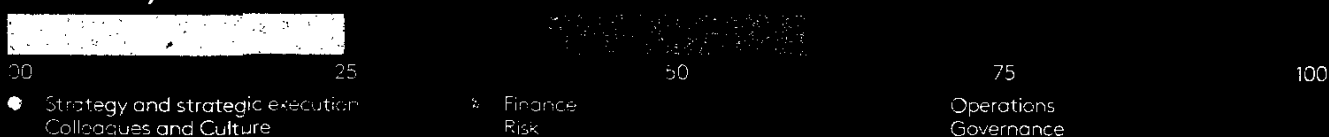
Changes to the Board

– John Nicholas stepped down from the Board on 19 January 2022.

David Lowden was appointed as Chair of the Board and Nomination Committee on 19 January 2022.

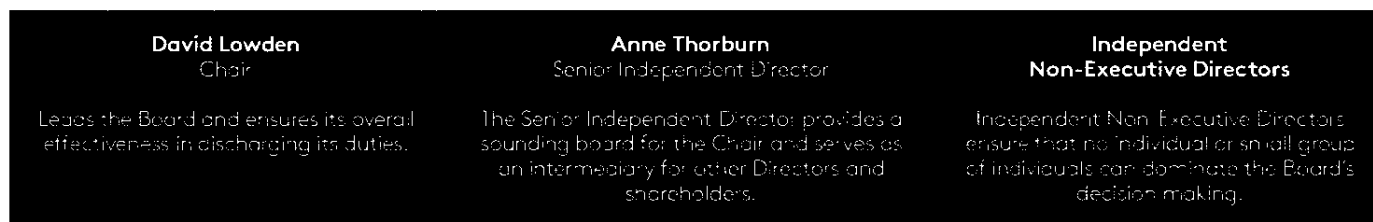
– Barbara Gibbes stepped down from the Board on 30 September 2022.

Board activity and focus area



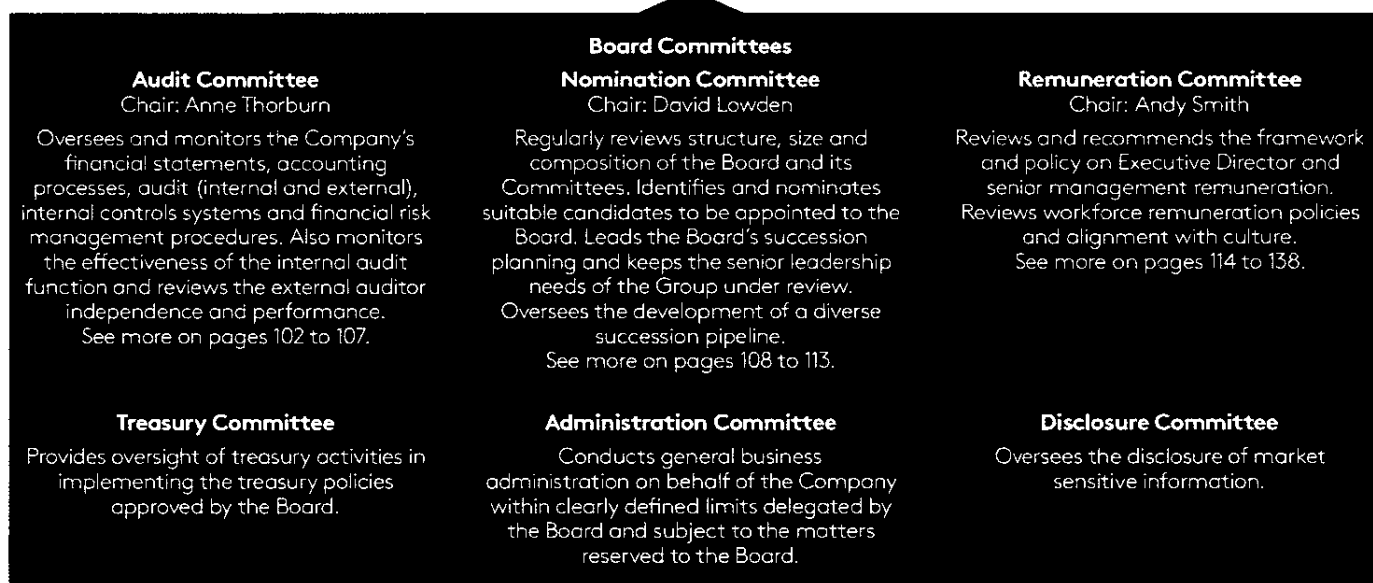
Our governance framework

The Board comprises the Chair, Executive Directors and independent Non-Executive Directors, and is responsible for the performance and long-term success of the Company, including health and safety, leadership, strategy, values, standards, controls and risk management.



Group Company Secretary

The Group Company Secretary supports the Chair and ensures that Directors have access to accurate and timely information that they need to perform their roles.



Executive Directors

Chief Executive Officer and Chief Financial Officer

The Group CEO and CFO lead the implementation of the Group strategy under the Board's

Executive team

The executive team provide strategic and operational leadership to the Group, ensuring that strategic objectives are achieved effectively. The team report to the Board and are led by the Group CEO.

Senior Leadership Team

The Senior Leadership Team oversees executive directors' individual responsibilities and the Group's strategic and operational initiatives and is responsible for policy and implementation. The team is made up of members of the executive team, Managing Directors of the business units and key Professionals.

BOARD OF DIRECTORS





Dean Finch
Non-Executive Director

Joined
May 2021

David Lowden
Board Chair

Joined
October 2021

Anne Thorburn
Senior Independent
Director

Joined
September 2015

BOARD OF DIRECTORS SKILLS AND EXPERIENCE



David Lowden
Board Chair & Nomination Chair

Joined
October 2021

Current external appointments:

- Senior Independent Director, Morgan Sindall plc
- Chair, Capita PLC

Relevant skills and experience:

- Industrial and Distribution Sectors
- Financial and Risk Management
- Operations
- Strategy
- M&A and Financing
- International Business

Past appointments:

- Chair, PageGroup plc
- Senior Independent Director, Berendsen plc
- Chair, Huntsworth plc
- Non-Executive Director, William Hill plc and Cable & Wireless Worldwide plc
- Chief Executive, Tavor Nelson Sofres



Johnny Thomson
Chief Executive Officer

Joined
February 2019

Current external appointments:

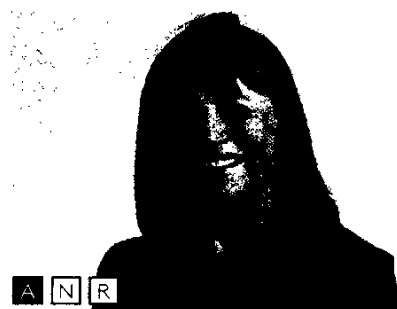
- None

Relevant skills and experience:

- B2B Industrial, Distribution and Service Sectors
- Financial and Risk Management
- Operations and Customer Service
- Strategy
- M&A and Financing
- International Business

Past appointments:

- Group Finance Director, Compass Group PLC
- Regional Managing Director, Latin America, Compass Group PLC



Anne Thorburn
Senior Independent Director & Audit Chair

Joined
September 2015

Current external appointments:

- Non-Executive Director and Chair of the Audit Committee, TT Electronics plc

Relevant skills and experience:

- B2B Industrial and Manufacturing Sectors
- Financial and Risk Management
- Strategy
- M&A and Financing
- International Business

Past appointments:

- Chief Financial Officer, Exova Group plc
- Group Finance Director, British Polythene Industries plc
- Non-Executive Director, BTG plc



Chris Davies
Chief Financial Officer

Joined
November 2022

Relevant skills and experience

- Retail and FMCG Sectors
- Financial & P/Ls Management
- Strategy
- M&A and Financing
- International Business
- Operations and Customer Service

Past appointments

- Chief Financial Officer, National Express Group PLC
- Group Financial Controller and Treasurer (and Interim Group CFO), Inchcape plc
- Chief Financial Officer for North America, Diageo plc

Current external appointments

- Non-Executive Director, Motability Operations Group PLC

Committee membership

- R** Remuneration
A Audit
N Nomination
Chair



Andy Smith
 Independent Non-Executive Director
 & Remuneration Chair

Joined
 February 2015

Current external appointments:

- None

Relevant skills and experience:

- Healthcare, Retail, FMCG and Utilities Sectors
- Operations, HR and Customer Service
- Strategy and Risk Management
- Sustainability, Diversity Equity & Inclusion and Health & Safety
- International Business

Past appointments:

- Managing Director, Severn Trent Services
- Water Services Director, Severn Trent plc
- Group HR Director, The Boots Company PLC
- Customer, Retail and Technology Director, Severn Trent plc



Geraldine Huse
 Independent Non-Executive Director

Joined
 January 2020

Current external appointments:

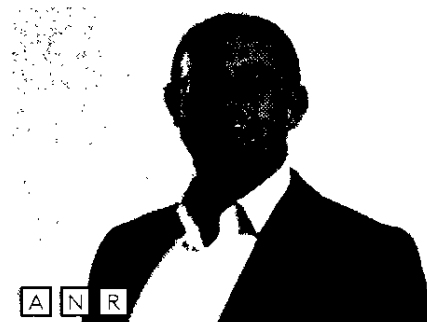
- President, Procter & Gamble, Canada

Relevant skills and experience:

- Retail and FMCG Sectors
- Customer Service
- Sales and Marketing
- Diversity, Equity & Inclusion
- Organisational Development
- International Business

Past appointments:

- Chief Executive Officer, P&G Central Europe
- Chair of the Institute of Grocery Distribution



Dean Finch
 Independent Non-Executive Director

Joined
 May 2021

Current external appointments:

- Group Chief Executive, Persimmon PLC

Relevant skills and experience:

- B2B Industrial, Services and Retail Sectors
- Financial and Risk Management
- Operations and Customer Service
- Health & Safety
- M&A and Financing
- Strategy
- International Business

Past appointments:

- Chief Executive Officer, National Express Group plc
- Group Chief Executive, Tube Lines
- Group Finance Director & Group Chief Operating Officer, FirstGroup plc



John Morrison
 Group Company Secretary
 & Head of Legal

Joined
 April 2020

An experienced FTSE Company Secretary and commercial solicitor, John is responsible for the Group's legal, compliance and governance framework.

John provides support and advice to the Directors, the Board and its Committees. He brings rigour to corporate governance and ensures that Board procedures are fit for purpose and adhered to. John has expertise in regulatory and contractual law and legal risk management.

BOARD OF DIRECTORS

DIVISION OF RESPONSIBILITIES

The Board is responsible to shareholders for the Group's financial and operational performance, risk management, culture, and is collectively responsible for promoting the long-term success of the Group.

The Board is responsible for monitoring progress made against strategic objectives, approving proposed actions and ensuring that the appropriate internal controls are in place and that they are operating effectively.

There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities. The Board is assisted by three principal committees (Audit, Nomination and Remuneration), each of which is responsible for reviewing and dealing with matters within its own terms of reference.

Matters reserved for the Board

The Board has a formal schedule of matters reserved for its decisions:

- purpose, strategy and management
- values, culture and stakeholders
- membership of the Board and other appointments
- financial and other reporting and controls
- audit, risk and internal controls
- contracts and capital structure
- communication
- remuneration
- delegation of authority
- corporate governance and other matters

ROLES IN THE BOARDROOM

Non-Executive Chair

- leads the Board and ensures its overall effectiveness in discharging its duties;
- shapes the culture in the boardroom and promotes openness, challenge and debate;
- sets the agenda for Board meetings, focusing on strategy, performance, value creation, risk management, culture, stakeholder and accountability;
- chairs meetings ensuring there is timely information flow before meetings and adequate time for discussion and debate;
- fosters relationships based on trust, mutual respect and open communication both inside and outside the boardroom;
- leads relations with major stakeholders in order to understand their view on governance and performance against strategy.

Independent Non-Executive Directors

- ensure that no individual or small group of individuals can dominate the Board's decision making;
- provide constructive challenge, advice and guidance to the Board, its advice and critical executive management to the extent;

Independent Non-Executive Directors must not be considered as a subcommittee of the Group comprised of more than half of its Board members.

Senior Independent Non-Executive Director

- leads the Board and ensures its overall effectiveness in discharging its duties;
- provides the Chair with support in the discharge of duties, in their temporary absence;
- works with the Non-Executive Directors to ensure the Board's overall effectiveness of the Chair and ensure that the Chair is supported by the Chair;
- acts as an alternative contact point for shareholders and other stakeholders regarding their interaction with the Chair and the Board.

Group CEO & Group CFO

- lead the implementation of the Group's strategy with the Board;
- Group CEO is responsible for the execution of the strategy and for the overall management of the Group;
- Group CFO is the Executive Director and is responsible for the overall management of the Group's overall operations and resources of the Group;
- Executive Directors provide information and recommendations to the Board and also participate in Board decisions regarding Group management and overall business matters.

Matters delegated to the CEO and CFO include managing the Board and include those with the Group's strategy and overall operations and performance of the Group and financial management.

Group Company Secretary

- supports the Chair and ensures the Board and the Board's committees are provided with the information they need to perform their duties;
- is the trusted intermediary with the Board and its committees and provides executive management and the Chair with the Board's views;
- advises the Board on legal and statutory governance matters and provides the Board with the Group's compliance with regulatory requirements and other statutory and regulatory requirements.

BOARD OF DIRECTORS MONITORING CULTURE

Purpose, culture and values

The Board is responsible for ensuring that the Group achieves its purpose, which is to consistently deliver value and reward its stakeholders by making a difference to our colleagues, customers and communities. In reviewing and ensuring the implementation of the Group's strategy, the Board ensures that the objectives of our purpose are met while also taking into account the risks and opportunities facing the Group.

The 2018 UK Corporate Governance Code (the Code) emphasises the importance of the role of the Board regarding culture, with specific recommendations that the Board assesses and monitors. Our decentralised model means that culture is embedded in our businesses, each of which has its own unique aspects which we believe are critical to the autonomy and empowerment that underpins the Group's success. However, there are core shared values across our businesses: respect, continuous improvement and accountability.

During the year, the Board has monitored culture in a number of ways. This includes business visits, presentations from Sector leadership, strategy review sessions as well as updates on people and culture from the Group HR Director. Successfully scaling up our value add model requires constant evolution, and our culture has a critical role to play in supporting growth. When considering acquisition strategies, cultural fit is also an important area of focus and discussion.

One of the key ways in which the Board can experience and evaluate the culture is through meeting with colleagues across our businesses. We were delighted to travel to the USA in March 2022 and visit Windy City Wire in Chicago and Hercules Attermarket in Louisville. The results of our Group Colleague Engagement Survey, discussed on page 36 to 37, have also provided further insight.

How the Board monitors culture

The Board

- Strategy updates
- CEO's report
- Presentations by the Group HR Director
- Sector and function presentations
- Employee engagement survey
- Site visits
- Board Committees

Our Board Committees also play an important role in monitoring our culture:

- Remuneration Committee receives updates from the Group HR Director that provide an overview of pay structures across the Group and their alignment with our purpose, values and strategy. This allows the Committee to ensure that the relevant policies and practices are consistent with our values.
- Audit Committee has oversight of internal controls and continuous access to internal audit, both of which can give an indication of culture, particularly homing in on any negative elements that don't align with the Group's culture.

Employee engagement

The Board is committed to engaging with employees and has considered the employee engagement methods specified by the Code but felt that alternative methods are more appropriate. Given the Group's decentralised model and its geographical spread, the Board has continued with a multi-faceted approach to engagement with the global workforce that is not led by any one Director or group of Directors.

We consider that engagement by the local Managing Directors (MDs) with their own workforce, together with strong channels of communication from MDs to their respective Sector CEO as well as communication with the global workforce led by the Group's central functions, provides an effective platform for transparent two-way dialogue with employees.

The Board feels well informed on colleague views and matters and uses a combination of methods to comply with the Code's requirements:

- Regular updates to the Board at every scheduled Board meeting on people matters. Over the past year, colleague wellbeing and morale have been areas of keen focus.
- Colleague talent and culture updates from the Group HR Director.
- The Remuneration Committee reviews workforce pay practices across Diploma.
- The Board regularly undertakes site visits.
- Executive Board members regularly interact with individual businesses and our flat structure ensures strong channels of communication.
- The Board was presented with the outcomes of the Group Colleague Engagement Survey and discussed these together with key learnings. We were delighted with the high participation rate and engagement index score; the full results of the survey are detailed on pages 36 to 37.

BOARD OF DIRECTORS BOARD ACTIVITIES

Set out below are some of the key activities, matters considered and decisions made by the Board in the year.

Strategy & strategic execution

25%

- Regularly reviewed the Group's performance against the strategy including actions taken in respect of managing the pandemic.
- Presentations by the Corporate Development Director and Sector leadership on strategic priorities and execution against those priorities.
- Reviewed and discussed our ESG strategy and approach, Delivering Value Responsibly.
- Reviewed and approved the Group's M&A and business development activities, reorganisations and various other projects.
- Strategy review session.

Finance

20%

- Received updates on the Group's financial performance.
- Approved the 2023 budget; monitored performance against the 2022 budget through regular presentations from the CFO.
- Assessed and approved the proposed dividend payments, balancing the views of various stakeholders.
- Investor relations: received regular reports including share register movement and feedback from analysts and investors.
- Presentations from Tax and Treasury Functions.
- Control of Treasury and Tax policies.

Operations

10%

- Regular updates from the CEO.
- Monitored and discussed the impact of Covid-19 on the Group's operations.
- Modern Slavery Statement.
- Sector presentations.

Colleagues & culture

15%

- Reviewed Group Colleague Engagement Survey.
- Received reports on workforce wellbeing throughout the year.
- USA site visits.
- Talent and succession update.
- Whistleblowing reports.

Risk

15%

- Received reports on the macroeconomic environment, world events and emerging trends.
- Annual risk review: review of principal risks to ensure they remain appropriate together with mitigating activity; reviewed and approved the inclusion of new and emerging risks.
- Quarterly risk updates.
- Cybersecurity briefing.
- Annual Insurance Review.

Governance

15%

- Regular corporate governance and regulatory updates from the Group Company Secretary.
- Concluded externally facilitated Board effectiveness review.
- Agreed and tracked actions from the 2021 external evaluation of the Board's performance.
- Approved the appointment of a new Executive Director.
- Reviewed schedule of matters reserved for the Board and Terms of Reference of its Committees.
- Reviewed and approved the Company's financial reporting.

AUDIT COMMITTEE REPORT

Member	Meetings attended
Anne Thorburn (Chair)	5/5
Andy Smith	5/5
Geraldine Huse	5/5
Dean Finch	5/5

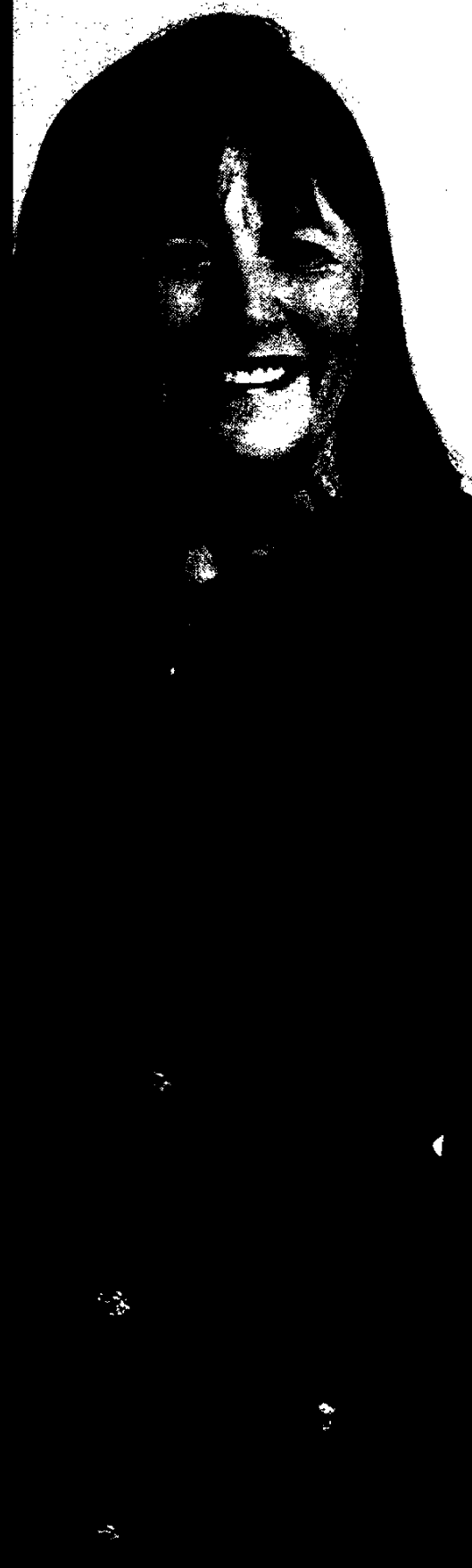
The role of the Committee

The Audit Committee is responsible for ensuring that the Group maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management, the performance of internal and external audit functions, as well as the behaviour expected of the Group's employees through the whistleblowing policy and similar codes of conduct. The Committee continues to focus on monitoring and overseeing management on these improvements to governance, compliance and financial safeguards.

📄 **Terms of reference can be found on our website at www.diplomaplc.com**

Key matters discussed

- Reviewed and agreed the scope of audit work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the Annual Report & Accounts and received reports from the CFO and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the report on compliance with the UK Corporate Governance Code 2018 and reports on the provision of information to the auditor.
- Reviewed the report from the CFO on the controls in place to mitigate fraud risk.
- Reviewed the Half Year Announcement and received reports from the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the trading updates.
- Reviewed the effectiveness of the Group's internal control and risk management procedures and where appropriate, made recommendations to the Board on areas for improvement.
- Invited the Group Internal Audit Director to attend meetings to review the results of the internal audit work for the current year and to agree the scope and focus of internal audit work to be carried out in the following year.
- Reviewed the UK Corporate Governance Code 2018 and future reporting under section 172 Companies Act 2006. Approved the Committee work programme for 2023.
- Approved the Going Concern and Viability Statements.
- Continued to monitor developments in audit reform and changing best practice.
- Received training and key updates from external advisors on ESG issues and TCFD reporting requirements.
- Oversaw the audit partner rotation process.



Dear Shareholder

The Audit Committee assists the Board in discharging its responsibilities with regard to monitoring the integrity of Group financial reporting, external and internal audits and controls. This includes advising on the reappointment and independence of external auditors and assessing the quality of their services; and reviewing the effectiveness and appropriateness of the Company's internal audit activities, internal controls and management systems.

During the year ended 30 September 2022, the Committee has ensured that it has had oversight of all these areas while also focusing on diverse changes in the external environment, both regulatory and political, including any continued residual impact of the Covid-19 pandemic, which has had a range of implications on the risk management activities of the Company.

The Committee continues to monitor the uncertainties arising from these changes and consider the management and mitigation of these risks. In addition, the Committee has received reports on internal audits for the Group's businesses, together with several deep dive sessions including in respect of audits of recently acquired businesses, as well as updates on the steps being taken to address internal audit findings and control issues.

I commented in last year's report that the Committee was mindful of the changing governance landscape and potential weight of anticipated regulation in the near future, given the number of recent formal reviews undertaken regarding different aspects of corporate governance and audit market reform. In particular, we note the UK government's proposed reforms to the audit and corporate governance regime which were published on 31 May 2022 and which include the creation of a new regulator for the audit industry and increased disclosure requirements in respect of internal controls. In anticipation of these reforms and under the supervision of the Committee, management has started planning for expected changes, including preliminary steps in determining the scope and contents of the Company's audit and assurance policy.

The Committee has also monitored initiatives of other regulatory authorities to provide investors with consistent, comparable and reliable information on climate-related and ESG matters. We are supportive of regulation that enables informed investment decisions and support efforts to encourage harmonisation across regulatory regimes.

As Audit Chair, I have regular conversations with the CFO, Group Internal Audit Director, Group Financial Controller, Group Company Secretary & Head of Legal and also the audit partner at PricewaterhouseCoopers LLP (PwC), our external auditor.

PwC has now completed its fifth full annual cycle, and we value the rigour and challenge of its approach. I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. The Committee plans to commence a retender process for the audit during 2026/2027 for the FY28 Annual Report and Accounts in order to make any necessary changes to providers of other services in a timely and orderly fashion and to appoint an auditor before the start of that year as this is in the best interests of our shareholders. I am confident that the Audit Committee has carried out its duties effectively and to a high standard during the year, providing independent oversight with the support of management and assurance from the external auditors. In accordance with UK regulations, PwC adheres to a rotation policy based on best practice and the Group engagement partner will serve a period of no longer than five years. Chris Burris became the lead audit partner for the year ended 30 September 2018 following the appointment of PwC, and therefore this will be his final audit.

I look forward to meeting shareholders at the Annual General Meeting on 18 January 2023 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
Chair of the Audit Committee
21 November 2022

"Adapting to a changing environment and new ways of working to ensure financial integrity and robust and effective internal controls."

AUDIT COMMITTEE CONTINUED

Audit Committee

The Committee is chaired by Anne Thorburn and comprises four Independent Non-Executive Directors. The Committee acts independently of the Executive Directors and management. Our members have a range of skills and the Committee as a whole has experience relevant to the Sectors in which the Group operates. Anne has recent and relevant financial experience, as required by the Code.

The Group Company Secretary & Head of Legal acts as Secretary to the Committee. The Executive Directors also attend Committee meetings and subject matter experts are invited to present on specific topics as and when required. The Committee met with the external auditor during the year, without the Executive Directors being present.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 September 2022 and up to the date of this report.

Financial reporting and significant financial judgements and estimates

The Committee considered and assessed:

- the full year and half year results and trading updates for recommendation to the Board;
- the appropriateness of accounting policies and practices, as well as critical accounting estimates and key judgements; and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Committee considered the matters set out below as being significant in the context of the consolidated financial statements for the year ended 30 September 2022. These were discussed and reviewed with management and the external auditor; the Committee then challenged judgements and sought clarification where necessary.

The Committee considered the judgements made in preparing the financial statements, including the accounting for acquisitions and associated valuation of intangible assets, the provisions for excess and slow-moving inventory, the potential for impairment of goodwill and the appropriateness of the Going Concern assumption. The Committee also reviewed the movements in the Group's defined benefit pension schemes.

Accounting for acquisitions and disposals

The Committee reviewed the accounting for acquisitions completed during the year, in particular the acquisitions of R&G Fluid Power Group and Accuscience. The acquisitions were material for the FY22 audit and, in accordance with IFRS 3 (Business Combinations), management has performed a full fair value exercise for these two acquisitions in this year's financial statements. As part of their audit of the Group, the external auditor has performed work on:

- a) the Purchase Price Allocation (PPA);
- b) the opening balance sheet as at the acquisition date; and
- c) audit of any material fair value adjustments arising on the acquisition balance sheet.

The Committee reviewed and challenged management's assessment, which also included consideration of the external audit findings. The Committee concluded that the accounting for these two acquisitions and the other five smaller acquisitions is appropriate.

The Group completed two disposals in the year for combined proceeds of £21m resulting in a net profit on disposal of £7.3m. The profit on disposal has been presented within acquisition and other related items.

Provisions for excess and slow-moving inventory

The Committee reviewed the report of the CFO that set out the gross balances, together with any related provision against the carrying value of inventory. The Committee reviewed the bases used to value inventory held across the Group; they also considered the appropriateness of provisions held against the carrying value of inventory, having regard to the age and volumes of inventory relative to expected usage and considering the actions taken in response to supply chain disruptions during the year and any continued impact of the Covid-19 pandemic.

Following its review, which also included consideration of the external audit findings, the Committee concluded that the provision for excess and slow moving inventory is appropriate.

Impairment of goodwill

The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the cash-generating units (CGUs) being tested for impairment. These judgements are primarily the calculation of the discount rates, which have increased due to rising risk free rates and the cost of debt, the achievability of management's forecasts in the short to medium term against the backdrop of a challenging macroeconomic environment, residual impact of the Covid-19 pandemic and the selection of the long term growth rate. Following the review, which also included consideration of the external audit findings, the Committee concluded that the carrying value of the goodwill recorded is appropriate.

Other audit matters

The Committee also considered other less material matters including the valuation of the Group's defined benefit scheme and the impact of the key actuarial assumptions on the balances. The Committee is satisfied with the year end position and the assumptions used.

In addition to the above, the Committee also seeks comments from the auditor on whether the Group's businesses follow appropriate policies to recognise material streams of revenue, and their audit work carried out more generally has assessed whether there is any evidence of management override of key internal controls designed to guard against fraud or material misstatement.

As part of its monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements, and seeks support from the external auditor to assess them.

Going Concern and Viability

The Going Concern and Viability assessment was prepared by management. In preparing the assessment, management carried out reverse stress testing as well as scenario analysis. Two scenarios were considered – the base case and the downside case. The base case reflects actual recent trading and takes account of any further residual impact of Covid-19. The downside case reflects a more significant decline in trading, adverse movements in working capital and lower than forecast operating margin, and is considered by management to be a severe but plausible scenario.

The Group has ample liquidity and covenant headroom in each scenario for both Going Concern and Viability Statement purposes. The Audit Committee reviewed the assumptions underpinning each scenario and is satisfied with management's assessment and conclusions in respect of Going Concern and Viability. Further detail on the assessment of Viability and the Viability Statement are set out on page 89. Further details on Going Concern can be found on page 170.

Engagement of the external auditor

The external auditor is engaged to express an opinion on the financial statements of the Group and of the Company. The audit includes the consideration of the systems of internal financial control and the data contained in the financial statements, to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

During the year, the Committee carried out an assessment of the audit process, led by the Chair of the Committee and assisted by the CFO. The assessment focused on certain criteria that the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of the audit process and the robustness of challenge to management, key audit risks and how these have been addressed, the planning and execution of the audit and the role of management in the audit process.

The Committee was satisfied that the PwC audit of the Company and Group had provided a robust and effective audit and an appropriate independent challenge of the Group's senior management. It also supported the work of the Committee through clear and objective communication on developments in financial reporting and governance.

The Committee also oversaw the audit partner rotation process as Chris Burns, the current lead audit partner, is due to rotate after this FY22 year end. A replacement has been identified and has been shadowing the audit process to ensure a smooth handover.

AUDIT COMMITTEE CONTINUED

Non-audit services

The Committee has approved the Group's internal guidelines covering the type of non-audit work that can be carried out by the external auditor of the Group, in light of the regulation set out in the EU Audit Directive and Audit Regulation 2014 (the Regulations) and the Financial Reporting Council (FRC) Revised Ethical Standard 2019.

The Regulations substantially curtail those non-audit services that can be provided by the auditor to the Group and in particular prohibits all tax related services, including compliance services as well as general advice and all consultancy and advisory services. The Regulations stipulate that Board approval is required if eligible non-audit services, such as due diligence and similar assurance services, exceed 30% of the prior year Group audit fee and the Company may not allow eligible non-audit services to exceed 70% of the Group audit fee, calculated on a rolling three-year basis.

The CFO does not have delegated authority to engage the external auditor to carry out any non-audit work, but must seek approval from the Chair of the Audit Committee.

Taxation services are not provided by the Group's current audit firm; a range of different firms are used for the provision of tax advice and any assistance with tax compliance matters generally. In addition, due diligence exercises on acquisitions and similar transactions are not provided by the auditor, but are placed with other firms.

The external auditor is retained to carry out assurance services to the Committee in connection with 'agreed upon procedures' on the Group's half year consolidated financial statements (£28,000). The external auditor also provides access to its Viewpoint technical subscription service (£1,200).

With the exception of these services, PwC has not provided any non-audit services to the Group or its subsidiaries and has confirmed its independence to the Audit Committee. Further information is set out in note 25 to the consolidated financial statements.

The Committee assures itself of the auditor's independence by receiving regular reports from the external auditor which provide details of any assignments and related fees carried out by the auditor in addition to its normal audit work, and these are reviewed against the above guidelines. PwC has reconfirmed its independence for the current financial year.

Risk management and internal control

The principal risks and uncertainties that are currently judged to have the most significant impact on the Group's long-term performance are set out in a separate section of the Strategic Report on Internal Control and Risk Management on pages 80 to 88.

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the principal risks to the Group. These procedures are in line with the FRC's guidance. The Board has established a clear organisational structure with defined authority levels.

The day-to-day running of the Group's business is delegated to the Executive Directors of the Group, who are supported by the heads of each business Sector and functional heads of the Group.

Key financial and operational measures relating to revenue, cash and receivables are reported on a weekly basis. Detailed management accounts and key performance indicators are prepared monthly using a robust proprietary reporting system to collect and analyse financial data in a consistent format. Monthly results are measured against both budget and half year reforecasts which have been approved and reviewed by the Board. All capital expenditure above predefined amounts must be supported by a paper prepared by management.

All financial data is taken directly from each business' trial balance held in their local ERP system and reanalysed and formatted in a separate Group management reporting system, operated by the Group Finance department. There is no rekeying of financial data by the Group businesses to report monthly financial results. The Group Finance department continues to develop the functionality of this management reporting system to provide greater insights into the financial and operational activities of the Group's businesses.

The Group's internal auditor regularly audits the base data at each business to ensure it is properly reported through to the Group management reporting system.

As part of the year end close process, each business is required to complete a self-assessment that evaluates the financial control environment in their business, designed to identify weaknesses in controls. These assessments are critically reviewed by the Group Internal Audit Director and evaluated as part of regular Internal Audit reviews.

A summary for each business is prepared for the Audit Committee. In addition, senior management of each business is required to confirm its adherence with Group accounting policies, processes and systems of internal control by means of a representation letter.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2021 to the date of this report. Taking into account the matters set out on pages 82 to 88 relating to principal risks and uncertainties and the reports from the Group Internal Audit Director, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Internal audit

The Group maintains an internal audit department which reports directly to both the CFO and Chair of the Audit Committee. The department comprises a Group Internal Audit Director and a Group Internal Auditor based at the Group's offices in London.

In January 2022, the Group Internal Audit Director presented his audit plan for the year to the Committee for its approval. Increasingly during the year, internal audit undertook audits in person as travel restrictions were lifted in a number of key jurisdictions. The department continued to effectively rely on remote visits with the use of appropriate communication technology where site visits were not possible.

The scope of work carried out by internal audit generally focuses on the internal financial, operational and compliance controls operating within each business, including risk management activities and business process improvements. Formal written reports are prepared on the results of each internal audit visit that set out internal control weaknesses/risks identified during their work, together with recommendations to improve the internal control environment and mitigate these weaknesses/risks. These reports are timely and regularly discussed with senior management within the Group. The reports are also shared with the external auditors.

At the end of the financial year, the Group Internal Audit Director formally reports to the Committee on the results of the internal audit work carried out by his department during the year. The Committee reviews management's responses to matters raised, including the time taken to resolve such matters. Updated reports on progress against the plan are provided at regular intervals and the Audit Chair also meets separately with the Group Internal Audit Director at least twice a year to review some of the department's reports and discuss their findings.

There were no significant or high-risk matters identified in the internal audits undertaken during the current financial year. Several recommendations were again made this year to the businesses in regard to implementing adequate and effective internal controls and procedures aimed at improving existing processes around cybersecurity, inventory management and procurement.

The Committee conducted the annual review of the effectiveness of the internal audit department, including its audit plan, general performance and relationship with the external auditors. Based on its review, the Committee was satisfied with the effectiveness of the Group's internal audit function, specifically that the internal audit department is sufficiently independent of executive management and has sufficient resources and scope that is appropriate for the size and nature of the Group.

Whistleblowing

The Committee also monitors the adequacy of the Group's whistleblowing policy, which provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. The policy, together with hotline posters, are placed on site noticeboards across the Group. Employees are encouraged to raise concerns via the confidential multilingual hotline, which is managed by an independent external company and is available 24/7, 365 days a year.

All reports are provided to the Group Company Secretary & Head of Legal for review, to ensure that they are appropriately investigated - with the support of internal audit and external resource, if required. Most matters reported through the whistleblowing service relate to personnel/HR matters and, while these are not areas for review by the Committee, such matters are duly investigated in the same manner as any other issue raised.

NOMINATION COMMITTEE REPORT

Member	Meetings attended
David Lowden (Chair)	4/4
Anne Thorburn	5/5
Andy Smith	5/5
Geraldine Huse	5/5
Dean Finch	4/5 ¹
John Nicholas	1/1

¹ Dean Finch was unable to attend the meeting to confirm the appointment of David Lowden as it was called on short notice.

The role of the Committee

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

④ **Terms of reference can be found on our website at www.diplomapl.com**

Key matters discussed

- Recruitment of a Chief Financial Officer and broader succession planning for Chairs of Audit and Remuneration Committee.
- Consideration of a detailed skills, experience and diversity matrix that sought to identify recruitment priorities based on identified gaps, industry expectations and good practice.
- Facilitating a more diverse list of potential candidates ahead of the search for two Non-Executive Directors by setting clear objectives for the external search consultants and ensuring a clear articulation of the company's ongoing commitment to improving diversity in role specifications.
- Consideration of the contributions and effectiveness of the Non-Executive Directors seeking re-election at the 2022 Annual General Meeting, prior to giving recommendations to the Board and shareholders for their re-elections.



“Ensuring the right mix of skills and experience to deliver long-term value for our stakeholders.”

Dear Shareholder,

I am pleased to set out below the report on the activities of the Nomination Committee during the year.

The Board is of the view that it is essential to have an appropriate mix of experience, expertise, diversity and independence. Such diverse attributes enable the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. Appointments to the Board are made following consideration of the experience and expertise of existing Directors, any required skill sets or competencies, and the strategic requirements of the Group. During 2022, the composition of the Board changed slightly, reflecting: (i) John Nicholas stepping down from the Board, and (ii) the departure of Barbara Gibbs.

A fundamental responsibility of the Committee is to ensure plans are in place for orderly succession to the Board, as well as our Group Company Secretary and senior management positions, and the Committee debates these regularly. The main focus of the Committee during this past year has been on Board succession planning, including the appointment of our new Chief Financial Officer and the search for the Chairs of the Audit and Remuneration Committees to ensure these positions are appointed in time for an orderly handover. The Committee continually monitors the balance on the Board to ensure we have the right combination of skills, experience and knowledge consistent with the long-term strategy of the Company. This allows us to identify where further focus is needed in the coming years and beyond.

We are mindful of the discussions around improving diversity and inclusion, together with the targets set by the Hampton-Alexander Review and the Parker Review. Following the departure of Barbara Gibbs at the end of the financial year, two out of seven Directors (28.57%) are women. It is the Board's aim to meet the targets set by the Hampton-Alexander and Parker reviews, dealing with gender and ethnic diversity respectively, which is feasible given current succession plans.

The Board will maintain oversight of the range of activities the Group is pursuing aimed at increasing the diversity of our workforce – including the executive pipeline that is essential for Executive Director succession planning. We have written elsewhere (see page 40) about our Group-wide approach to diversity and inclusion, which emanates from the Board and impacts the approach of the Nomination Committee.

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

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

David Lowden

Chair of the Board and Nomination Committee
21 November 2022

NOMINATION COMMITTEE CONTINUED

Nomination Committee

The Nomination Committee is chaired by David Lowden, Board Chair. The Committee comprises the Non-Executive Directors and meets as necessary to discharge its responsibilities.

The Group Company Secretary acts as Secretary to the Committee.

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

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

Induction and professional development

The Chair, assisted by the Group Company Secretary, is responsible for ensuring that there is a properly constructed and timely induction for new Directors upon joining the Board. Upon appointment, all new Directors are provided with a comprehensive induction, where they meet with key members of management and familiarise themselves with all core aspects of the Group, its businesses and the markets in which it operates.

Directors are encouraged, wherever possible, to visit the Group's sites so that they can get a better understanding of the business and interact with employees. While travel was restricted and complex during the Covid-19 pandemic, site visits by individual Directors (and the Board as a whole) have resumed and allowed Directors to see Diploma's safety and sustainability processes, to talk with local management and workforces and to assess how effectively Diploma's culture is communicated and embedded at all levels.

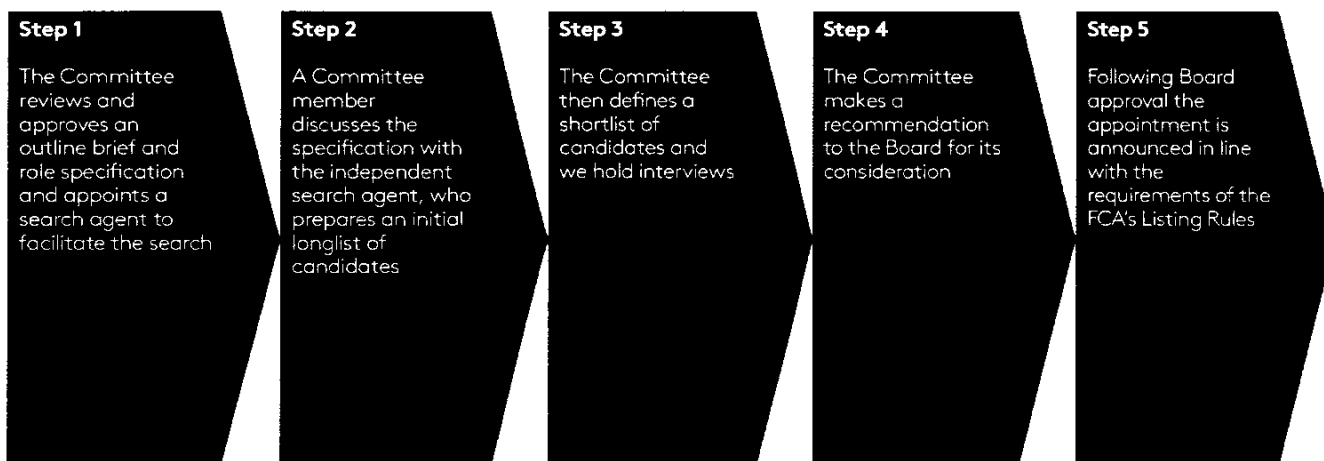
The Chair also has the responsibility of ensuring that Directors receive training on a continual basis in support of their ongoing development. This training is provided by way of technical updates, reports and briefings prepared for Board meetings. Directors have full access to our corporate advisors as well as a regular and comprehensive supply of financial, operational, strategic and regulatory information to help them discharge their responsibilities.

During the year, the Board held a strategy review session to confirm the Company's strategic goals as well as receiving detailed updates on operations and support functions.

Process for Board appointments

When making Board appointments, we follow the five steps set out below. We disclose the name of the search agent and any other connection they have with Diploma in our Annual Report & Accounts published following the search. In all cases, a tailored induction programme is developed for the new Director.

During the year, we engaged Russell Reynolds to assist with the recruitment of Chris Green, Finance Executive, as our first external search agent. The Group, other than its Finance Executive position, does not have any other search agent.



Induction of our new Chair

David Lowden was appointed Board Chair earlier this year, and a comprehensive induction programme was put in place to enable a smooth transition into the role. A number of key induction highlights are outlined below.

Calendar of activities

November 2021

Meeting all Board colleagues, both individually and collectively

Meeting Group heads of functions

January 2022

Handover with outgoing Chair

March 2022

Visit to Windy City Wire in Chicago, and Hercules Aftermarket in Louisville in the USA

Visit to Shoal Group, IS Group and Clarendon in the UK

April 2022

Chair Q&A published in the Purple Portal, the Group's newsletter

NOMINATION COMMITTEE CONTINUED

Onboarding processes

The decentralised nature of the Group has always made induction processes complex. The pandemic led us to reconsider how these processes can be conducted effectively. Customarily there would have been face-to-face meetings with key executives and management, introductions to their direct reports, one-to-ones following the initial meetings, and site visits arranged to key businesses. Now parts of the induction plan are conducted via video calls; particularly where key people are located outside of Europe. This permits Directors to have considerably greater exposure to the various businesses and personnel and we are pleased that we can once again encourage Directors to visit our businesses and appreciate our culture and colleagues in person as well as continuing to develop their understanding of each business.

Succession planning

The Committee formally reviews succession planning for the Board, Group Company Secretary and Head of Legal, and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background, skills and expertise that will be required by the Group in the future. During 2022, following the appointment of the new Board Chair, the Committee undertook a more thorough analysis of the Board's competencies. The Committee also considered how the Board would be required to evolve to be fit for the future, as well as any potential gaps that may need to be filled through succession or training.

The CEO manages the development of succession plans for executive management, and these are overseen by the Committee. The CEO and Group HR Director presented a succession planning update to the Board in January 2022.

The Committee is aware of the importance of identifying critical roles within the businesses to ensure we retain and motivate key talent and have the necessary skills for the future. Overall, it was clear that we have a good executive and management succession planning process and, importantly, succession is being actively managed by the Executive team to achieve the desired long-term outcomes.

The standard term for Non-Executive Directors is three years. They normally serve for a maximum of nine years, which is split across three terms of three years each. All Directors are subject to annual re-election. With only specific exceptions that may be necessary to ensure Board continuity, Non-Executive Directors shall not stand for re-election after they have served for the period of their independence, as determined by applicable UK standards, of nine years.

Length of tenure

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
David Lowden																
Andy Smith ¹																
Anne Thorburn ¹																
Geraldine Huse																
Dean Finch																

■ Length of term

¹ Director in third and final term

Board evaluation

The Board conducts an annual evaluation of its performance and that of its committees and, in accordance with good practice, engages an independent third-party facilitator to assist in this process every three years. For the year ended 30 September 2022, the evaluation of the Board as a whole and of its committees was undertaken internally, led by the Board Chair. Board members completed questionnaires regarding the operation and effectiveness of the Board and its committees. Findings were collated by the Group Company Secretary and the Board Chair discussed the conclusions and recommendations separately with each Director.

The performance of the Non-Executive Directors was reviewed by the Board Chair. The performance of the Executive Directors was reviewed by the Board Chair and the Non-Executive Directors and the results of the 2022 evaluation process were considered by the Board. The conclusion was that the Board continued to function well, and the onboarding of the Board had been well received, resulting in improvement to Board processes and workplans. Directors operated in an atmosphere of open and constructive debate with a good breadth of skills, experience, and viewpoints. Following the evaluation, the below recommendations were made:

Recommendation	Action
Consider the diversity of the Board, from both a gender and ethnicity standpoint.	Nomination Committee to address diversity requirements in succession planning and during the Non-Executive Director recruitment process.
Continue to challenge and support on the progress of DVR actions	Consider ESG skillsets during the Non-Executive Director recruitment process, creation of an ESG Committee as well as enhanced focus on climate-related financial risks.
Improve information shared with the Board to enhance visibility on certain topics and improve decision-making	Board papers to include executive summaries to bring focus to discussions, and Sector presentations to the Board to include key indicators of customer and supplier performance.

The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2023 Annual Report.

Key areas for development

The below recommendations were made following the 2021 external Board performance evaluation.

Recommendation	Action
Consider increasing the size of the Board and bringing in further skills relevant to Diploma's size and operations.	Nomination Committee reviewed the composition of the Board and incorporated this into succession planning.
Board training programme to be evolved.	Additional sessions included as part of annual calendar as well as bespoke sessions from advisors as required.
Employee engagement to be reviewed.	Increased number of site visits, with Non-Executive Directors conducting these individually on occasion and providing feedback to the Board.
Board schedule to be reviewed.	Board dinner in the evening prior to meetings included to cover specific areas of focus or concern and permit further informal engagement with key management.

REMUNERATION COMMITTEE REPORT

Member	Meetings attended
Andy Smith (Chair)	6/6
Anne Thorburn	6/6
David Lowden	6/6
Geraldine Huse	6/6
Dean Finch	6/6
John Nicholas	1/1

The role of the Committee

The Committee, on behalf of the Board, agrees all aspects of the remuneration of the Executive Directors. It agrees the strategy, direction, and policy framework for the remuneration of the senior executives who have significant influence over the Group's ability to meet its strategic objectives. The Committee also oversees all workforce remuneration policies.

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Key matters discussed

- Approved Remuneration Committee work programme for 2022.
- Reviewed the AGM 2022 votes on the 2021 Remuneration Committee Report.
- Reviewed and proposed the new Directors' Remuneration Policy, and as a result, proposed amendments to the rules of the Diploma PLC 2020 PSP.
- Approved the service contract for the new CFO.
- Approved annual performance bonus targets and the subsequent bonus awards for 2022.
- Approved new Performance Share Plan (PSP) awards for Executive Directors and Group senior management.
- Confirmed the vesting percentages for the PSP awards made in December 2019, which crystallised in 2022.
- Reviewed Executive Directors' salaries, pensions, and benefits.
- Reviewed the fees of the Chair and Non-Executive Directors.
- Reviewed remuneration framework for Executive Team and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2022 Remuneration Committee Report.



Dear Shareholder

As Chair of the Board Remuneration Committee (Committee), I am pleased to present our Directors' Remuneration Report (DRR) for the year ended 30 September 2022 and our revised Remuneration Policy for which shareholder approval will be sought at the January 2023 AGM.

Context and approach to remuneration

Our people lie at the heart of our success. As our business grows and becomes more complex, our people, teams and organisation must grow with it. It is vital that we have the right calibre of people and that we incentivise excellent performance and reward them when they do. On page 118, Diploma's approach to remuneration is illustrated showing how strategy, performance and reward align. In a decentralised Group, we work hard to balance alignment with local accountability and agility. Our reward policies and practices have supported the growth of the business well over the years. During this policy period, our performance has been excellent and our talented management team have doubled the size of the business.

"Reinforcing alignment of strategy and reward, 2022 was a very strong year of performance, strategic execution and consequently reward. Long term growth and shareholder returns are excellent. Our plans remain ambitious and we are pleased to set out our Remuneration Policy for the next phase of growth."

It is against this backdrop that we have considered our remuneration policy for the upcoming three years.

2022 performance and pay

The Diploma team has delivered another year of strong financial results, adding to the Group's long-term track record of excellent business performance and shareholder returns. Organic growth has been driven by revenue initiatives, positive demand, and pricing. Alongside this, implementation of our strategy continues apace with the acquisition of new businesses to bring new capabilities and opportunities to drive future organic growth. With regards to scaling, it has been a year of excellent progress building infrastructure for scale, developing the target operating model, and evolving the structures, capability and culture of the Group.

Excellent delivery against our strategic priorities of growth, scaling and Delivering Value Responsibly have resulted in strong performance (shown in table on page 119). Adjusted operating profit (+29%), reported revenue (+29%) and free cash (+11%) all exceeded annual bonus targets (on page 130), resulting in a full bonus payment of 125% of salary for both Johnny Thomson and Barbara Gibbes.

Our long-term performance continues to create excellent shareholder returns. Our three year compound annual growth rate (CAGR) for adjusted earnings per share (EPS) is 19%. This exceeds the performance target maximum of 14%, and the return on adjusted trading capital employed (ROATCE) is 17.3% meaning that the underpin applying to our PSP is in line with the Group's financial model and meets the Board's expectation. Our relative three year total shareholder return (TSR) performance is in the 91st percentile of FTSE 250 companies (excluding financial services and investment trusts), ranking 15 out of 158 companies. Based on these excellent results, the Performance Share Plan (PSP) (PSP (2019)) has vested at maximum for Johnny Thomson and Barbara Gibbes, as well as all other PSP participants.

Johnny Thomson's total compensation for 2022 (shown in the Single Figure table on page 129) is £3.8m (2021 £5.2m). The difference versus last year is mainly due to lower share price appreciation.

In line with the Code, the Committee reviewed individual Directors' incentive plan outcomes and overall remuneration considering the Group's underlying performance. We have not made any adjustments to our remuneration schemes as a result of Covid, no furlough support was taken, and no discretionary adjustments have been applied to outcomes. Accordingly, the Committee is satisfied that the incentive plan outcomes and the total remuneration received by Executive Directors in respect of the year ended 30 September 2022 are consistent with the levels of company performance delivered and that the Remuneration Policy is operating as intended.

Appointment of new CFO

Chris Davies joined Diploma as CFO on 1 November 2022 after Barbara Gibbes left the Company on 30 September 2022. Having played an important role in helping to steer Diploma through the pandemic and building strong foundations for the future, the Committee determined to treat Barbara as a good leaver and her remuneration arrangements on departure were in accordance with the Remuneration Policy and plan rules. Her exit arrangements are set out on page 129.

We appointed Chris following a thorough process, which considered internal and external candidates. Diploma was Barbara's first FTSE Board appointment and her package was set accordingly. Chris' package is commensurate with his experience as an established CFO with an excellent track record in decentralised, service-led, multi-national organisations. It reflects the increasing size and complexity of Diploma and the important support he will provide in the delivery of strategy, business performance and a robust financial control framework. This provides the right balance within the company and reflects a fair package. The details of Chris's package are laid out on page 124. Consistent with our policy, Chris received buy-out awards in the form of cash, Diploma shares and Diploma PSP grants to compensate him for some of the variable remuneration awards that he has surrendered in order to join Diploma. Payments take account of the details of

REMUNERATION COMMITTEE CONTINUED

the remuneration foregone including the nature, vesting dates and performance requirements attached to that remuneration and payments will not exceed the expected value being forfeited. Exact amounts will be finalised following the publication of his previous employer's results and will be disclosed in next year's DRR.

Remuneration in the workforce

The skill and dedication of Diploma's colleagues lie at the heart of our success. The Group achieved outstanding levels of colleague engagement again this year (more information on page 36 to 37). Remuneration in Diploma provides a careful balance that enables local decision-making in line with our decentralised business model, whilst ensuring guidance and governance from the Group, and including a review of pay equity, which is one of the Group's ESG priorities.

The CEO pay ratio for 2022 (detail on page 135) has reduced from 180:1 to 129:1. The principal reason for the reduction is lower share price appreciation from market movements. The median pay for UK colleagues has remained at a similar level £29,074 (2021: £29,036), with the addition of ca. 400 new employees from UK acquisitions. If we exclude employees who joined through acquisitions, the median pay for the UK workforce has increased marginally to £29,550.

This year's Group reward guidance to the businesses focused on looking after colleagues. The first priority was focusing on colleagues affected by inflationary pressures arising from the macro-environment, including energy prices and other rising costs of living. For the first time the Group's governance included an independent review of colleagues in lower paid roles (<£40k per annum), and these colleagues received an average increase of 7.5%, higher than the overall workforce increase.

For senior leaders, the rationale for increasing remuneration is recognition of increasing responsibilities in a growing business and incentivising future growth aligned to Diploma's strategy. We remain conscious of ensuring we can retain top talent in highly competitive international markets.

The 2022 overall base salary increase across the Group is 7% for the workforce (2021: 4%), including senior managers. The management team and Committee will continue to review total compensation proactively in order to ensure our wider workforce is fairly rewarded. The Committee considers workforce perspectives when setting Remuneration Policy, Executive Director compensation and overseeing senior management compensation frameworks.

Remuneration policy review

The Committee completed a comprehensive policy review in 2022. The review process is set out on page 120 and covered a number of key factors.

The Group has increased considerably in size and complexity in this policy period (shown in the diagram on page 120). Since the appointment of our CEO in 2019, the Group has doubled in size from a combination of strong organic growth, strategic execution and the acquisition of 25 strategically important businesses. Shareholders have benefited and Diploma has grown from FTSE 185 to FTSE 111 over the period and the Group's plans remain ambitious. Designing our policy to recognise the increased responsibilities to attract, retain and incentivise management for the next phase of growth was a top priority.

ESG is increasingly important to all our stakeholders and we wish to introduce targets into our variable pay. Ensuring that bonus measures are rigorous, specific, stretching and go beyond the 'day job' is an essential principle of reward in Diploma.

Work is underway to develop Delivering Value Responsibly as part of the strategy and we have set some non-financial KPIs and targets (shown on page 59) but more time is needed to assure these measures before we can introduce them into variable pay. Accordingly, our proposed policy has flexibility to introduce ESG metrics during this policy period (at an appropriate point).

Within the wider stakeholder context, we considered how we reward our whole workforce, as covered earlier. The senior management team engages frequently with employees, either on a business-wide basis or in the context of smaller focus groups, to solicit feedback generally on a wide range of matters, including remuneration. Feedback is passed to the Committee via the Executive team and is taken into account by the Committee when setting Executive Directors' Remuneration Policy. Additionally, we paid attention to how governance is evolving and have made a number of enhancements in our new policy which are set out on page 121 including increasing minimum shareholding requirements (MSR), and post cessation shareholding requirements.

The last step in the policy review was to review relevant market data to inform (but not drive) the Committee's considerations. (Data overview is set out on page 120). The Committee is aware of, and shares, shareholder concerns regarding the risk of over reliance on benchmarking. The Committee's driver for any increased reward is greater responsibility or complexity in the relevant role and to recognise greater capability in the individual. In a growing, very successful business such as ours, we are cognisant of retaining our key people as they gain increasing market worth from their proven capabilities and track record. In this regard, market data does provide a useful 'sense-check'.

From the multiple steps of the review, the Committee concluded there was a compelling case to increase total compensation potential for our Executive Directors. The Committee believes that incorporating the increase into the PSP to incentivise long-term performance best aligns performance delivery, strategic execution and shareholder value. Therefore we propose to increase the maximum award potential for the PSP from 250% to 300% of base salary for the CEO, and from 200% to 250% of base salary for the CFO alongside the increases to both our in-situ and post-cessation shareholding guidelines.

Shareholder consultation on proposed changes

Our 2021 DRR was supported with 93% of votes in favour. During 2022, we consulted extensively on our policy and DRR 2022 implementation and engaged with 21 of our largest shareholders, representing around 65% of our register, as well as the key proxy agencies. The quality of the interactions was excellent, and we appreciate the engagement and valuable feedback. There was a range of views and preferences expressed, but we were pleased that the overall weight of opinion was strongly supportive.

Remuneration for 2023 – implementation Fixed pay:

As disclosed previously, Johnny Thomson's cash allowance in lieu of pension contribution will reduce to 4% of basic pay from 1 January 2023 to align with the majority of the UK workforce.

The Committee considered Johnny Thomson's salary as part of the review. The Committee is aware that high inflation is not a solid rationale for increasing executive pay. The Committee considered the increased size and complexity of the Group (doubled in size as shown in the diagram on page 120), and Johnny's value as a high-performing CEO, and concluded that a base pay increase was required as part of increasing his total compensation opportunity. Shareholders asked us to review the increase in the context of intended wider workforce pay increases, the macro-economic environment, inflationary pressures faced by our colleagues and the overall quantum of CEO reward.

Having taken these views on board we agreed an increase to his pay of 6%, which remains below the increase awarded to our wider workforce at 7%. We believe this provides the right balance within the Company and will deliver a competitive CEO package.

Annual bonus:

The 2023 annual performance bonus will follow the same measures as 2022, namely 50% adjusted operating profit, 25% revenue, 25% free cash flow. Targets will be based on the Board approved budget. Maximum bonus for the CEO and CFO will remain unchanged at 125% of base salary.

PSP:

Arising from the compelling case to increase total compensation for the CEO, the Committee plans to implement the new PSP maximum this year for the CEO, subject to shareholder approval of the policy. Johnny Thomson will receive a PSP award of 300% of base salary (PSP 2022). Chris Davies will receive a PSP award of 200% of base salary (PSP 2022) (which will be pro-rated based on him working eleven months of the year).

A number of shareholders have expressed a preference for EPS over TSR (provided the ROATCE underpin remains), and in our consultation we discussed increasing the weighting of three-year CAGR adjusted EPS growth to 75% of the total award (from 50%), with 25% (previously 50%) remaining on TSR relative to the FTSE 250 (excluding financial services and investment trusts). As the majority of shareholders were supportive, we intend to progress with this change for PSP (2022). We will retain the ROATCE underpin, recognising this is critically important to shareholders.

During consultation shareholders asked that we ensure targets are appropriately stretching given the greater quantum of reward proposed. The Committee recognises that increased quantum of reward should be accompanied by appropriately high levels of performance delivery. In setting targets, we seek to ensure that the focus on organic growth is strong, the quality of acquisitions remains high and that the right risk appetite is maintained. In response to feedback, we intend to increase EPS growth required for maximum payout under the PSP from 12% to 13% for the award in 2022. The minimum threshold will remain at 5%. This provides the right degree of stretch ambition for Diploma at this time considering the organic growth opportunities, the acquisition pipeline and the prevalent market conditions. The Board will maintain oversight of ROATCE. We will continue to review the level of stretch annually for each PSP grant cycle.

Non-Executive Directors and Committee evaluation

John Nicholas retired as Chair of the Board in January 2022 and was succeeded by David Lowden. David joined the Board as Non-Executive Director and Chair designate on 19 October 2021. Non-Executive Director fees were reviewed using equivalent inputs and increases are shown on page 133.

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and that the Board takes reassurance from the quality of the Committee's work.

Conclusion

In closing I would once again like to thank shareholders for their engagement over this last year. We will maintain a close dialogue as we seek to deliver a competitive, motivating pay framework that is tightly aligned to shareholder experience whilst maintaining good governance standards. I trust you find this report useful and look forward to receiving your support at the AGM on 18 January 2023.

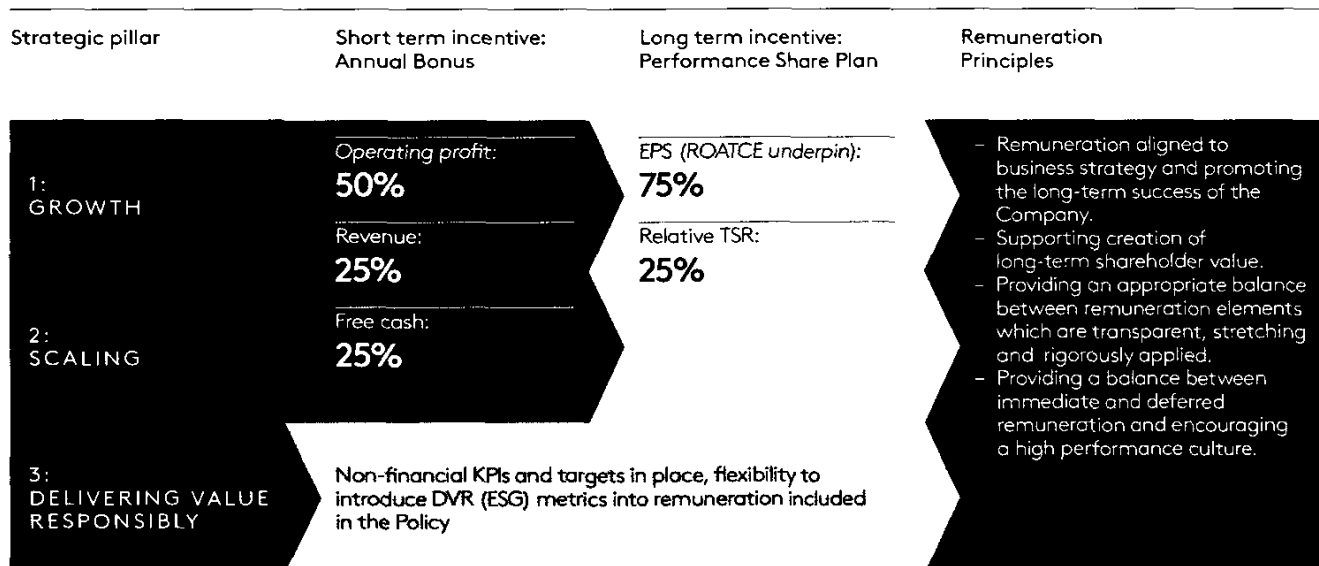
Andy Smith
Chair of the Remuneration Committee
21 November 2022

REMUNERATION AT A GLANCE: DIPLOMA'S APPROACH TO REMUNERATION

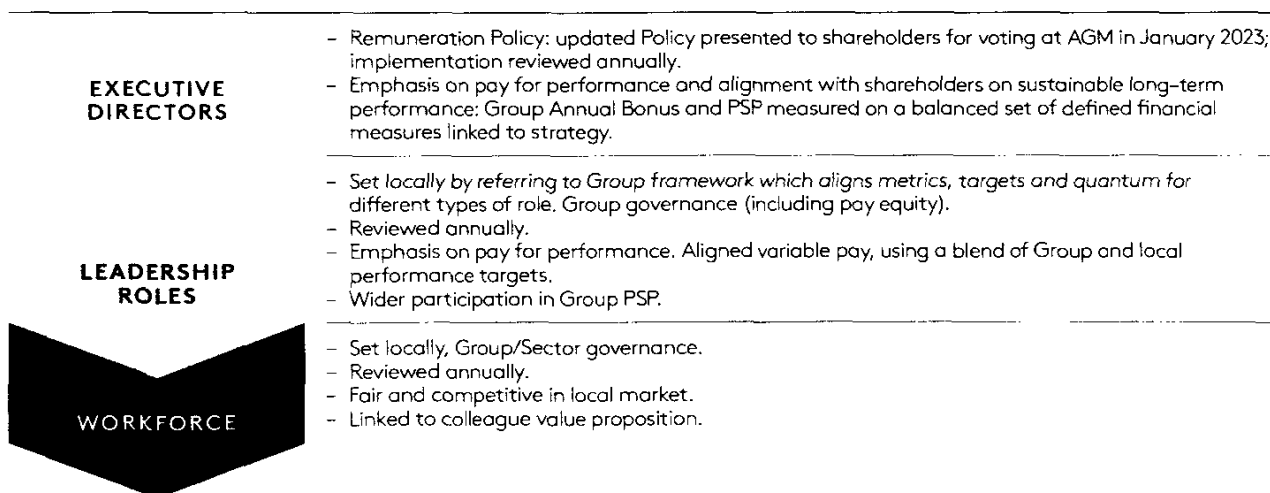
Set out below is an illustration of how remuneration aligns to strategy and how it cascades in our decentralised business model

Our Purpose: Diploma's purpose is to consistently deliver value and reward our stakeholders by making a positive difference to our colleagues, our customers and suppliers and our communities.

Diploma's Strategy: build high-quality, scalable businesses for organic growth



CASCADE OF REMUNERATION IN OUR DECENTRALISED BUSINESS:



Business Performance 2022 Annual Report of Remuneration

Strategic execution

Growth

Revenue diversification: revenue initiatives delivering strong growth in structurally growing end markets, further penetrating core developed economies and extending product ranges.

M&A to accelerate organic growth, £187m invested in seven strategically important acquisitions.

Disciplined portfolio development: disposals of Fortek and a¹ envirosciences.

Scaling

A year of exciting progress. Building the infrastructure for scale, developing target operating model, evolving the structures, capability and culture of the Group for scale.

DVR

Excellent progress and accelerated momentum as businesses embed DVR in commercial strategies and operations.

A year of more consistent and robust reporting.

Targets set for the first time.

Performance

Adjusted operating profit

+29%

Revenue

+15%

Free cash flow

+11%

Adjusted EPS

19%

(3 year CAGR)

ROATCE:

17.3%

Relative TSR: percentile rank

91%

(3 year performance)

Engagement index

79%

(2021: 79%)

Scope 1 & 2 emissions

10,615 tonnes CO₂ e

(baseline year)

Waste to landfill

60%

(first year of measurement)

Reward

Maximum bonus payable

Maximum vesting on PSP

Flexibility to introduce DVR metrics in remuneration included in Policy.

2022 Broader Reward Priorities

Goal

Support lower paid colleagues most affected by the cost of living crisis

Retain talent in the competitive talent market

Incentivise brilliant leaders on long-term success

Action

Wage increase for colleagues paid less than £40k of 7.5%, which is higher than the overall workforce increase.

**Wage increase for the workforce of 7% (2021: 4%).
Review of variable pay structures and quantum.**

**PSP participation increased to ca. 50 participants (2021: ca. 35 participants, 2020: ca. 15 participants).
To keep pace with the growing Group variable pay structures and quantum reviewed, high pay for high performance.**

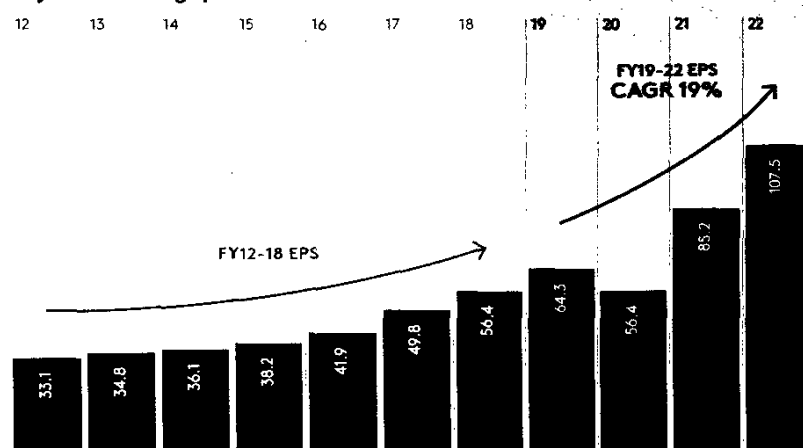
2022 Remuneration Policy Review – process

Changes to Remuneration Policy and its implementation

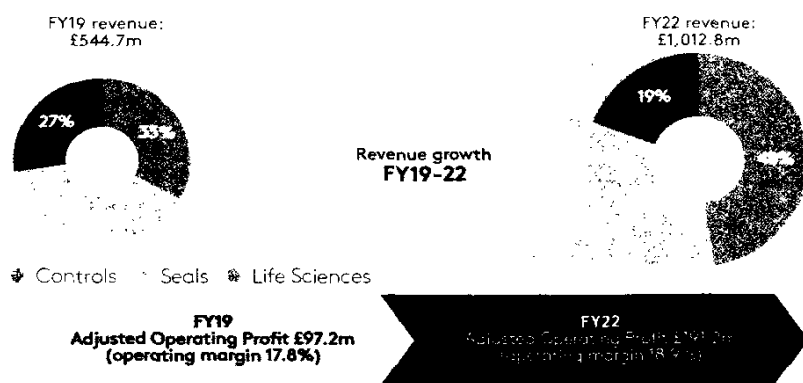
This section sets out the Directors' Remuneration Policy (the Policy) proposed for approval by shareholders at the Company's AGM on 18 January 2023. The Company's current Remuneration Policy (the Policy) was approved by shareholders at the 15 January 2020 AGM and the updated policy, subject to shareholder approval, is intended to remain in effect for three years from the AGM.

1. Excellent performance and increased scale and complexity of the Group: moved from FTSE ca. 185 to FTSE ca. 111

Adjusted earnings per share



The Group has doubled whilst improving operating margin



2. Wider stakeholder context considered during Policy review:

- Ambitious growth plans.
- Attracting, retaining and incentivising management.
- Increased market worth of management given performance track record.
- Workforce remuneration experience and views.
- Focus on supporting wider workforce during macro environment affecting workforce-inflation, energy.
- Increasing importance of ESG performance.
- Broader indicators of culture e.g. colleague engagement (Engagement index 79%).
- Market developments in governance practices, ensuring our governance aligns with needs of stakeholders.

3. Market insight: used to 'sense check':

- Information on UK pay levels for companies of similar size FTSE 150-100 (Diploma: FTSE 111, 30 September 2022).
- There are few direct peers for Diploma. Hence we use a range of companies in similar markets or with similar value-add business models to provide a comparison (RS Group plc, Bunzl plc, Inchcape plc, Spirax-Sarco Engineering plc, Rentokil Initial plc, Howden Joinery Group Plc, Spectris plc, Halma plc, DS Smith plc, Travis Perkins plc, Johnson Matthey plc). Some within this list are larger than Diploma but provide useful insight.
- Variable pay targets for FTSE 250.

4. Shareholder consultation on proposed changes:

- Extensive, direct shareholder consultation with ca. 65% of the register.
- Consultation with key proxy voting agencies.
- Conversations with shareholders shaped policy proposals including considerations of quantum and stretch in performance targets.

2022 Remuneration Policy proposals and rationale

Pension alignment with wider workforce	Pension contribution for CEO reduced to 4% of base pay from 10% of base pay from January 2023. CFO pension value already aligned to wider workforce rate of 4% of base pay.
Improving the competitiveness of Executive Directors' compensation opportunity, reflecting growing business and criticality of leadership	<p>We recognise the need to retain and motivate our team over the next period of exceptional Company growth. The renewed Policy and its implementation for 2022 will align pay to performance and investor expectations, as follows:</p> <ul style="list-style-type: none"> - No change to annual bonus Policy maximum. - Increase to PSP maximum from 250% of salary to 300% of salary for CEO and from 200% to 250% for the CFO. <p>For 2022, the CEO's PSP award will be aligned to the new Policy maximum at 300% of base pay. The newly appointed CFO's PSP award will be 200% of base pay (prorated).</p>
Shareholder alignment	<p>Increased shareholding guideline (MSR) to align with new PSP policy maximum 300% of salary for CEO and 250% of salary for CFO.</p> <p>Extension of post-employment shareholding requirement to now require 50% of MSR to be held for two years after termination date.</p>
Introduction of ESG	Flexibility to include ESG metrics during next policy period.

Proposed implementation of policy in FY23

	Fixed remuneration	Annual bonus	Long-term incentives	Shareholding guideline	Post-cessation guideline
Johnny Thomson (CEO)	Base pay: £754,000 Benefits fund Pension: £41,085 (equivalent to 4% of base pay from 1 Jan 23)	Max: 125% base pay Target: 62.5% base pay	Max: 300% base pay PSP (2022): 300% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 300% base pay	Holding requirement: 50% of MSR for 2 years after the termination date
Chris Davies¹ (CFO)	Base pay: £450,000 Benefits fund Pension: £18,000 (equivalent to 4% of base pay)	Max: 125% base pay Target: 62.5% base pay	Max: 200% base pay PSP (2022): 200% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 250% base pay	Holding requirement: 50% of the MSR for 2 years after the termination date
Change from 2021	CFO base pay 6% increase; CEO pension reduced; New CFO appointed	No change	Policy maximum increased for CEO & CFO PSP award increased for CEO New CFO appointed	Shareholding guideline increased in line with new PSP maxima	Increased post-cessation guideline from 12 months to 2 years

¹ Chris Davies was appointed on 1 November 2022. Remuneration amounts in the table above are annualised. When implemented, all his fixed and variable pay is prorated in FY23.

REMUNERATION POLICY

Remuneration Policy

The Committee reserves the right to approve payments or terms that differ from the Policy where the terms of the payment were agreed before the Policy came into effect or were agreed at a time when the relevant individual was not a Director of the Company.

The Committee may also make minor amendments to the arrangements for Directors described in the Policy without shareholder approval for regulatory or administrative purposes or to take account of a change in legislation.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effected from 1 October.	There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required. Salary increases will generally be no higher than those awarded to other employees through the Company's regular discretionary award process. The Committee retains discretion to award greater increases if it considers it appropriate.	Salaries levels and increases are determined based on a number of factors including individual and business performance, relevant experience, scope of responsibility, salary increases paid for UK employees that are similar in appointment, generally in line with competitive salaries in the relevant market, and other relevant factors.
Pensions	To provide a fair	Part of compensation arrangements will consist of pension savings which is taken as a separate cash allowance.	Maximum pension contributions will not be higher than the rate offered to the majority of our UK workforce for Unfunded Executive Directors. Maximum pension contributions for our UK-based Executive Directors will be aligned with employees in the relevant job market.	For pension arrangements
Benefits	To enhance competitive advantage of the	includes various cost-of-living benefits such as "payment in lieu of holiday", private medical insurance, income protection, and a leave medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and good market practice. Any renewable cost of living related expenses including for the director can be reimbursed for term related to a personal benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	For pension arrangements

REMUNERATION POLICY CONTINUED

Chair and Non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chair and Non-Executive Directors' fees	To attract and retain a Chair and independent Non-Executive Directors of the required calibre and experience	<p>For a quarterly, non-executive fee reviewed each year.</p> <p>Although Non-Executive Directors currently receive their fees in cash, the Company may pay part of all of their fees in the form of shares.</p> <p>Any reasonable business related expenses (including tax thereon) determined to be a taxable benefit can be reimbursed.</p>	The Chair and Non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	No performance metrics

Selection of performance measures and targets for Annual Bonus and PSP

The Annual Bonus Plan is designed to drive the annual financial and strategic objectives of the business. Performance measures are selected aligned to the company's strategic plan and key activities. Targets are set by reference to internal budgets. One of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

The PSP is designed to drive the delivery of the Company's long-term objective and support the delivery of value for shareholders. Performance measures are selected to align with these objectives and targets are set by reference to internal long-term budgets and, where appropriate, to the calculation of performance measures reviewed with the directors and shareholders on meeting. One of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

Illustration of application of Policy

Pay for performance: Executive Directors' potential value should derive from their total packages

Johnny Thomson

Minimum		95%	£361,000
Target	52%	19%	£1,412,000
Maximum	19%	23%	£4,013,000
Structure	15%	18%	£1,154,000

Fixed: ● Base salary and benefits ● Pension
Variable: ● Annual performance bonus ● Long term incentive plan

Chris Davies

Minimum		96%	£48,000
Target	38%	23%	£1,416,000
Maximum	24%	29%	£4,013,000
Structure	20%	23%	£1,416,000

1. Base salary and pension value should be calculated as follows:

2. Structure is based on the structure of the Maximum value which is based on the maximum value of the PSP as set in the PSP.

New CFO Remuneration package

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022. Chris was appointed on a salary of £460,000 with maximum potential opportunity of 125% or a 200% cash bonus (maximum value for the Annual Bonus and PSP) in line with the Company's remuneration policy for independent non-executive directors and in line with the relevant market. The chart below presents the potential remuneration on a full annualised basis (only performance related bonus and PSP) and with the Remuneration Policy the Company's making additional cash and bonus based elements when their performance is in the best interests of Dimplex and shareholders to represent an element of the reward arrangement that Chris Davies has agreed in respect of the Group. Payments will be a proportion of the total of the remuneration package, taking into account existing rules and principles and requirements attached to that remuneration and any payments which may have been expected to be paid.

Our target remuneration assumes an Annual Remuneration Benchmark 50% of the maximum for the Executive Directors in 2023, assuming that a face value limit of 370% of base salary (45% of 100% base salary) will be achieved. Our target setting of PSP also assumes an adjusted EPS growth of 7.7% plus a TSR performance which is equal to the 10% of the maximum setting under the PSP. Maximum remuneration assumes maximum annual bonus and cash and maximum setting of PSP overall. No dividend payments are assumed and no share price growth is assumed other than in the year of award.

Consideration of shareholder views

The Committee will consult with the major shareholders in advance of any potential change to the Remuneration Policy, to ensure that the Committee can explain their approach and rationale fully and to understand shareholder views. Additionally, the Committee will seek shareholder feedback included in its annual AGM and as part of its ongoing dialogue with the market. The Committee also reviews the executive remuneration framework in the context of the guidance for listed companies issued by the UK Corporate Governance Code. A third party consultant was engaged to assist the Committee in reviewing and planning its policy for future remuneration, intended to ensure that growth-related remuneration is paid out under the AGM from 2024 to 2026. In addition, and in line with its commitment to shareholders, the Committee also considered the UK base pay freeze and the context of a pay freeze in the current period of economic uncertainty and cost of living pressures faced by our employees and the broader community of UK citizens.

Differences in remuneration policy for other employees

The Committee will also consider remuneration for other employees. The Committee has not yet developed a policy for other employees and any award or participation in relevant benefits outside the remit of the Group when considering the remuneration of the Executive Directors.

The Board as a whole takes responsibility for gathering the views of all employees with regard to pay and remuneration and for employee engagement. While the Committee does not consult employees directly when setting the Executive Director remuneration policy, the Executive Management team engages with our employees to ensure a business case exists in the current environment, which is consistent with our broader vision and a wide range of matters, including remuneration. Feedback is passed to the Committee via the Executive team.

The Committee reviews compensation arrangements, including those available to the wider employee population, primarily in line with the Group's pay and reward strategy, which is agreed locally with governance and guidance provided by the Group. Policies relating to the employee population are determined based on a number of factors, including the business and business environment, level of experience, internal remuneration, external competitive benchmarking and general industry trends across the Group. The Committee also seeks to provide an appropriate range of competitive benefits, including pension, to employees in line with the industry practice. Benefits managers have reviewed and aligned with the Executive Directors and their advisors framework of remuneration, which includes a uniform and different fixed benefits and for the workforce and agreed local variations set from the wider employee population.

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are subject to review by the Committee who are fully engaged, consulted and notified of the rights required to discharge the Committee's duties. The Executive Directors' strategic briefs. The Committee has performed ongoing strategic work to ensure that the Executive Directors' service contracts are aligned with the business strategy.

any payment that should be made will require a resolution of the Group. This includes the use of any awards made under section 9.4.2 of the Listing Rules. Any such payments should take account of the effect of the relevant provisions of the Listing Rules and the nature, timing and amount of any other payments or payments intended to that individual and any payments would not exceed the expected value being forfeited.

- in the case of an internal appointment, any outstanding variable pay awarded in relation to the award will be allowed to pay out following the terms of the grant;
- for a newly appointed Executive Director, any outstanding awards under the Holding Period or PSR awards will apply in accordance with the Policy and the relevant Plan rules;
- for a newly appointed Non-Executive Director, any outstanding awards under the approved Plan will

Committee discretion

The Committee exercises the Annual Performance Bonus Plan and the Performance Share Plan, the Plans in accordance with the relevant Plan rules and where appropriate, the Listing Rules and MFR11 regulations.

The Committee will exercise its powers in accordance with the terms of the relevant Plan rules.

The Committee retains a discretion over a number of areas relating to the operation and administration of the Plans. These include, but are not limited to:

- selecting the Executive Directors to participate and awarding variable performance payments to the Executive Directors under PSR awards;
- fixing the flow and amount of awards setting the performance criteria each year;
- determining the amount of grants and payments made within the limits set out in the Policy Table;
- adjusting the contribution to the risk component and/or determining the extent of vesting based on the achievement of performance;
- providing for a dispute resolution and a hearing procedure under the Annual Bonus Plan and the PSR Plan; determining where there is not a formal definition of the underlying performance of the business of the Executive Director in the Plan;
- awarding or withholding time protection;
- dealing with equity;
- discretion to waive or suspend the rules and performance rules provided under the PSR;
- discretion to restrict, claw back or withhold performance, in exceptional circumstances, including through inappropriate adjustments required in relation to remuneration, including claw back and constructive eventuality, in the event of actual or suspected overpayment;
- to suspend or remove awards in the event of a change of control or cessation of an award in the event of a change of control of the Company.

Policy in respect of external board appointments for Executive Directors

The Committee recognises that external appointments for Executive Directors may involve a number of issues and the Group's policy for Executive Directors is as follows: in the event of the appointment of a new Executive Director, the Board will consider the following:

Employee and post-employment shareholding requirements

The Committee has adopted shareholding requirements for Executive Directors to encourage substantial and long-term share ownership. These specify that over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares, which will be equivalent to 200% of base salary in the case of the CEO, and/or other Executive Directors to 250% of base salary in the MFR.

Vested PSR awards and deferred annual bonus payments within the award period must be returned until the required holding is no longer met (net of tax) have been held.

As explained in the long term incentive award section on page 13, Executive Directors are required to hold shares vesting under the PSR (net of tax) until the fifth anniversary of the grant (the Holding Period). The Holding Period continues to apply to cessation or loss of employment except where cessation is a reduction in headcount or a change of control or the Committee exercises its discretion.

In addition, a revised post-cessation or termination requirement will apply during 50% of the MSR term which is after the term of the award for less than the MSR, the value of shares held at the cessation date. Post-cessation holding continues to apply to shares granted under the PSR since the approval of the 21st February.

Chair and Non-Executive Directors

Recruitment and term

The Board aims to recruit Non-Executive Directors with a high calibre, with a broad and diverse commercial, international, financial and other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. Appointments of other Non-Executive Directors are for an initial term of three years, subject to election by shareholders at the first AGM following their appointment and subsequent annual shareholder ratification thereafter. The terms of engagement and set out in letter of appointment which can be terminated by either party serving three months notice.

Fees

The Non-Executive Directors are awarded a base fee, the additional annual fee which is approved by the Board on the recommendation of the Chair and the Executive Directors. The Chair is not approved by the Committee, excluding the Chair. Additional fees may also be payable for visiting a Committee of the Board, including as Senior Independent Director, or in respect of any other material additional responsibilities taken up. Fees are reviewed each year and take account of the fees paid in other comparable companies, size and complexity, the responsibilities of the role, and the required time commitment.

If there is a temporary yet material increase in the time commitment for Non-Executive Directors in the Business, an extra fee or a one-off bonus is to be paid to the additional work done.

The Non-Executive Directors are not eligible to participate in any of the Company's long-term plans, incentive plans, pension schemes, and there is no provision for payment in the event of early termination.

REMUNERATION POLICY CONTINUED

Provision 40 table

The following table summarises how the Remuneration Policy fulfils the factors set out in Provision 40 of the 2018 UK Corporate Governance Code.

Clarity

Remuneration arrangements should be clear and promote effective engagement with shareholders and the workforce.

Example: the structure of the Annual Performance Bonus Plan is completely based on financial metrics which align with published accounts.

The Committee is committed to providing clear and transparent disclosures to shareholders, the workforce and other stakeholders with regard to executive remuneration arrangements.

The Committee determines the Remuneration Policy and agrees the remuneration of each Executive Director, as well as the remuneration framework for other senior managers. The Company provides clear and transparent disclosures of our Executive Directors' remuneration arrangements including undertaking engagement with key shareholders when making changes to Remuneration Policy.

Simplicity

Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.

Example: variable pay for Executive Directors is divided into an Annual Bonus Plan and a Performance Share Plan.

Our remuneration arrangements for Executive Directors, as well as those throughout the organisation, are simple in nature and well understood by participants.

The structure for Executive Directors consists of fixed payments, benefits, pension and variable pay, for bonus, share plan and a long-term incentive plan, the PSP.

Risk

Remuneration arrangements should encourage robust risk and other risks from excessive rewards and compensation risk that can arise from target-based incentive plans and identified as a material risk.

Example: the RAGS structure of the PSP requires the achievement of profit, earnings.

Targets are reviewed to ensure they do not encourage excessive risk taking.

Malus and clawback provisions also apply to both the bonus plan and long-term incentive plans.

Members of the Committee are provided with regular briefings, developments and trends in executive remuneration.

Predictability

The range of possible variable rewards to individuals, Directors and any other limits or discretion should be clearly defined and explained at the time of approving the Policy.

The potential value and composition of the Executive Directors' remuneration packages at below, target, and maximum scenarios are disclosed in the relevant disclosures.

Example: variable payment limits are set out in the Policy.

Proportionality

The link between individual awards and short-term pay and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.

Annual bonus payments and PSP awards will be linked to performance against challenging conditions that are aligned to the Company's strategy.

Example: 95% of budget may be awarded to the maximum of the Annual Performance Bonus. 95% of budget may result in no payment.

The Committee has discretion to determine individual results to ensure that they are appropriate and effective at levels of performance.

Alignment to culture

Incentive schemes should drive behaviour that is in line with the company purpose, values and strategy.

The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy.

Example: one of the Operational goals in the annual improvement plan is to improve performance to required level against the remuneration targets.

2019年12月31日

Total remuneration in 2022 and 2021

	Johnny Thomson		Barbara Gibbs			
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Salary	711	700	365	340	1,076	1,039
Taxable benefits	25	25	19	9	44	44
Pension	71	81	15	4	86	100
Total fixed	807	806	399	353	1,206	1,184
Annual performance bonus	889	566	456	405	1,345	1,088
Long-term incentive plans – dividend equivalent element	75	88	17	-	92	88
Long-term incentive plans – performance element	1,725	1,675	340	-	2,065	1,675
Long-term incentive plans – share appreciation element	262	1,815	110	-	372	1,815
Long-term share-based remuneration ¹	2,062	2,516	467	-	2,529	2,516
Total variable	2,951	4,447	923	405	3,874	4,865
Single total figure	3,758	5,142	1,322	758	5,080	6,049

Departure of Barbara Gibbs and appointment of Chris Davies (added):
Approved on 10 August 2022, Barbara Gibbs' letterhead on or from her role as Group CFO, and as the Company's 30 September 2022 remuneration terms sheet were in line with the approved Remuneration Policy. Barbara Gibbs' leave of absence ended on 30 June 2022, after the Company's equivalent to 120 days' leave in 2022 ended on 30 June 2022. The Company's Remuneration Committee members covering the period from 1 October 2022 to 9 August 2023 are protecting payment during the leave. The maximum £1,024,500 bonus was determined to be payable for the year ended 30 June 2023, based on the Company's performance during the period. The maximum £1,024,500 bonus was determined to be payable for the year ended 30 June 2023, based on the Company's performance during the period.

Barriers were treated as a special case of barrier, with funding being given in quarters. For 2012, 2013 and 2014, a total of £100,000 was allocated to the three lead performance areas being met for the three years ending 30 September 2013, 30 September 2014 and 30 September 2015 respectively. These awards have been allocated during period 1, 30 September 2010, and in the three years to the 30 September 2011, and in the three years to the 30 September 2012, for the period of non-outstanding and term incentive awards as set out in this report, Table 10.

Further, we consider contributions of up to 10^6 (excluding 10^7) for the parameter α ranging from 0 to 10^{-10} (excluding 10^{-11}) and from 10^{-10} to 10^{-11} (excluding 10^{-12}).

On 12 June 2014, the letter was sent to the Chief Executive Officer of the Department of Health, Mr. [REDACTED], and the letter was dated 12 June 2014.

On 14 November 2022, the Committee reviewed the increase in base salary for the CEO. For that and for how the Committee can be assured that the increase in the salary is in the financial interest of the company.

	Salary from 1 October 2022 £000	Salary from 1 October 2021 £000	Increase in salary
John Smith	754	711	43
Barbara Smith	—	768	768
John and Barbara Smith (Total)	450	—	450

ANNUAL REPORT ON REMUNERATION CONTINUED

Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2022 and 2021, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan. Johnny Thomson lowered his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2022 his pension contributions will be reduced further to 4% of base salary, in line with the majority of the UK workforce.

	2022		2021	
	Contribution rate % of base salary	Pension paid as cash £000	Contribution rate % of base salary	Pension paid as cash £000
Johnny Thomson	10	71	12.5	86
Barbara Gibbs	4	15	4	14

Annual performance bonus (audited)

Bonus pay out for year ended 30 September 2022

The Board approves a stretching budget each year. For each performance measure, threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2022. The following table summarises the performance assessment by the Committee in respect of 2022 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2022 ¹	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis)	Minimum: £154.3m On-target: £162.4m Maximum: £170.5m	Adjusted operating profit for FY22 was £175.0m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
50% of bonus opportunity		
Revenue (calculated on a constant currency basis)	Minimum: £609.0m On-target: £649.4m Maximum: £691.9m	Revenue for FY22 was £675.9m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
25% of bonus opportunity		
Free cash flow (reported)	Minimum: £94.0m On-target: £104.0m Maximum: £109.0m	Free cash flow for the year was £107.4m. The maximum threshold was met and the maximum award is payable.
25% of bonus opportunity		

¹ All figures in the FY22 targets are based on the FY21 exchange rates.

Bonus awarded to each of the Executive Directors for year ended 30 September 2022

	Base salary	2022 actual bonus – as a percentage of 2021 base salary				2022 bonus	
	£000	Minimum	On-target	Maximum	Financial objectives	Total bonus	£000
Johnny Thomson	711	5%	63%	125%	125%	125%	889
Barbara Gibbs	365	5%	63%	125%	125%	125%	456

In line with the new Remuneration Policy, minimum shareholding requirement (MSR) for the CEO will increase to 300% of base salary and will increase to 250% of base salary for other Executive Directors. In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (300%) and therefore his bonus for the year will be paid as cash. The MSR for higher level roles Barbara Gibbs since she stepped down from her role as CFO and left the Company on 30 September 2022, and therefore her bonus for the year will be paid as cash. Post-termination shareholding (as laid out in the Company's existing Remuneration Policy) will also apply for Barbara Gibbs, which means that 50% of her MSR or her actual shareholding will be retained for 12 months post-termination.

Bonus awards for year ended 30 September 2023

In the financial year beginning 1 October 2022, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue, both metrics measured on a constant currency basis and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be published in next year's Annual Report & Accounts, due to their commercial sensitivity.

Long-term incentive awards (audited)

The Company's long-term incentive plan is the Performance Share Plan (PSP).

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2021 (PSP 2019 – 2021), PSP 2020 – 2022 and PSP 2021 – 2023.

Vesting of the awards is based 50% on growth in adjusted EPS and 50% on relative TSR performance in order for awards to be earned under the PSP scheme. In order for the awards to be earned, the Company must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underlying which awards will be earned is the ROATCE in the third year of the performance condition, and as defined in note 17 to the consolidated financial statements.

For the PSP 2021 awards, which in the Chair's letter on page 17, the performance condition will remain the same as the PSP 2019 – 2021, with the exception of the weighting between EPS and relative TSR performance and the EPS targets. The vesting of the awards will be weighted 75% on growth in adjusted EPS (compared to the ROATCE underlying) and 25% on relative TSR performance. The EPS target will be 5% to 13% growth per annum (PSP 2021 – 5% to 13%).

EPS

The performance condition for the PSP awards is that the average annual compound growth in the Company's adjusted EPS over the three consecutive financial years following the financial year immediately prior to the grant, must exceed the specified annual targets. The performance targets are set out below.

Adjusted EPS growth (over three years)	% of awards vesting
14% and above (PSP 2019 – 2021 and PSP 2020 – 2022)	100%
13% and above (PSP 2021)	100%
12% and above (PSP 2022)	10%
5% and above	25%
Below 5% and above	0%

Where the Company's adjusted EPS falls in a band between these percentage bands, vesting of the awards will be pro-rata on the basis of the midpoint of the range of EPS's included in the band defined in note 17 to the consolidated financial statements and will be determined to be consistent with the definition of adjusted EPS approved by the Committee in previous years.

TSR

The performance condition to measure the growth of the Company's share price over a three year period is that, in the Company's share price relative to the FTSE 250 index (excluding financial services and investment trusts). The performance targets are as follows:

	% of awards vesting
Upper quartile	10%
Median	25%
Below median	0%

Where the Company's TSR performance falls between these percentage bands, vesting of the awards will be pro-rata based on ranking. The FTSE 250 index was chosen because it is the best benchmark for the market in which the Company is a member.

ANNUAL REPORT ON REMUNERATION CONTINUED

Awards vesting in 2022 (audited)

The RSP award granted on 13 December 2019 (RSP 2019) to Johnny Thomson and on 10 March 2020 (RSP 2020) to Barbara Gibbs, was subject to the performance conditions as set out in the table above and independently assessed over a three year period ended 30 September 2022. The outcome of this award is presented in the table below:

Adjusted earnings per share

	Base EPS	EPS at 30 Sep 2022 ¹	CAGR in EPS	Maximum target	Maximum award	Vested award
RSP (2019)	64.3p	109.4	19.2%	14%	50%	50%

¹ The pre-RSP 2019 and RSP 2019 award have been used in the calculation of awarding the vesting criteria of the RSP 2019 award. It will be applied in the 2021 and 2022 LFF in order to ensure the award is not subject to the performance conditions of the RSP 2019 award.

The Committee has reviewed the RSP 2019 award and concluded that 17.3% meets the Board's expectations.

TSR growth against FTSE 250 (excluding financial services and Investment Trusts)

	TSR at 30 Sep 2022	Median	Upper quartile	Maximum award	Vested award
RSP (2019)	20.0% p.a.	12.8% p.a.	8.24% c.p.	50%	50%

Set out below are the shares which vested to Johnny Thomson and Barbara Gibbs at 30 September 2022 in respect of this award:

	Share price at date of grant pence	Share price at 30 Sep 2022 pence	Proportion of award vesting	Shares vested number	Performance element £000	Share appreciation element £000	Total £000
Johnny Thomson RSP 2019	1,116	2,324	100%	85,481	1,725	242	1,967
Barbara Gibbs RSP 2019	1,139	2,324	100%	19,374	346	110	456

¹ The pre-RSP 2019 and RSP 2019 award have been used in the calculation of awarding the vesting criteria of the RSP 2019 award. It will be applied in the 2021 and 2022 LFF in order to ensure the award is not subject to the performance conditions of the RSP 2019 award.

Dividend equivalent payments (audited)

Dividend equivalent payments of £4,611,000 (2019: £5,602,000) are payable to Johnny Thomson and dividend equivalent payments of £1,412,000 (2020: Nil) are payable to Barbara Gibbs in respect of the RSP 2019 award which vested on 30 September 2022. Dividend equivalent payments cover a payment to be made in the three year performance period.

Long-term incentive plan – awards granted in the year (audited)

Johnny Thomson and Barbara Gibbs were each granted 1/3 of the RSP 2020 award on 10 November 2020 in the form of a long-term incentive. The award was based on a performance period of 1/3 of the award vesting at the end of the first year, 1/3 at the end of the second year and 1/3 at the end of the third year. The award was based on the performance of the company over the three year period. The award was based on the performance of the company over the three year period.

Under normal circumstances the award will not be exercisable until the performance conditions are determined after the end of the three year measurement period which begins on the first day of the financial year in which the award is made and provided the participating Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three year measurement period. The performance conditions for this award are set out on page 33.

Outstanding share-based performance awards (audited)

Set out below are the share-based awards outstanding at 30 September 2020, including share-based awards which have vested during the year based on performance and share-based awards which have been granted during the year. The awards set out were granted as a bonus of a face value of £100,000 to each of the participating Directors. The awards have a face value of £100,000 (RSP 2020) and RSP 2020, and 100% (RSP 2019) base salary to Barbara Gibbs. RSP 2019 is the award granted for time served, including an CEO designate. The award will vest unless the performance conditions set out on page 33 are not met.

Diploma PLC 2011 and 2020 Performance Share Plan (audited)

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2021	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2022
Johnny Thomson									
PSP 2019 ¹	1.018c	1,711	30 Sep 2021	30 Sep 2021	85,481	–	85,481	–	–
PSP 2020 ²	1.306c	1,715	30 Sep 2023	30 Sep 2023	74,804	–	–	–	74,804
PSP 2021 ³	3.018c	1,773	30 Sep 2024	30 Sep 2024	–	57,007	–	–	57,007
Barbara Gibbs⁴									
PSP 2019 ¹	1.015c	340	30 Sep 2021	30 Sep 2021	19,374	–	19,374	–	–
PSP 2020 ²	2.706c	595	30 Sep 2023	30 Sep 2023	15,801	–	–	(8,601)	17,201
PSP 2021 ³	3.018c	639	30 Sep 2024	30 Sep 2024	–	20,485	–	(13,656)	6,829

¹ Performance Share Plan (PSP) awards granted to Johnny Thomson on 30 September 2019, with a vesting date of 30 September 2021, of 85,481 shares at a market price of 1.018c per share. The awards were granted under the Diploma PLC 2011 and 2020 Performance Share Plan (the "PSP Plan").

² Performance Share Plan (PSP) awards granted to Johnny Thomson on 30 September 2020, with a vesting date of 30 September 2023, of 74,804 shares at a market price of 1.306c per share.

³ Performance Share Plan (PSP) awards granted to Johnny Thomson on 30 September 2021, with a vesting date of 30 September 2024, of 57,007 shares at a market price of 3.018c per share.

The PSP awards vest on the date on which the performance conditions are both defined and confirmed by the Committee, following the end of the performance period. Shares will be held for a minimum of five years from grant date in line with the Policy, which also applies to Barbara Gibbs despite her leaving the Group.

The PSP awards are granted in the form of restricted shares, with a nominal value of £1 per award. To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of shares exercised during the year and outstanding at 30 September 2021 are set out later in this report.

Chair and Non-Executive Directors' remuneration (audited)

Individual remuneration for the year ended 30 September varies as follows:

	Total fees	
	2022 £000	2021 £000
David Davidson	207	–
John Nicholas	48	153
Andy Smith	67	45
Anne Thornehill	77	71
Geraldine Huse	55	53
Deirdre Fright	55	10

¹ The fees for David Davidson, Chair of the Board, are set out in the Directors' Remuneration Report for the year ended 30 September 2022. The fees for John Nicholas are set out in the Directors' Remuneration Report for the year ended 30 September 2021.

² The fees for Andy Smith, Geraldine Huse and Anne Thornehill are set out in the Directors' Remuneration Report for the year ended 30 September 2021.

³ The fees for Deirdre Fright, Non-Executive Director, are set out in the Directors' Remuneration Report for the year ended 30 September 2021.

⁴ The fees for David Davidson, Chair of the Board, are set out in the Directors' Remuneration Report for the year ended 30 September 2022.

The Non-Executive Directors received a chair annual fee of £54,500 during the year and a chair annual award of £11,000 (2021: £12,000) for chairing a Committee of the Board of £10,000 (2021: £10,000) for chairing a Senior Independent Director. The chair annual fee for chairing a Committee of the Board is payable to the Chair of the Company. The fees for Non-Executive Directors are reviewed every year by the Board taking into account their responsibilities and required time commitment. From 1 October 2021 there has been a 6% increase to the Non-Executive Director fee to £57,250 and a 5% increase to the Chair fee to £65,500. The chair annual fee and chair fee for chairing a Committee of the Board has increased 4% and for acting as Senior Independent Director to £10,500 per annum. The additional fee has increased 5% to £12,500 per annum. There were no tax relief and payment benefits for Non-Executive Directors in 2021 and 2022.

ANNUAL REPORT ON REMUNERATION CONTINUED

Executive Directors' interests (audited)

In options over shares

In respect of all cost options granted under the PSR, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration of the Executive Directors is the difference between the amount the Executive Directors are required to pay to exercise the options to acquire the shares and the total value of the shares on the vesting date.

If the Executive Directors choose not to exercise the in-cost options on the vesting date, they may exercise the options at any time up to the day preceding the tenth anniversary of the date of grant, and subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the first vesting date and the date of exercise of the option. This increase or decrease in value reflects an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The in-cost options outstanding at 30 September 2022 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2021	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2022	Exercise price ¹	Earliest normal exercise date	Expiry date
Johnny Thomson	2021	122,801	20,500	-	-	£1	Nov 2021	Feb 2029
	2022	-	-	85,481	85,481	£1	Nov 2022	Nov 2029
Barbara Gibbs	2022	-	-	19,374	19,374	£1	Nov 2022	Mar 2030

¹ The exercise price of the in-cost options is the average of the closing price of the Company's ordinary shares on the first trading day of the first and last trading days of the period commencing 12 months prior to the date of grant and ending on the date of grant. The exercise price of the in-cost options is the average of the closing price of the Company's ordinary shares on the first trading day of the first and last trading days of the period commencing 12 months prior to the date of grant and ending on the date of grant.

Directors' interests in ordinary shares

	As at 30 Sep 2022			As at 30 Sep 2021		
	Ordinary shares	Options vested but unexercised	Options with performance measures	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	102,330	85,481	131,811	7,045	12,850	70,045
Barbara Gibbs	5,082	19,374	24,030	1,045	-	46,116

In the new Policy, as set out on page 121, the Committee has indicated the MSR at 300% (previously 250%) of the CEO and at least 250% for other Executive Directors. As at 30 September 2022, Johnny Thomson's shareholding was 65% of salary and therefore he was meeting MSR.

MSR is no longer applied to Barbara Gibbs and a resolution, including of 50% of MSR, will be presented against the existing policy by 2023. It is also agreed that 12 months' notice, including that Barbara should not be a Joint Shareholder, will be given to the post-vesting of employment. PSR awards will be paid until the fifth anniversary of the PSR grant. By agreeing to the new award policy, Barbara Gibbs has agreed to the post-vesting of MSR. The shareholding calculation will be in line with the Company's award policy and the award policy will be applied to the PSR award.

As at 21 November 2022, there have been no changes to the shareholdings of any of the Directors.

Chair and Non-Executive Directors' interests in ordinary shares (audited)

The Non-Executive Directors' interests in ordinary shares of the Company at the start and end of the financial year were as follows:

	Interest in ordinary shares	
	As at 30 Sep 2022	As at 30 Sep 2021
Chair, S. Davies	2,500	-
John Nibbs	9,045	9,045
Andy Smith	7,545	7,545
Anna Thompson	5,045	5,045
Gemma Huse	2,045	2,045
Rayn Feger	640	-

As at 21 November 2022

As at 21 November 2022, there have been no changes to the shareholdings of any of the Directors.

Chief Executive pay ratio (unaudited)

Chief Executive pay ratio (unaudited)
 The following information is taken from the Chief Executive's 2013 compensation letter dated 6 September 2014.

The estimates are the unadjusted point estimates of the CEF with the equivalent figure for the lower quartile (25th) as the reference. The 95% confidence interval for employee (Column 4) has been used as the theoretical statistically significant interval. Variables not statistically significant are marked with a dash and a p-value is provided in the CEF (see Table 1).

The April 1996 data was produced in 30 September 2011 using the most up to date census estimates. The April 2011 data was the same as the 1996 data, but the national data, with the exception of census estimates were used and to keep as close as possible to the original data. The 1996 data was used for the 1996-2000 period.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2012	Constant	152.1	120.1	161.1
2013	Constant	225.1	167.1	241.1
2014	Constant	222.1	155.1	241.1

	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	\$7,500	1.0	\$1,718,010
Chairman of the Board	\$2,531	33	\$24,090
Managing Director	\$1,040	14	\$20,004
Deputy Director	\$500	7	\$10,010

The median annual total compensation was reduced to the Group's median pay for workforce remuneration. A significant proportion of the CEO's remuneration is awarded through variable pay awards which are linked to performance and underpin our commitment that the remuneration framework will ensure that the CEO's award is based on value delivered and may fluctuate from year to year. The 2012 payment for 2011 was required by the 2011-12 Remuneration Committee for the CEO's single figure to be lower than the appropriate level. The median payment for single figures increased at a similar rate to 2011 (£19,036), with the addition of c. 400 new employees from UK subsidiaries of overseas banks, and with a headcount growth of 1% during 2012; the median pay for the UK workforce rose to £18,750 compared to £19,000.

Aligning pay with performance (unaudited)

The average pay for the 194 performers who performed under 30 September 2010 was at the 1991 index level, although it was higher at the 2009 pay's moment of shock. The 194 25th index, excluding outliers, is 1.17, or 17% above the 1991 level. (See the 2010 index's moment box.)

Growth in the value of a hypothetical £100 holding over ten years



1. The number of birds per nest was 1.0, indicating a single chick per nest. The average number of eggs per nest was 1.0, indicating a single egg per nest. The average number of chicks per nest was 1.0, indicating a single chick per nest.

Executives and senior management below the Board (unaudited)

Set out below is a summary of the share-based awards outstanding at 30 September 2022, which have been granted to members of the executive team and other senior executives, including share awards which have vested during the year based on performance and share awards which have been granted during the year and during this year. The awards set out below were granted valued on a fair value that varied between 151p and 140p at the date of grant. No awards will vest unless the performance conditions set out on page 131 are achieved over a three-year measured performance period. The nominated and appointed independent advisors awarded to members of the executive team and other senior executives in September 2022:

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Share over which awards held at 1 October 2021	Shares over which awards granted during the year	Vested during the year	Lapsed during the year	Shares over which awards held at 30 Sep 2022
RGP 2019	£ 018p	565	30 Sep 2022	34,306	–	29,546	4,460	–
RGP 2020	£ 306p	1,471	30 Sep 2023	46,475	–	–	9,612	39,860
	£ 108p £ 114p							
RGP 2021	£ 61p	2,360	30 Sep 2024	–	102,258	–	8,086	94,172

GOVERNANCE

Remuneration Committee

The Committee is chaired by Andy Smith and comprises five independent Non-Executive Directors, who have been re-elected by Shareholders on 19 January 2022 and was re-constituted by David Lowder. The remaining members, Anne Thurnham, Dean Finch and Geraldine Hulse, continue to serve on the Committee. The Group CFO and the Group HR Director attend meetings of the Committee and the Chairman of the Committee to provide advice to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

The Remuneration Committee Report

The Annual Report on Remuneration and the Chairman's statement will continue to be subject to an advisory vote by Shareholders at the 2023 AGM.

Remuneration principles and structure

The Committee has adopted remuneration principles which are principles that underpin its view that Executive remuneration:

- is aligned to the business strategy and promotes the long-term interests of the Company;
- supports the creation of sustainable long-term shareholder value;
- provides an appropriate balance between short-term incentives and long-term culture and performance elements which drive sustainable, structured and prudent growth;
- provides an appropriate balance between immediate and deferred remuneration; and
- ensures appropriate compensation culture, including appropriate deferred remuneration and robust clawback provisions in the event of inappropriate conduct and any other circumstances which may lead to a significant reduction in the company's value.

These principles are applied to the remuneration of management and all grants to the Board will be as follows:

Key duties and focus in 2022

The Committee agreed, on behalf of the Board, a position on the remuneration of the executive Directors and agreed the strategy, direction and policy framework for the remuneration of the senior executives who have a significant impact on the Group's ability to meet its strategic objectives. The Committee also reviewed the remuneration of non-executives and the Committee was also involved in a number of reviews of potential conflicts of interest.

The Committee's terms of reference, which are set out in its Terms of Reference, have been reviewed and revised and approved by the Board. The Terms of Reference are available on the company website at www.bpcgroup.co.uk/governance/committees-and-subcommittees.

The Committee's key responsibilities and focus during the year are as follows:

- Approved Remuneration Committee work plan for the year 2022.
- Reviewed the AGM 2022 letter.
- Conducted a review of share-based incentives and the new Executive Incentive Plan and its implementation.
- Approved annual performance targets and measures for the senior executives for 2022.
- Approved new RSU awards to Executive Directors and confirmed the details of the new award plan for 2022.
- Confirmed the vesting conditions to the RGP 2019 and RGP 2020 awards.
- Reviewed Executive Director's bonus payments for 2021.
- Conducted a review of performance for the CFO and the Executive Director responsible for the new RGP.
- Reviewed the fees of the Chairman and Executive Director and approved the remuneration of Executive Director, Finance and HR.
- Reviewed the remuneration of the Executive Director responsible for the new RGP.
- Reviewed the remuneration of the Chairman.
- Approved the 2022 Remuneration Committee Report.

ANNUAL REPORT ON REMUNERATION CONTINUED

Services from external advisors (unaudited)

The Committee has continued to receive its remuneration advice from WTW and legal remuneration advice from Simmons and Simmons. The fees are agreed in advance with the advisor based on the scope of work. All advisors are selected by the Committee based on their technical expertise and independence. None of the advisors have any relationship with any Director and the Committee is satisfied that the services of advisors are independent, which it validates by checking that the advisors are not providing other services to the Company. Fees during 2021 were higher due the Policy review and the change of CRC. Details are shown in the table below.

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Willis Towers Watson	Committee	Remuneration advice	None	129,872
Simmons and Simmons LLP	Committee	Legal and remuneration advice	None	16,376

Shareholder voting at previous Annual General Meeting (unaudited)

The Director's Remuneration Policy was approved by shareholders at the AGM held on 15 January 2020 and the Remuneration Committee's Annual Report (Report) for the year ended 30 September 2021 was approved by shareholders at the AGM held on 15 January 2022, with the following votes being cast:

	Policy		2021 Report	
voted for	80,768,041	79.98%	10,036,465	48.24%
voted against	5,109,013	5.01%	7,594,995	34.41%
Withheld	11,741,028		20,618,820	

At the AGM in January 2022, the 2021 DRR was approved with 79.98% of votes in favour. Given the positive voting outcome there was no immediate need for shareholder follow up. Extensive consultation was conducted during 2021 on the new policy and the 2022 DRR. During consultation there was an opportunity to check with shareholders if they had any outstanding issues from 2021 and none were raised.

DIRECTORS' REPORT

This section comprises information which the Directors are required to provide in accordance with the applicable provisions of the Annual Report & Accounts. The Directors who held office during the year are set out on page 90.

Shareholders

Incorporation and principal activity

Upland PLC is a limited liability company incorporated in England and registered in England and Wales under Companies Number 3899848. At the date of this report there were 104,679,540 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year, including the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, together with an indication of future developments is set out in the Strategic Report on pages 2 to 89, which incorporates the requirements of the Companies Act 2006 (the Act).

Annual General Meeting

The Annual General Meeting (AGM) will be held at 09:00 am on Wednesday 18 January 2023 in The Chamberhouse, Chamberhouse Square, London EC3M 6AN. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the Upland PLC website.

Substantial shareholdings

As at 30 September 2022, the Company had received final notification of the following substantial shareholdings in its ordinary shares in accordance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs):

	Percentage of ordinary shares (September 2022)	Percentage of ordinary share capital (November 2022)
Motivation Investment Management Limited	9.60	No change
Capital Research Global Investors	9.01	12.00
BlackRock Asset Growth	4.95	No change
The Vanguard Group Ltd	3.41	No change
Motivation Investment Partners Limited	2.14	No change
BlackRock Inc	0.07	Below 5

Other than Capital Research Global Investors and BlackRock Inc, the relevant beneficial and legal interests notified to the Company pursuant to the DTRs up to the date of this report.

Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association, the Articles of which are published on the Company's website. The Articles have been approved by a special resolution of the Company's shareholders.

Shareholders

Shareholders are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or corporate representatives. One share confers one vote on ordinary shares and have one vote, as stated above. In a poll, every holder of ordinary shares present in person or by proxy and have one vote for every share of which they are the holder. Elections and appointments and voting instructions must be received not later than 48 hours before a general meeting.

The Company is not aware of any significant anti-takeover provisions that may result in restrictions on the transfer of securities and on voting rights. No person holds securities in the Company conferring special rights with regard to control of the Company.

Contracts of significance and change of control

There are a number of agreements that take effect, either on termination upon a change of control of the Company or on any bank facility agreements, the Company is using Term Incentive Plan and the Annual Performance Bonus Plan.

Restrictions on transfer of shares

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the transfer is not prevented by the provisions of the Companies Act 2006, taking account of any provisions of the Company's Articles of Association that relate to the transfer of shares. The Directors may also refuse to register a transfer of a certificated share, unless the instrument of transfer is properly lodged, duly stamped and, if necessary, at the registered office of the Company or any other place as the Board may see fit, accompanied by the certificate for the share(s). Transfers of uncertificated shares must be carried out using CREST and the Directors may refuse to register a transfer of an uncertificated share.

Participants in the Company's Performance Share Plan (PSA) will have yet to meet shareholding requirements to have vested PSA shares held in trust until the expiry of the term of their meeting. The shareholding requirement is for a period of two years, during which period these shares will be transferred to them. Executive Directors who do not participate in the Annual Performance Bonus Plan will have yet to meet shareholding requirements to have 50% of their net annual bonus held in share until the expiry of the term of their meeting their shareholding requirement is five years.

Share allotment

A general allotment power and a limited power to issue shares in specific circumstances for cash, otherwise than at a discount, to existing shareholders were given to the Directors by resolution and approved at the AGM of the Company held on 18 January 2022.

Authority to make market purchases of own shares

An authority to make market purchases of up to 10% of the issued share capital shares was given to the Directors by resolution and approved at the AGM of the Company held on 18 January 2022. In the year to 30 September 2022, the Company has not purchased any of its own shares.

Liability insurance and indemnities

As at the date of this report, the Company had granted out a third party indemnity to each of its Directors and officers, which is that attached to them in order to protect them from any claims against them to the extent permitted by the Companies Act 2006. In addition, Directors and officers of the Company are entitled to be indemnified and continue to be indemnified by the Company out of its assets and profits.

DIRECTORS' REPORT
CONTINUED

Disclosures required under Listing Rule 9.8.4C

To comply with Listing Rule 4.64C, the following table provides the information to be disclosed by the Company in respect of Listing Rule 4.64C:

	Listing Rule
The Trustees of the Old and New York Employee Benefit Trust	9.8, 9.9 and 9.10, 13.9

Non-financial information

The Company has chosen, in accordance with section 4140(m) of the Companies Act 2006, to include certain matters in its Strategic Report on pages 2 to 84 that would otherwise be required to be disclosed in its Directors' Report.

Non-financial information statement

Other information not relevant to the Directors' Report and which is incorporated by reference into this report, can be found in the section on Deloitte's Value Responsibility on pages 34 to 57 and includes:

- [illegible]

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- [illegible]

Financial

Financial Results and dividends

The amount for the period 1990-1991 totaled 2 thousand 650 million 614 thousand 212 bolivares. The first three recommendations did not include the 1990-1991 period and the 1991-1992 period. It approved 13 bolivares for 1991. The agreement with the main proposal of 15 200 123 bolivares was reached on 27 February 1990.

There are two types of "redundant" statements: the first is a tautology, a statement that is true by definition and does not need to be proved; the second is a statement that is true but does not need to be proved.

Independent Auditors

[illegible]

Free waterhouse Guppies L.F. RWG had extended their program to continue to offer an independent third-party audit to help RWG as independent of the AQMA. The audit is 16 January 2013.

Directors' assessment of going concern

The Directors continue to adopt the going concern basis in preparing the Annual Report & Accounts. Their assessment in reaching this conclusion is set out in the notes to the consolidated financial statements on page 170.

Statement of Directors' responsibilities for preparing the financial statements

The Directors are responsible for preparing the Annual Report & Accounts and the financial statements in accordance with applicable law and regulation.

Company law required the Directors to prepare annual financial statements for each financial year ending that the Directors have prepared, and the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Parent Company in the United Kingdom in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) promulgated by FRC 101 Reduced Disclosure Framework, and applicable law. Additionally, the Financial Conduct Authority Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international accounting standards and financial reporting standards.

In order to comply, Directors must in aggregate approve the financial statements, understand and acknowledge that they give the company's view of the state of affairs of the Group and parent Company and of the parent company's financial position and that they are the financial statements that Directors are required to

select suitable accounting policies and then apply them consistently;
state whether applicable financial reporting standards are in conformity with the requirements of the Financial Reporting Act; and
have been followed for the Group financial statements of the United Kingdom Accounting Standards ("UK GAAP") have been followed for the parent financial statements of the parent company.
The directors also confirm that they have considered the financial reporting requirements of the Companies Act 2006 and the Financial Reporting Act 2004 and are of the opinion that the financial statements:
comply with the requirements of the Companies Act 2006 and the Financial Reporting Act 2004;
give a true and fair view of the financial position and financial performance of the company and of the group;
have been prepared in accordance with the provisions of the Companies Act 2006 and the Financial Reporting Act 2004 and the applicable accounting standards.

The Directors are responsible for safeguarding the interests of the Group and Robert Gordon, and their duties are to act in accordance with the provisions of the Companies Act 2006.

The Directors are not responsible for and do not accept liability for any financial statements that are deficient in any way and do not comply with the Global and Federal Companies' infrastructure and disclosure requirements. The Board of Directors' responsibility is to ensure that the financial statements are prepared in accordance with the requirements of the Global and Federal Companies and ensure that the financial statements are prepared in accordance with the requirements of the Global and Federal Companies.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Parent Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in the Board of Directors confirm that, to the best of their knowledge,

the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the relevant financial reporting framework, the Parent Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards (comprising FRS 101), give a true and fair view of the assets, liabilities and financial position of the Parent Company, and the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office on the date the Directors' report is approved:

so far as the Director is aware, there is no relevant audit information of which the Group's and Parent Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Parent Company's auditors are aware of that information.

This Directors' Report was approved by the Board of Directors on 21 November 2022 and is signed on its behalf by:


JD Thomson
 Chief Executive Officer

Registered office:
 10-11 Charterhouse Square
 London
 EC1M 6EE

Registered Number:
 3899848

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Revenue	23	1,012.8	787.4
Cost of sales		(638.3)	499.0
Gross profit		374.5	288.4
Distribution costs		(25.9)	23.9
Administration costs		(204.3)	90.4
Operating profit	2	144.3	104.3
Financial expense, net	5	(14.8)	17.1
Profit before tax		129.5	96.6
Tax expense	6	(34.1)	(26.9)
Profit for the year		95.4	69.7
Attributable to:			
Shareholders of the Company		94.7	69.8
Minority interests	20	0.7	(0.1)
		95.4	69.7
Earnings per share			
Basic earnings	8	76.1p	56.1p
Diluted earnings	9	75.9p	55.9p

ALTERNATIVE PERFORMANCE MEASURES¹

	Note	2022 £m	2021 £m
Operating profit		144.3	104.3
Add: Amortisation related and other charges included in administrative costs	7	46.9	44.4
Adjusted operating profit	22	191.2	148.7
Debt/(Net interest and similar) charges	3	(11.6)	7.2
Adjusted profit before tax		179.6	155.9
Adjusted earnings per share	8	107.5p	81.2p

1. The adjusted numbers are not a substitute for the financial statements and are not intended to be used in isolation.

The notes on pages 146 to 156 form part of these financial statements and should be read in conjunction with them.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Profit for the year		95.4	59.7
Items that will not be reclassified to the Consolidated Income Statement			
Acting as a provider of the defined benefit pension schemes	24	10.6	7.4
Deferred taxation items that will not be reclassified	21.6	(2.8)	(0.8)
		7.8	6.6
Items that may be reclassified to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		76.8	(46.0)
Changes in fair value of cash flow hedges	8	4.5	(0.4)
Net changes in fair value of cash flow hedges transferred to the Consolidated Income Statement	8	(0.4)	1.7
Deferred taxation items that may be reclassified	21.6	(1.1)	(0.7)
		79.8	(45.4)
Total Other Comprehensive Income		87.6	(38.8)
Total Comprehensive Income for the year		183.0	20.9
Attributable to:			
Shareholders of the Company		182.2	20.8
Minority interests		0.8	0.1
		183.0	20.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 2020		6.3	155.6	(16.3)	(1.8)	7,147.1	527.0	2.7	530.7
Total Comprehensive Income		-	-	76.7	3.2	71.8	60.8	0.7	60.5
Share-based payments	4	-	-	-	-	1.8	1.8	-	1.8
Dividends paid directly to equity	5	-	-	-	-	(1.0)	(1.0)	-	(1.0)
First time purchase of own shares		-	-	-	-	(0.5)	(0.5)	-	(0.5)
Acquisition of businesses	22	-	-	-	-	-	-	0.9	0.9
Minority interests at acquisition		-	-	-	-	(0.9)	(0.9)	-	(0.9)
Minority interests in subsidiaries		-	-	-	-	-	-	0.7	0.7
Dividends	10.5	-	-	-	-	(52.9)	(52.9)	(0.3)	(53.2)
At 30 September 2021		6.3	155.6	(12.3)	3.2	7,129.3	536.3	4.7	541.0
Total Comprehensive Income		-	-	76.7	3.2	71.8	182.2	0.8	183.0
Share-based payments	4	-	-	-	-	2.8	2.8	-	2.8
Dividends paid directly to equity	5	-	-	-	-	(0.4)	(0.4)	-	(0.4)
First time purchase of own shares		-	-	-	-	(2.8)	(2.8)	-	(2.8)
Acquisition of businesses	22	-	-	-	-	-	-	2.5	2.5
Disposals of businesses	23	-	-	-	-	-	-	(1.3)	(1.3)
First time purchase of own shares		-	-	-	-	(1.9)	(1.9)	-	(1.9)
First time purchase of own shares		-	-	-	-	1.2	1.2	-	1.2
First time purchase of own shares	6	-	-	-	-	-	-	(0.3)	(0.3)
Dividends	10.5	-	-	-	-	(56.2)	(56.2)	(0.1)	(56.4)
At 30 September 2022		6.3	188.6	88.8	3.2	375.1	662.0	6.2	668.2

The above figures are Attributable to the Shareholders of the Company and Minority Interests.

Approved for issue by the Board on 18 August 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	9	372.3	260.7
Acquisition intangible assets	10	455.0	344.9
Other intangible assets	10	4.1	3.4
Property, plant and equipment	11	49.6	35.4
Leases - right-of-use assets	12	62.4	44.9
Retirement benefit assets	24	6.4	
Deferred tax assets	13	0.2	0.4
		950.0	689.7
Current assets			
Inventories	14	217.4	139.8
Trade and other receivables	15	169.9	117.8
Assets held for sale	16	—	11.3
Cash and cash equivalents	17	41.7	24.8
		429.0	293.7
Current liabilities			
Borrowings	23	(30.5)	(18.0)
Trade and other payables	18	(189.5)	(121.0)
Current tax liabilities	6	(11.8)	(10.0)
Other liabilities	19	(19.0)	(11.7)
Lease liabilities	12	(12.7)	(9.7)
		(263.5)	(170.4)
Net current assets		165.5	117.3
Total assets less current liabilities		1,115.5	807.0
Non-current liabilities			
Retirement benefit obligations	24	—	(4.9)
Borrowings	23	(340.1)	(188.2)
Lease liabilities	12	(56.4)	(38.6)
Other liabilities	19	(12.4)	(12.0)
Deferred tax liabilities	13	(38.4)	(22.3)
Net assets		668.2	541.0
Equity			
Share capital		6.3	6.3
Share premium		188.6	168.6
Transition reserve		88.8	72
Hedge reserve		3.2	0.2
Retained earnings		375.1	329.9
Total shareholders' equity		662.0	536.9
Minority interests	20	6.2	4.1
Total equity		668.2	541.0

The consolidated financial statements on pages 42 to 115 were approved by the board of directors on 2 November 2022 and authorised for signature by:


JD Thomson
 Chief Executive Officer


C Davies
 Chief Financial Officer

The financials on pages 14 to 115 form part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Operating profit		144.3	104.8
Acquisition related and other charges		46.9	44.4
Gain from items and other		18.1	6.8
Increase in working capital		(28.7)	(24.6)
Cash flow from operating activities	22	180.6	131.4
Interest paid net of subsidy and dividends		(15.0)	6.4
Tax paid		(40.6)	24.1
Net cash from operating activities		125.0	161.9
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	21	(173.0)	481.4
Dividend consideration paid	14	(7.1)	6.6
Proceeds from sale of businesses, net of cash disposed		13.7	1.0
Purchase of property, plant and equipment	15	(14.3)	4.3
Purchase of other intangible assets		(1.1)	1.8
Proceeds from sale of property, plant and equipment		9.9	4.8
Net cash used in investing activities		(171.9)	488.4
Cash flow from financing activities			
Proceeds from new ordinary capital and fees		—	10.8
Dividend paid to shareholders	17	(56.2)	52.9
Dividend paid to minority interests	20	(0.2)	—
Payable to minority interests	20	—	11.7
Acquisition of minority interests	20	(0.3)	—
Purchase of own shares by employee Benefit Trust		—	—
Net cash purchase of own shares on exercise of share options		(2.8)	0.6
Proceeds from borrowings	23	154.8	234.3
Repayment of borrowings	23	(20.0)	10.4
Financing payments on lease liabilities		(10.9)	6.4
Net cash from financing activities		64.4	195.8
Net increase/(decrease) in cash and cash equivalents		17.5	125.6
Cash and cash equivalents at beginning of year		24.8	212.8
Effect of exchange rate on cash and cash equivalents		(0.6)	10.6
Cash and cash equivalents at end of year	17	41.7	349.0

ALTERNATIVE PERFORMANCE MEASURES¹

	Note	2022 £m	2021 £m
Free cash flow	27	120.4	118.8
Adjusted earnings	27	133.9	116.1
Free cash flow conversion %	27	90%	100%

¹ The alternative performance measures are defined in more detail in the "Alternative performance measures" section of the annual report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

1. General information

Diploma PLC is a public company, limited by shares, incorporated in the United Kingdom, registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10-11 Chancery Square, London EC2M 6SE. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and were authorised by the Directors for publication on 21 November 2022. These statements are presented in UK sterling, with all values rounded to the nearest '00,000' except where otherwise indicated.

On 1st December 2020, FRS 18 adopted by the European Union at that date was brought into UK law and became UK adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Diploma PLC transitioned to UK-adopted international Accounting Standards in its consolidated financial statements on 1 October 2021. This change constituted a change in accounting framework, however there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted international Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements of the Parent Company, Diploma PLC, have been prepared in accordance with FRS 101 (Reduced Disclosure Framework), and are set out in a separate section of the Annual Report & Accounts on pages 176 to 178. A full statement of any and other related undertakings is set out on pages 187 to 189.

2. Business Sector analysis

The Chief Operating Decision Maker (CODM) for the purposes of FRS 18 is the CEO. The financial performance of the business is broken down to the CODM or similar by business segment and is used to allocate resources and to apply incentives.

For management reporting purposes, the Group is organised into three main operational business Sectors: Life Sciences, Seeds and Centres. These Sectors are the Group's operational segments as defined by FRS 18 and form the basis of the primary reporting information disclosed below. The CODM reviews discrete financial information at the operating segment level. The principal activities of each of these Sectors are described in the Strategic Report on pages 60 to 61. Revenue is derived principally from external customers, therefore the Sector revenue, Sector revenue assets and liabilities include the relevant operating assets and liabilities of a Sector, as well as the related liabilities and related assets of the responsible body.

Sector assets exclude loan and other receivables, deferred tax assets, retirement benefit assets, orphan related assets and corporate assets that cannot be allocated or shared with the relevant business Sector. Sector liabilities exclude provisions other than lease liabilities, retirement benefit obligations, deferred tax liabilities, orphan related liabilities and corporate liabilities that cannot be allocated or shared with the relevant business Sector. The terms revenue, assets and liabilities in the following analysis and related assets and related liabilities respectively.

	Life Sciences		Seals		Controls		Corporate		Group	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Revenue - Existing	178.0	181.4	294.4	283.7	481.9	543.5	-	-	954.3	908.4
Revenue - Acquisition	10.6	-	37.0	-	10.9	-	-	-	58.5	-
Revenue	188.6	181.4	331.4	283.7	492.8	543.5	-	-	1,012.8	908.4
Adjusted operating profit - Existing	39.7	43.1	57.0	41.5	104.0	71.4	(18.2)	13.4	182.5	148.7
Adjusted operating profit - Acquisition	1.3	-	5.6	-	1.8	-	-	-	8.7	-
Adjusted operating profit	41.0	43.1	62.6	41.5	105.8	71.4	(18.2)	13.4	191.2	148.7
Acquisition related and other charges	1.5	4.1	(16.6)	-	(30.5)	35.1	(1.3)	-	(46.9)	44.4
Operating profit	42.5	38.8	46.0	38.5	75.3	40.3	(19.5)	13.4	144.3	104.5
Operating assets	74.0	81.2	207.5	134.4	211.5	144.8	-	-	493.0	380.4
Goodwill	106.2	81.4	125.2	61.0	140.9	199.3	-	-	372.3	240.7
Adjustment intangible assets	74.9	47.9	100.2	81.4	279.9	14.3	-	-	455.0	244.6
	255.1	199.8	432.9	244.6	632.3	348.4	-	-	1,320.3	955.6
Liability related assets:										
- Deferred tax assets							0.2	1.4	0.2	1.4
- Loan and loan receivable							41.7	14.8	41.7	14.8
- Acquisition related assets							1.8	-	1.8	-
- Pension and benefit assets							6.4	-	6.4	-
- Other state assets							8.6	2.2	8.6	2.2
Total assets	255.1	199.8	432.9	244.6	632.3	348.4	58.7	17.4	1,379.0	983.4
Operating liabilities	(41.7)	(50.2)	(103.3)	(58.4)	(92.6)	(13.7)	-	-	(237.6)	(158.7)
Liability related liabilities:										
- Deferred tax liabilities							(38.4)	11.3	(38.4)	22.3
- Retirement benefit obligations							-	14.9	-	14.9
- Acquisition related liabilities							(31.4)	13.7	(31.4)	13.7
- Other liabilities							(32.8)	28.1	(32.8)	28.1
- Borrowings							(370.6)	(18.0)	(370.6)	(156.0)
Total liabilities	(41.7)	(50.2)	(103.3)	(58.4)	(92.6)	(13.7)	(473.2)	(156.7)	(710.8)	(441.6)
Net assets	213.4	149.6	329.6	186.4	539.7	341.7	(414.5)	13.4	668.2	541.8

Acquisition related and other charges are £46.9m (2021: £44.4m) and £40.3m (2021: £40.3m) in the structure of a transaction. Intangible assets: £10.6m of acquisition expenses are deemed in note 27 (2021: £9.1m) and £10.9m (2021: £1.8m) net charge net gain on the disposal of businesses which are not in note 27 and the restructuring costs of £10.9m are included in the restructure of the Group's Chief Financial Officer.

Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Capital expenditure	8.0	2.3	3.7	1.5	2.7	1.1	0.9	1.3	15.3	5.2
Depreciation and amortisation	2.9	2.6	3.5	2.9	4.6	4.1	0.2	1.3	11.2	9.1
Revenue recognition										
Contract revenue	176.4	164.2	315.6	281.1	492.8	491.3	-	-	984.8	957.6
License revenue	12.2	17.1	15.8	2.6	-	-	-	-	28.0	24.9
	188.6	181.4	331.4	283.7	492.8	543.5	-	-	1,012.8	982.4

Adjusted revenue is most closely stated in September 2022 at £176.4m (2021: £164.2m) and September 2021 revenue is most closely stated at £176.4m (2021: £164.2m). Revenue is based on the value of the revenue earned from the products and services provided to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022
CONTINUED

3. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets		Trading capital employed		Capital expenditure	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
United Kingdom	209.7	142.5	21.0	10.5	193.6	207.9	202.2	87.4	3.4	0.5
Rest of Europe	166.7	166.5	29.3	31.9	169.1	161.3	179.8	140.3	1.7	0.8
North America	561.0	411.8	129.5	94.7	519.2	443.7	614.2	498.7	8.9	4.0
Rest of world	75.4	66.6	11.4	11.6	57.1	47.8	62.3	56.7	1.3	0.8
	1,012.8	787.4	191.2	148.7	939.0	689.3	1,058.5	782.9	15.3	6.1

1. Non-current assets exclude deferred tax assets, derivative assets, goodwill, intangible assets and other

4. Group employee costs

Average number of employees

	2022	2021
Life Sciences	423	463
Genet	1,174	1,165
Contract	981	831
Consulting	36	37
Number of employees – average	2,614	2,496
Number of employees – year end	2,909	2,498

Group employee costs, including key management

	2022 £m	2021 £m
Wages and salaries	154.8	110.1
Social security costs	13.3	10.5
Other pension costs	6.6	9.5
Share-based payments	2.8	1.8
	177.5	131.9

Key management short-term remuneration, including Directors

	2022 £m	2021 £m
Salaries and short-term incentives/benefits	5.0	5.4
Compensation for Directors for loss of office	0.4	-
Retirement costs	0.2	0.2
Share-based payments	2.4	1.5
	8.0	7.1

The Group considers key management personnel as defined in AS 24 (Related Party Disclosures) to be the Directors and the Chairman, and the members of the Executive team.

The Executive Directors' remuneration and their interests in shares of the Company are given in Tables 14 to 18 in the Remuneration Committee Report. The charge for share-based payments of £2.4m (2021: £1.5m) relates to the Company's share-based payments in the Remuneration Committee Report.

Directors' short-term remuneration

	2022 £m	2021 £m
Non-Executive Directors	0.5	1.4
Executive Directors	2.6	2.3
	3.1	3.7

5. Financial expense, net

	2022 £m	2021 £m
Interest (expense)/income and similar charges		
Interest on long-term debt and similar charges	(1.0)	0.5
Interest income on short-term deposits	0.1	-
Interest expense on bank borrowings	(7.9)	(2.7)
Interest and interest expense on the defined benefit scheme (see note 24)	-	(0.1)
Interest income of property and other investments	(0.2)	0.4
Interest charge on derivatives	(2.6)	1.8
Net interest expense and similar charges	(11.6)	0.9
Depositor-related finance charges	(3.2)	0.9
Financial expense, net	(14.8)	1.8

Arbitration related finance charges include fair value remeasurements of put option for future minority purchases of 14m debt in 2021, 10m debt in 2022 and debt in the arbitration facilities of 30.4m debt in 2021, 6m debt in 2022 and 14m debt in 2021, 10m debt in 2022. The amount not included in the arbitration charges is 10m debt in 2021 and 14m debt in 2022.

6. Tax expense

	2022 £m	2021 £m
Current tax		
Tax charge based on the profit for the year and temporary differences		
UK corporation tax	10.0	8.8
Overseas tax	30.8	21.1
	40.8	30.0
Adjustments in respect of prior periods		
UK corporation tax	(0.2)	2.0
Overseas tax	0.1	0.8
Total current tax	40.7	32.8
Deferred tax		
The net deferred tax credit or charge for the year and reversal of timing differences comprises:		
UK deferred tax	(3.1)	-
Overseas	(3.5)	0.8
Total deferred tax	(6.6)	0.8
Total tax on profit for the year	34.1	33.6

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax charge relating to the retirement benefits scheme and pension was based on 10.9m was based on 2021, 10.9m profit to the Consolidated Statement of Comprehensive Income. A further 1.4m was credit to the Consolidated Statement of Comprehensive Income, comprising current tax of 1.4m in 2021, 10.9m in the current year, 2021, 10.9m in the prior year, relating to share based payment.

Factors affecting the tax charge for the year

The difference between the UK tax charge and the effective rate of UK corporation tax of 19.0% in the profit before tax of £129.5m and the amount of tax charge is £24.6m.

	2022 £m	2021 £m
Profit before tax	129.5	95.2
Tax on profit at UK rate of 19.0% and overseas rate of 19.0%	24.6	18.1
Effect of:		
Change in the UK rate of corporation tax	6.7	4.0
Adjustments in respect of prior periods	(0.1)	2.1
Change in the rate of overseas tax	-	0.8
Other permanent differences	2.9	0.7
Total tax on profit for the year	34.1	33.6

The Group's effective rate of tax for the year is 26.3%. The Board prepared the unaudited financial statements for the year to 30 September 2022 and the interim tax rate for the year ended 30 September 2022 was 19.0% (2021, 19.0%) and the effective rate for the year ended 30 September 2022 was 26.3%.

The Group's effective rate of tax for the year is 26.3% because profits earned in the US, Canada, Germany and Australia are taxed at higher rates than the UK rate of 19.0% on profits and assets and liabilities at 30 September 2022 and 30 September 2021 were £1.1bn and £1.1bn respectively. The effective rate of tax for the year ended 30 September 2022 was 26.3% (2021, 26.3%).

For more information, see note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

At 30 September 2022, the Group had outstanding tax liabilities of £17.6m (2021: £10.0m), of which £1.9m (2021: £0.7m) related to UK tax liabilities and £15.7m (2021: £9.3m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15% applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these Pillar 2 rules with effect for accounting periods beginning on or after 31 December 2023. The Group is reviewing these draft rules to understand any potential impact.

7. Dividends

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Interim dividend paid in June	15.0	12.5	18.7	15.4
Final dividend of the prior year paid in February	30.1	30.0	37.5	37.3
	45.1	42.5	56.2	52.7

The Directors have approved a final dividend in respect of the current year of 38.6p per share (2021: 30.1p), which will be paid on 3 February 2023 subject to approval by shareholders at the Annual General Meeting (AGM) on 18 January 2023. The total dividend for the current year subject to approval of the final dividend will be 53.8p per share (2021: 42.6p).

The Diploma RUC Employee Benefit Trust holds 71,632 (2021: 90,640) shares, which are ineligible to dividend.

8. Earnings per share

Basic and diluted earnings per share

Basic earnings per ordinary share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,466,210), and the profit for the year attributable to shareholders of £94.7m (2021: £69.6m). Basic earnings per share is 76.1p (2021: 56.1p). Diluted earnings per share is 73.9p (2021: 55.9p), and is based on the average number of ordinary shares, which included any potential dilutive shares of 124,855,007 (2021: 124,494,413).

Further details on the calculation are set out in note 16 to the Parent Company Financial Statements on page 116.

Adjusted earnings per share

Adjusted EPS, which is defined in note 17, is 107.5p (2021: 89.2p).

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			129.5	92.6
Tax expense			(34.1)	(21.9)
Minority interests			(0.7)	0.1
Earnings for the year attributable to shareholders of the Company	76.1	56.1	94.7	69.6
Acquisition-related intangible intangible and amortisation and finance charges, net of tax	31.4	29.1	39.2	37.3
Adjusted earnings	107.5	85.2	133.9	106.9

9. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 30 September 2021	62.0	60.8	56.8	159.0
Acquisitions	24.1	6.8	56.7	117.6
Disposals	7.8	-	-	(3.8)
Reclassification to held for sale	-	4.7	-	(4.7)
Exchange adjustments	(0.4)	0.6	3.4	(7.4)
At 30 September 2022	91.4	68.0	116.9	260.7
Acquisitions	9.0	56.8	5.2	81.0
Exchange adjustments	5.8	8.4	16.4	30.6
At 30 September 2022	106.2	125.2	140.9	372.3

The Group tests goodwill for impairment at least once a year for the purposes of impairment testing. Goodwill is allocated to each of the Group's three cash-generating units (CGUs) which are the three operating entities, Life Sciences, Seals and Controls. It represents the lowest level within the Group at which a cash-generating unit is managed and reflects the Group's strategy for allocating resources and synergies and the benefit of other non-financial intangible assets. The impairment test requires a value in use calculation to be prepared for each CGU for which discounted cash flow forecasts are used. The cash flow forecasts are based on a management approved budget and approved long-term plan for the Group's strategy and

The key assumptions used to prepare the cash flow forecasts relate to operating margins, revenue growth rates, working capital movements and the discount rate and climate-related risks (based on an initial high-level assessment which will be further refined in FY 2023). The operating margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates; unless there are particular factors relevant to businesses, such as start-ups, working capital movements are projected to remain consistent as a percentage of revenue. The cash flow forecasts use the budgeted figures for 2023, and then the three-year strategic cash flows for the next two years. From year four onwards a long-term growth rate of 2% is used.

The cash flow forecasts are discounted to determine a present valuation using market-derived pre-tax discount rates (Life Sciences 13.9%, 2021 10.6%, SeaK 13.8%, 2021 11.3%, and Centrica 13.4%, 2021 11.7%). These rates are based on the characteristics of the risk, non-technically driven distribution businesses operating generally in well-developed markets and geographies and with robust capital structures.

Based on the criteria set out above, no impairment in the value of goodwill in the CGUs was identified.

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a reasonably possible adverse change in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a reasonably possible adverse change would not give rise to an impairment charge to goodwill in any of the three CGUs.

10. Acquisition and other intangible assets

	Customer relationships £m	Supplier relationships £m	Trade names, brands and databases £m	Total acquisition intangible assets £m	Other intangible assets £m
Cost					
At 1 October 2020	180.8	14.5	1.9	183.2	7.6
Additions	–	–	–	–	1.4
Acquisitions	164.4	1.1	47.4	306.8	0.2
Disposals	(1.8)	(1.2)	(1.3)	(3.6)	(0.9)
Reclassification to held for sale	(2.9)	–	–	(6.9)	(0.4)
Exchange adjustments	12.2	1.7	1.7	(16.8)	(0.3)
At 30 September 2021	352.4	25.1	47.5	462.7	7.6
Additions	–	–	–	–	1.0
Acquisitions	26.2	–	5.7	99.9	0.8
Disposals	–	–	–	–	(1.1)
Exchange adjustments	59.7	1.1	4.3	69.9	1.0
At 30 September 2022	547.9	30.9	53.7	632.5	9.3
Amortisation					
At 1 October 2020	1.4	20.7	1.9	96.0	4.6
Acquisition	14.6	–	4.1	18.7	–
Charge for the year	12.7	–	–	14.4	0.7
Disposals	(1.6)	(1.1)	(1.1)	(3.6)	(0.7)
Reclassification to held for sale	(5.4)	–	–	(5.4)	(0.1)
Exchange adjustments	7.3	0.8	–	(2.3)	(0.3)
At 30 September 2021	27.8	20.4	5.0	117.8	4.2
Acquisitions	3.1	–	0.4	4.0	–
Charge for the year	12.0	1.8	4.6	38.4	0.8
Disposals	–	–	–	–	(0.4)
Exchange adjustments	13.7	1.7	1.0	17.3	0.6
At 30 September 2022	140.1	24.6	12.8	177.5	5.2
Net book value					
At 30 September 2022	407.8	6.3	40.9	455.0	4.1
At 30 September 2021	324.6	5.7	42.5	442.7	3.4

Acquisition of intangible assets relate to items obtained through business combinations, which are then valued and amortised based on their useful economic lives.

	Economic life
Customer relationships	5-15 years
Supplier relationships	5-10 years
Trade names, brands and databases	5-11 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

Customer relationships principally relate to Winav City. Were £191.0m (14 years useful life remaining), R&D £41.0m (9 years useful life remaining) and V&S £30.8m (7 years useful life remaining). Trade names and brands mainly relate to Winav City. Were £20.4m (10 years useful life remaining).

Other intangible assets comprise computer software that is separately identifiable from IT equipment and included software licences.

11. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	Total £m
Cost					
At 1 October 2020	2.8	5.4	62.3	11.8	63.3
Additions	-	0.5	1.4	2.0	4.9
Acquisition of businesses	-	0.3	19.1	0.4	21.8
Disposals	(3.7)	(0.0)	(2.7)	(1.4)	(7.6)
Reclassification to held for sale	(8.0)	-	0.5	-	(10.6)
Exchange adjustments	(6.6)	(0.2)	0.5	-	(2.4)
At 30 September 2021	7	7.9	49.9	12.8	69.4
Additions	-	2.0	5.3	6.8	14.3
Acquisition of businesses in the year	1.5	2.3	0.1	-	6.7
Disposals	-	(0.4)	(3.0)	(1.4)	(5.0)
Exchange adjustments	(0.2)	(0.1)	0.4	(0.5)	12.3
At 30 September 2022	3.6	13.2	61.2	19.7	97.7
Depreciation					
At 1 October 2020	1.3	3.0	11.4	6.3	35.4
Charge for the year	0.4	0.1	0.4	0.3	9.2
Disposals	(0.6)	(0.1)	(2.1)	(1.2)	(5.5)
Reclassification to held for sale	(3.0)	-	0.1	-	(4.5)
Exchange adjustments	0.4	-	(0.1)	(0.1)	(0.6)
At 30 September 2021	0.9	4.0	22.7	6.8	34.0
Charge for the year	0.3	0.1	0.1	0.7	10.4
Disposals	-	(0.3)	(1.7)	(0.7)	(3.7)
Exchange adjustments	(0.1)	(0.3)	0.0	(0.9)	7.4
At 30 September 2022	1.1	5.2	32.7	9.1	48.1
Net book value					
At 30 September 2022	2.5	8.0	28.5	10.6	49.6
At 30 September 2021	7.0	3.9	27.2	6.0	39.4

and included within freehold properties above which had depreciated £0.7m (10.1%). The Capital Expenditure contracted but not provided, were £0.2m (2021: £0.8m).

Freehold properties include an 800 sqm unit and at Stamford, the Stamford Local Plan (referred to as "the Stamford Local Plan") and the Stamford Local Plan (referred to as "the Stamford Local Plan") and the Stamford Local Plan (referred to as "the Stamford Local Plan"). The Stamford Local Plan (referred to as "the Stamford Local Plan") and the Stamford Local Plan (referred to as "the Stamford Local Plan") and the Stamford Local Plan (referred to as "the Stamford Local Plan").

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Notes (continued) and (continued) for value of assets and at 30 September 2022 and at 30 September 2021 and at 30 September 2020.

12. Leases – right-of-use assets and lease liabilities

Right-of-use assets

	Land & buildings £m	Plant & machinery £m	Motor vehicles £m	IT & office equipment £m	Total £m
Cost					
At 1 October 2021	34.5	0.5	2.3	0.5	38.9
Acquisitions	24.9	0.1	1.5	0.3	26.9
Disposals	(12.2)	–	(0.4)	–	(2.6)
Revaluation in respect of motor vehicles	(0.1)	–	(0.1)	–	(0.9)
Exchange adjustments	(0.5)	–	(0.1)	–	(0.7)
At 30 September 2021	56.7	0.6	4.2	0.8	61.6
Acquisitions	19.8	0.2	4.0	0.4	25.4
Disposals	(14.0)	–	(0.6)	–	(2.0)
Exchange adjustments	6.7	–	–	0.1	6.9
At 30 September 2022	81.1	0.8	8.3	1.7	91.9
Depreciation					
At 1 October 2021	8.8	0.1	0.1	0.1	7.3
Charge for the year	9.0	0	1.4	0.2	10.8
Disposals	(0.6)	–	(0.2)	–	(0.8)
Revaluation in respect of motor vehicles	(0.4)	–	(0.1)	–	(0.5)
Exchange adjustments	(0.1)	–	–	–	(0.1)
At 30 September 2021	16.7	0.2	1.3	0.3	16.7
Charge for the year	19.7	0.1	1.5	0.4	12.7
Disposals	(0.5)	–	0	–	(1.3)
Exchange adjustments	1.4	–	–	–	1.4
At 30 September 2022	25.3	0.3	3.0	0.9	29.5
Net book value					
At 30 September 2022	55.8	0.5	5.3	0.8	62.4
At 30 September 2021	40.0	0.4	3.0	0.6	44.0

Right-of-use assets are stated at the amount under which the FRL is required to be capitalised.

Disposals are only in relation to motor vehicles and disposed part or part of the Group's fleet. No regional or international fleet disposal proceeds have been recognised or a gain or loss has been recognised with regard to motor vehicles.

Lease liabilities

The following table shows lease liabilities at the end of period:

	2022 £m	2021 £m
At 1 October	48.3	33.7
Acquisitions	26.6	24.0
Disposals	(0.9)	(0.2)
Unamortised costs	(13.5)	(11.2)
Interest on lease liabilities	2.6	1.4
Repayment of lease liabilities	–	(0.2)
Exchange adjustments	6.0	1.4
At 30 September	69.1	48.9
At 30 September		
At 30 September	£m	£m
Short-term lease liabilities	12.7	–
Long-term lease liabilities	56.4	48.9

Lease liabilities are calculated using the interest rate implicit in the lease or, if that rate cannot be determined, the applicable incremental borrowing rate. The weighted average discount rate used for the year ended 30 September 2022 was 5.24% (2021: 4.74%). The total cash outflow in respect of leases was £15.5m (2021: £17.7m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

13. Deferred tax

The movement on deferred tax is as follows:

	2022 £m	2021 £m
At 1 October	(21.9)	17.9
Credit for the year (note 6)	6.6	2.7
Additions, disposals and transfers to a settlement for sale	(17.6)	16.6
Accounted for in Other Comprehensive Income or directly in Equity	(3.9)	3.1
Exchange adjustments	(1.4)	0.6
At 30 September	(38.2)	41.9

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the liabilities on a net basis.

	Assets		Liabilities		Net	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Property, plant and equipment	0.1	0.4	(5.8)	(5.8)	(5.7)	(5.4)
Goodwill and intangible assets	–	–	(42.0)	(26.4)	(42.0)	(26.4)
Retention of the right to use assets	–	2.2	(1.0)	–	(1.0)	2.2
Inventory	3.1	1.8	(0.1)	–	3.0	1.8
Unpaid based payments	1.4	–	–	–	1.4	–
Trading losses	–	–	–	–	–	–
Losses	1.2	0.8	–	–	1.2	0.8
Other temporary differences	5.1	3	(0.2)	(0.7)	4.9	3.4
	10.9	7.0	(49.1)	(30.9)	(38.2)	(23.9)
Deferred tax credit	(10.7)	(10.1)	10.7	10.1	–	–
	0.2	0.4	(38.4)	(20.8)	(38.2)	(23.9)

No deferred tax has been provided on unremitted foreign profits of overseas Group companies as the Group considers the tax will not result in a cash dividend for the Group's shareholders and is covered by holding tax. After allowing for double taxation relief, the tax will be distributed as dividends. The aggregate amount of unremitted tax has not been recognised in respect of overseas Group companies as it is not expected to be paid. The aggregate amount of unremitted tax was £154.4m (2021: £157.7m) was £154.4m (2021: £157.7m).

14. Inventories

	2022 £m	2021 £m
Finished goods	217.4	170.8

Inventories are stated at net realisable value, £14.3m (2021: £1.6m). During the year £4.0m (2021: £2.0m) was recognised as a charge against profit or loss, increasing the write-down of inventories to net realisable value.

15. Trade and other receivables and assets held for sale

	2022 £m	2021 £m
Trade receivable	158.9	110.0
Less: loss allowance	(7.2)	3.2
	151.7	113.4
Other receivables	9.8	3.6
Prepayments and other assets	8.4	5.8
	169.9	122.8

Assets held for sale

There were no assets held for sale at 30 September 2022 (2021: £11m). Assets held for sale at 30 September 2021 comprised a manufacturing facility (whereby the manufacturing process and equipment were sold to the buyer) during the year and the Group's 10% shareholding in Carter 1, which was sold at the end of the year and classified as held for sale.

The maximum exposure to credit risk from the receivables at 30 September by currency was:

	2022 £m	2021 £m
UK sterling	41.3	26.3
US dollars	70.1	48.4
Canadian dollars	12.6	8.9
Euros	18.0	11.4
Other	16.9	17.0
	158.9	110.0

Trade receivables are measured at amortised cost and are classified as follows:

	2022 £m	2021 £m
Not past due	124.9	92.9
Past due	26.8	18.1
Trade receivables impaired	7.2	3.6
	158.9	110.0

The ageing of trade receivables analysed as past due but not impaired was as follows:

	2022 £m	2021 £m
Up to one month past due	20.7	12.4
Between one and two months past due	4.5	2.4
Between two and four months past due	1.6	0.3
Over four months past due	—	—
	26.8	15.1

The movement in the loss allowance and impairment of trade receivables is set out as follows:

	2022 £m	2021 £m
At 1 October	3.6	1.2
Charged against profit/(loss)	3.4	1.3
Set aside on acquisition	0.6	1.1
Utilised by write off	(0.4)	(0.4)
At 30 September	7.2	3.6

Concentrations of credit risk with respect to trade receivables are very limited, reflecting the Group's customer base being large and diverse. The Group has a history of low levels of losses in respect of trade receivables. Management is satisfied that the loss allowance taken to account the historical loss experience and forward looking expected credit losses is in line with IFRS 9 Financial Instruments.

16. Trade and other payables

	2022 £m	2021 £m
Trade payables	96.4	74.5
Other payables	25.8	9.0
Other taxes and social security	11.0	6.8
Accrued and deferred income	56.3	35.7
	189.5	125.0

The maximum exposure to financial instruments at the end of the year at 30 September by currency was:

	2022 £m	2021 £m
UK sterling	24.1	20.0
US dollars	50.2	76.3
Canadian dollars	0.8	0.5
Euros	14.1	14.1
Other	7.2	1.1
	96.4	112.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

17. Cash and cash equivalents

	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2022 Total £m	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2021 Total £m
Cash at bank	15.2	7.1	2.3	7.8	6.4	38.8	8.8	2.5	0.6	5.5	5.8	23.0
Short-term deposits	–	0.1	1.8	–	1.0	2.9	–	0.9	1.3	–	1.6	3.8
	15.2	7.2	4.1	7.8	7.4	41.7	8.8	3.4	1.9	5.5	7.4	26.8

The short-term deposits are cash at bank and both interest-bearing at rates linked to the UK base rate, or equivalent rate.

18. Financial instruments

The Group's overall management of financial risks is carried out by a central treasury team under policies and procedures which are reviewed and approved by the Board. The treasury team identifies, evaluates and, where appropriate, hedges financial risks in close cooperation with the Group's operating businesses. The treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The Group's principal financial instruments, other than a number of forward foreign currency and fixed interest rate contracts, comprise cash and short-term deposits, trade and other receivables and trade and other payables, borrowings and other liabilities. Trade and other receivables and trade and other payables arise directly from the Group's ordinary operations.

The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivity to each risk is set out below.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises primarily from the Group's trade and other receivables, from cash and cash equivalents, from cash balances held with financial institutions.

The Group is exposed to customers ranging from government bodies, agencies and large public sector utilities, to small privately owned businesses and the underlying geographical risk is varied throughout the world. Trade receivables are spread and managed globally in the operating units where they arise and credit limits are set as deemed appropriate for each customer.

The Group establishes a credit allowance that represents its estimate of inherent losses in respect of receivables and other receivables where it is determined that a receivable may not be collectible on the basis of the underlying credit risk and its own past experience of default. Where data is not available, the Group has grouped the receivables with the same credit risk characteristics. When the receivable is deemed collectible, the provision is written off against the underlying receivable. During the year, the Group has no significant under-valued trade receivables.

Exposure to counterparty credit risk with financial institutions is limited. As at the year end, the Group does not have any exposure to counterparty credit risk. Counterparty managed total and included entities with counterparties with credit ratings of AA or better. The Group has no significant concentrations of credit risk. There has been no material increase in credit risk during the year.

The Group's maximum exposure to credit risk was as follows:

	Carrying amount	
	2022 £m	2021 £m
Trade receivables	151.7	108.4
Other receivables	9.8	3.5
Cash and cash equivalents	41.7	26.8
	203.2	138.7

There is no material difference between the book value of the financial assets and the fair value measured using market prices and the carrying amount of trade receivables and the associated allowance is set out in note 15. An analysis of cash and cash equivalents is set out in note 17.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring impairment on financial assets which involves estimating expected credit losses on trade receivables and accrued income.

The expected loss rates are based on the payment profiles of revenue earned over a period of 30 months ended 30 September 2022 and the corresponding historical credit losses experienced with similar revenue. The maximum credit period is 90 days. The Group has no significant information regarding impairment characteristics that would require a different expected loss rate and does not have any significant exposure to customers to settle the receivables.

The Group has identified the current health of the economy, rising property interest rates and property rates in the future as the most relevant factors to be the most relevant factors and accordingly, the expected loss rate is based on the expected changes in these factors. An increase in credit risk is presumed to occur if the loss rate is higher than the expected loss rate. Where no active evidence exists that a trade receivable is impaired, the loss rate is based on the expected loss rate for the group. The expected loss rate is based on the expected loss rate for the group.

Evidence of impairment may include significant increase in credit risk profile of the customer or the customer entering in default and / or default on the customer entering in solvent administration proceedings. All significant balances are reviewed individually on a monthly basis for evidence of impairment.

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group continuously monitors net cash and forecasts cash flows to ensure that sufficient resources are available to meet the Group's requirements in the short, medium and long term. Additionally, compliance with bank covenants is monitored regularly and during 2022 all bank covenant tests were complied with. The applicable financial covenants are interest cover and leverage, whereby EBITDA must be at least 4x net finance charges (as defined by the SFA) and the ratio of interest debt to EBITDA must not exceed 3x.

On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprises a three year term loan for an aggregate principal amount of £736.0m (£170.0m) and a committed multi currency revolving facility (RCF) for an aggregate principal amount of £136.0m which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022 the SFA comprises a committed multi currency revolving facility (RCF) for an aggregate principal amount of £359.7m, an on demand long term loan for an aggregate principal amount of £14.2m (£127.5m), a bullet term loan for an aggregate principal amount of £59.6m (£56.1m) and a further short term loan for an aggregate principal amount of £4.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12 months period.

The Group's debt facilities are subject to interest at variable rates. During the year the Group entered into interest rate swap contracts with the effect of fixing the interest rate on £100.0m (£89.6m) of debt. The effective fixed rate cost was 2.4% of total debt for subsequent year and the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional £100.0m of debt.

At 30 September 2022, the Group's Net Debt to EBITDA position is 1.4x, as illustrated in note 17.

The long term committed facilities available at 30 September are as follows:

	2022 £m	2021 £m
Expiring within one year	—	—
Expiring after one year	204.0	96.9

The Group's undiscounted financial liabilities are as follows:

	2022 £m	2021 £m
Trade payable	96.4	74.5
Other payables	25.8	4.0
Other liabilities	35.0	21.3
Bank borrowings	370.6	217.7
	527.8	317.5

The maturities of the undiscounted financial liabilities are as follows:

	2022 £m	2021 £m
Less than one year	171.7	111.5
One to two years	48.7	21.3
Two to five years	307.4	184.7
	527.8	317.5

There is no material difference between the book value of these financial liabilities and their fair value at each reporting date.

c) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars and Euros. The translation risk extends to prices on trade receivables, trade payables and loan or sales receivable and trade payables are denominated in US dollars, Euros, British Pounds and Japanese Yen.

The Group has entered into foreign exchange contracts in order for the Group's businesses to hedge forecast transaction and exposure to movements in the US dollar, Euro, British Pounds, Swedish Krona and Japanese Yen. These forward foreign exchange contracts are primarily for cash flow hedge and are stated at fair value. The notional value of forward contracts at 30 September 2022 was £73.7m (£200.14m) and £1.7m (£1.7m) respectively. The forward foreign exchange contracts used as hedged at 30 September 2022 was £10.1m (£12.1m) and £1.7m (£1.7m) respectively.

As a result of the foreign currency transactions, the Group enters into hedge relationships where the notional terms of the hedged relationship match the terms of the hedged item. Ineffective risk may arise if the timing of the forecast transaction is not perfectly aligned with the timing of the derivative counterparty and the amount of the derivative is not perfectly aligned with the amount of the hedged item. Changes in the credit risk of the derivative counterparty and the amount of the derivative may also result in ineffective risk. The Group's hedge effectiveness for the period ended 30 September 2022 was 80.4% (2021: 80.1%). The net change in the notional value of cash flow hedges taken to Other Comprehensive Income during the year was £0.4m (2021: £0.1m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

Management considers that the most significant foreign exchange risk relates to the US dollar, Canadian dollar and Euro. The Group is sensitively to a 10% strengthening in sterling against each of these currencies (with all other variables held constant) is as follows:

	2022 £m	2021 £m
Decrease in adjusted operating profit (at average rates)		
US dollar/UK sterling	10.3	11
Canadian dollar/UK sterling	2.6	2.4
Euro/UK sterling	1.7	1.6
Decrease in total equity (at spot rates)		
US dollar/UK sterling	12.6	12
Canadian dollar/UK sterling	12.9	10.2
Euro/UK sterling	5.4	3.2

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's results. The Group's interest rate risk arises primarily from its cash funds and borrowings. The Group uses interest rate swaps to hedge a proportion of the external borrowings. These interest rate swaps are designated as cash flow hedges and are stated at fair value. The notional value of interest rate swap contracts as at 30 September 2022 was £89.6m (2021 nil). The net fair value of interest rate swap contracts used as hedges at 30 September 2022 was £3.1m (asset - 2021 nil) and is included within Trade and other receivables on the balance sheet. The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in finance costs during the year was nil (2021 nil). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £3.1m (credit 2021 nil).

All cash deposits held in the UK and overseas are held on a short-term basis at floating rates or overnight rates based on the relevant UK base rate or equivalent rate. Surplus funds are deposited with commercial banks that meet the credit criteria approved by the board for periods of between one and six months at rates that are generally fixed by reference to the relevant UK base rate or equivalent rate.

A strengthening of 1% in interest rates would have a net £1.4m (2021 £2.0m) impact on adjusted profit before tax. The impact of the strengthening is limited to having a benefit of approximately the prior year due to the fixed interest rate swap contracts entered into in the past.

e) Fair values

There are no material differences between the book value of financial assets and liabilities and their fair values and losses to perform valuation changes are immaterial.

Derivatives

Forward exchange contracts are designated as level 2 assets in the fair value hierarchy and valued at year end at market rate adjusted for the forward points to the contract's value date with gains and losses taken to equity. No contract's maturity is due greater than 18 months from the year end.

For hedges of the external currency transactions, the Group enters into hedge relationships where the only risk to the hedging instrument is the change in the value of the hedged item. Ineffectiveness may arise if the timing of the forecast transaction differs from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

Interest rate swap contracts are designated as level 2 assets in the fair value hierarchy and valued at year end on the net present value of the swap's floating versus fixed and market interest rates, with gains and losses taken to equity.

The Group enters into interest rate swaps that have fixed or floating terms as the hedged item, such as reference rate and variable rate mortgages and floating rate loans. The Group has established a hedge ratio of 1:1 for the hedging relationship on the underlying asset or the interest rate swap, subject to the hedged risk component. The hedge ineffectiveness can arise from differences in timing of cash flows of the hedged item and the hedging instrument, or the counterparty credit risk different, impacting the fair value measurement of the hedging instrument and the hedged item.

Trade and other receivables/payables

As the relevant receivable or payable is due or maturing, in less than one year, the book value is deemed to reflect the fair value.

Borrowings

The fair value of the borrowings is close to the book value.

Other liabilities

The carrying amount represents a discounted value of the expected liability which is deemed to reflect the fair value and is disclosed at level 3 assets in the fair value hierarchy.

f) Capital management risk

The Group's capital structure comprises the retained earnings reserve (£375.1m), cash funds (£41.7m) and medium-term investments (£1.1m). The Group's objective is to manage capital in a conservative manner, continuous as going concern and to maintain a strong credit rating to support the delivery of the business strategy, resulting in a strong and sustainable long-term return to shareholders.

Notes 1 to 10 and 12 to 14 are included in the 2022 Annual Report.

in order to maintain or adjust the capital structure, the Group may change the amount of its borrowings, adjust its dividend, return capital to shareholders, issue new debt, or otherwise pay dividends.

19. Other liabilities

	2022 £m	2021 £m
Future purchases of minority interests	7.4	5.2
Deferred consideration	24.0	8.5
	31.4	13.7
Analysed as:		
Due within one year	19.0	10.7
Due after one year	12.4	3.0

The movement in the liability for future purchases of minority interests is as follows:

	2022 £m	2021 £m
At 1 October	5.2	4.2
Minority interest bought on signing of acquisition	1.9	0.0
Minority interest bought and removed on disposal	(1.2)	
Exchange movements	0.1	
For value remeasurements	1.4	0.1
At 30 September	7.4	5.2

At 30 September 2022, the Group's minority interest-related obligations to sell other minority interests in 100% in M-Spacy, 51% in Techs, as well as 21% in R&G Fluid Power Group Limited, P&B, in favour of its acquisition and disposal in note 21. The acquisition of P&B has resulted in the recognition of a debit on the liability on account of £1.9m.

During the year, the long-term debt of Kentex was reclassified to the liability for future purchases of minority interests in respect of Kentex has been derecognised £1.0m.

At 30 September 2022, the estimate of the financial liability to acquire these future and high minority shareholdings was reassessed by the Directors, based on the current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2022. This led to a remeasurement in the current and the future, increased by £1.4m (2021: £0.1m increase) reflecting revised estimate of the future performance of these businesses and in aggregate £1.4m (2021: debit £0.1m) has been added to the Consolidated Income Statement in respect of the remeasurement of the liability.

Deferred consideration is analysed as follows:

	1 Oct 2021 £m	Additions £m	Discount unwind £m	Revaluation £m	Payments £m	Foreign Exchange £m	30 Sep 2022 £m
Sphere	1.0	-	-	-	(1.0)	-	-
HGP	1.0	-	-	-	(1.0)	-	-
J&A	0.7	-	-	(0.1)	(3.0)	-	-
smi	1.2	-	-	-	(2.2)	-	-
PD	1.1	-	-	0.1	(0.0)	-	-
Essex/Ork	0.4	-	-	-	(0.0)	-	0.3
Küngeshusen	0.1	-	0.2	-	-	(0.2)	5.4
Techsys	0.0	-	0.0	-	-	-	1.2
AHA	4.0	-	0.0	-	-	0.7	4.9
R&G	-	8.1	-	-	0.1	-	8.6
AMB Seefing	-	0.5	-	-	-	-	0.5
minority interests	-	0.9	-	-	-	-	0.5
AGT	-	2.0	-	-	-	-	2.3
Future Options	-	0.9	-	-	-	-	0.3
	18.5	12.3	0.4	(0.6)	(7.1)	0.5	24.0

Deferred consideration in R&G Fluid Power Group Limited, P&B, in favour of its acquisition and disposal in note 21. The acquisition of P&B has resulted in the recognition of a debit on the liability on account of £1.9m.

CONTINUED

Let's introduce, interests

At 30 September 2022

locks) and a 2% priority interest (8%).

interest. The disposal of Kenton Jv was completed in 11 November 2011 and resulted in a £1.3m reduction in the group's interest.

Acquisition of R&G Fluid Power Group Limited

On 1 April 2022, the Group reorganised the structure

aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products in the United Kingdom. The initial cash payment was \$90,000 net of cash acquired of £1.1m. Deferred consideration of up to £.4m is payable based on the achieved business performance over the performance period in the period 1 July to 31 June 2011.

1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

value adjustments of \$1.5m. The goodwill impairment test to a extent of 1. The adjusted workforce and the proportion of revenue generated through gross selling with the other players in the principal for value adjustments relate to an increase in the previous period's inventory of 50 tons and growth in the number of sales of 17.5m. The intangible assets of 24.1m relate to customer relationships of 14.3m and brands of 9.7m.

divided the 10% minority interest stake in Freedom Services Limited (formerly known as F&S) owned 90% of the share capital of the firm of acquisition by the Group.

On 30 May 2022, the Group's

re or 3 Limited liability, Accidents & medical expenses insurance and motor car liability insurance for period ending 31/12/98
£64,000 - £100,000 per year (if £1m) £3.75

Acquisition expenses of \$1.4 million were fully expensed by 2021.

from €0.5m to €0.7m for a 10% increase in the number of projects. The number of projects is expected to increase from 10 to 12 in 2014, and to 14 in 2015.

Other acquisitions

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The provision for value of the combined net assets acquired excluding goodwill and intangible assets related deferred tax and loans is £90.1, following fair value adjustments of £10.0m. Fair value adjustments principally relate to an increase in provision related to net inventories of £10.0m.

The following table summarises the fair value adjustments for the acquisition of subsidiaries included in the provision for value of net assets acquired and is subject to assumptions with fair values being provisional pending completion of a final valuation. Even the limited time between the acquisition and signing of these accounts, the fair valuation of acquired assets and liabilities principally intangible assets and working capital provided fair value at the date of these financial statements.

During the year an additional £1.8m was paid out in relation to working capital adjustments on previous transactions.

	R&G		Accuscience		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	-	47.6	-	33.1	-	1.1	-	98.2
Goodwill	(0.7)	11.3	-	4.3	-	1.7	(0.7)	(18.5)
Property, plant and equipment	3.9	3.9	0.7	0.1	0.1	0.1	6.7	6.7
Inventories	14.4	13.8	4.7	4	0.1	0.1	28.2	26.1
Trade and other receivables	14.4	14.3	5.5	5.3	0.9	0.7	22.7	22.3
Trade and other payables	(14.4)	(20.0)	(7.9)	(7.0)	(1.4)	(1.3)	(28.9)	(29.7)
Net assets acquired	14.6	49.1	3.0	31.0	10.4	25.0	28.0	105.1
Goodwill	-	32.5	-	8.9	-	0.1	-	80.6
Minority interests	-	2.3	-	-	-	-	-	(2.5)
Investment								
Unimpaired		43.4		11.1		11.8		178.3
Good acquired		1.7		2.1		1.1		(6.1)
		45.1		13.2		12.9		172.2
Deferred depreciation		7.4		-		3.6		11.0
Total investment		99.1¹		49.9		34.2		183.2

¹ The fair value of the investment in the subsidiaries is £100.0m, which includes the £1.8m paid out in relation to working capital adjustments on previous transactions. The total net assets acquired is £105.1m, which includes the £1.8m paid out in relation to working capital adjustments on previous transactions. The total net assets acquired is £105.1m, which includes the £1.8m paid out in relation to working capital adjustments on previous transactions.

The following table summarises the fair value adjustments for the acquisition of subsidiaries included in the provision for value of net assets acquired and is subject to assumptions with fair values being provisional pending completion of a final valuation.

Acquisitions revenue and adjusted operating profit

From the date of acquisition to 30 September 2022, each acquired business contributed revenue to the group. The contribution to adjusted operating profit

	Acquisition date	Revenue £m	Adj. £m	Pre-forme revenue £m	Operating profit ¹ £m	Adj. £m	Pre-forme operating profit ¹ £m
QIP	2 Feb 2022	11.8	9.4	12.1	3	1.9	2.5
Novo	6 Apr 2022	34.3	34.3	38.1	4.8	4.4	5
Amicusone	6 May 2022	10.6	11.6	18.2	3	2.0	3.3
Pharmaceuticals	12 May 2022	1.6	2.5	4.1	(1.4)	1.2	1.5
AMG	19 May 2022	0.5	0.9	1.4	1	0.1	0.3
ACT	29 Jun 2022	1.6	3.0	3.6	1.3	3	1.8
United Biologics	9 Sep 2022	0.1	0.1	2.1	0	1.8	1.8
		58.5	65.8	124.3	8.7	10.9	19.6

¹ Operating profit is £m. The operating profit of the acquired businesses has been calculated as pre-tax profit less the cost of sales and other direct costs, excluding depreciation and amortisation. The total net assets acquired is £105.1m, which includes the £1.8m paid out in relation to working capital adjustments on previous transactions.

Disposals

On 30 November 2021, the group disposed of its 90% interest in Kentex. On Kentex, net proceeds of £1.4m, comprised of £1.4m, have been received. The net proceeds of £1.4m, comprised of £1.4m, have been received. The net proceeds of £1.4m, comprised of £1.4m, have been received.

On 3 May 2022, the group disposed of its 100% interest in of Univesse Medical, net proceeds of £1.4m, comprised of £1.4m, have been received. The net proceeds of £1.4m, comprised of £1.4m, have been received. The net proceeds of £1.4m, comprised of £1.4m, have been received.

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	2022 £m	2022 £m	2021 £m	2021 £m
Operating profit		144.3		174.3
Acquisition related and other charges (note 2)		46.9		44.4
Adjusted operating profit		191.2		145.7
Depreciation or amortisation of tangible, other intangible assets and leases - right-of-use assets	23.9		20.7	
Share-based payments expense (note 4)	2.8		1.8	
Defined benefit pension scheme payment in excess of interest	(0.6)		(5.8)	
Profit on disposal of assets	(1.6)		(2.6)	
Acquisition and disposal expenses paid	(6.5)		4.0	
Other non-cash movements	0.1		0.1	
Non-cash items and other		18.1		9.2
Operating cash flow before changes in working capital		209.3		158.5
Increase in inventories	(35.6)		13.1	
Increase in trade and other receivables	(10.6)		16.3	
Increase in trade and other payables	17.5		11.2	
Increase in working capital		(28.7)		(11.6)
Cash flow from operating activities		180.6		145.9

The movement in net debt capex funds during the year is as follows:

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2021 £m
Cash and cash equivalents	200.8	192.5	1.1	-	24.9
Bank loans	-	122.1	1.5	1.5	91.1
Cash funds/(net debt)	200.8	314.6	2.6	1.5	116.0

[illegible]

On 12 October 2020, the Group entered into a debt for debt agreement ("DFA"), which can be exercised over a five-year term, for total aggregate principal amount of \$750.0m (\$700.0m) and a maximum manufacturing revolving facility ("RMF") for an aggregate principal amount of \$75.0m. At 31st March 2020, the DFA was increased to \$985.0m during the previous financial year.

During the year, the Group has purchased the GFA to increase the total floorplate size. As at 30 September 2022, the GFA comprises a committed amount of approximately 1,000,000 sq ft, for an aggregate principal amount of US\$5.7m, for an amortising period of 10 years on an aggregate principal amount of US\$4.2m, and a shorter term non-amortising period of 1.5 years on an aggregate principal amount of US\$1.5m. See Note 12 for details on the debt term structure and on aggregate principal amount of US\$1.7m. The GFA is due to expire in December 2024 and there is no option to extend the maturity date.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group's interest rate exposure was managed with a current portfolio of interest rate swaps (IRS) and LIBOR swap contracts. The effective interest rate on the Group's debt facilities was 4.0% (2014: 3.9%) and the Group's interest rate risk was measured in terms of the change in the fair value of the Group's debt facilities arising from a 1% increase in the interest rate. This change in fair value was £1.1 million in 2015.

1. The Corporation's 2011 "The Group's Net Debt" is 13,744,616,114, as illustrated in note 2.

As of 31 September 2012, the firm's carryover aggregate outstanding shares of common stock were 1,073,376, 1,073,376, 1,073,376 and 1,073,376 shares, respectively. There were 1,073,376 shares of common stock outstanding as of 31 September 2012, 1,073,376 shares of common stock outstanding as of 31 December 2011, 1,073,376 shares of common stock outstanding as of 31 March 2012, and 1,073,376 shares of common stock outstanding as of 31 June 2012.

Article 10, paragraph 1, of the EU Directive on the right to be forgotten states that, under the right to be forgotten, individuals have the right to request the deletion of their personal data from search engines' results if the data is no longer relevant, accurate, or necessary for the purposes for which it was collected. Article 10, paragraph 1, of the EU Directive on the right to be forgotten states that, under the right to be forgotten, individuals have the right to request the deletion of their personal data from search engines' results if the data is no longer relevant, accurate, or necessary for the purposes for which it was collected.

[illegible]

24. Retirement benefit asset and obligations

The Group maintains two pension arrangements which are accounted for under AS 19 (Revised), Employee Benefits. The principal arrangement is the Diploma Holdings PLC UK Pension Scheme, a scheme in the UK maintained by Diploma Holdings PLC and called the Diploma Holdings PLC UK Pension Scheme (the Scheme). This Scheme provides benefits based on final salary and length of service on retirement (having service on death) and has been closed to further accrual since 1 April 2000.

The second and smaller pension arrangement is operated by Kuba in business based in Switzerland and provides benefits on retirement (having service on death) for the employees of Kuba in accordance with Swiss law. The Kuba pension scheme is a defined contribution based scheme which for financial reporting is required under FRs to be accounted for in accordance with AS 19 (Revised).

The amount of pension asset position included in the Consolidated Statement of Financial Position in respect of these two pension arrangements is:

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	(6.4)	2.7
Kuba Pension Scheme	–	2.2
Pension scheme net (asset) / deficit	(6.4)	4.9

The amounts included in the Consolidated Income Statement in respect of these two pension arrangements are:

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	–	1.3
Kuba Pension Scheme	(0.5)	(0.5)
Amounts charged to the Consolidated Income Statement	(0.5)	0.8

Unfunded contribution schemes operated by the Group's businesses are not included in these disclosures.

Diploma Holdings PLC UK Pension Scheme

The Scheme is subject to a Statutory Funding Objective under the Pensions Act 2004 which requires that a valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The most recent triennial actuarial valuation carried out as at 30 September 2019 reported that the Scheme had a funding benefit of £9.9m and held assets which covered 76% of its liabilities at that date. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2022 and the results of the valuation will be reported in the 2023 Annual Report & Accounts. There were no Scheme amendments or material commitments during the year.

On 28 September 2018, the Company completed a Buy-in of the pension liabilities in the Scheme with Just Retirement Limited. The Company paid £1.5m to Just Retirement Limited on 28 September 2018 to fund 95% of the Buy-in premium and £0.7m was paid on 22 October 2018 to fund the remaining 5% of the premium. The impact of this transaction has been reflected in the figures disclosed set out below.

The scheme is managed by a panel of Trustees appointed in part by the Company and in part from elections by members of the Scheme. The Trustees have responsibility for monitoring valuation of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of their functions to their agents and advisors where appropriate.

The Scheme exposes the Company to, and therefore the Group to, a number of risks:

- **Investment risk.** The Scheme's investments in asset classes, such as equities, which have volatile market values and where there are assets are expected to provide a return over the long term, volatility over the short term can cause a deficit and funding to be required if a deficit emerges.
- **Interest rate risk.** The Scheme's liabilities are valued using market yields on high quality corporate bonds to discount the liabilities. As the Scheme's assets include equities, the value of the assets and liabilities may not move in the same way.
- **Inflation risk.** A significant proportion of the benefits under the Scheme are linked to inflation. The Scheme's assets are expected to provide a good hedge against inflation over the long term, however movements over the short term could lead to funding deficits emerging.
- **Mortality risk.** In the event that members live longer than assumed, a funding deficit may emerge in the Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

a) Pension surplus / (deficit) included in the Consolidated Statement of Financial Position

	2022 £m	2021 £m
Market value of Scheme assets:		
Equities	20.7	21.9
Gifts	3.9	5.9
Buy-in policy	7.3	10.6
Cash	–	0.0
	31.9	38.3
Present value of Scheme liabilities	(25.5)	(41.0)
Pension scheme net asset / (deficit)	6.4	2.7

1. Quoted market price in an active market.

2. The buy-in policy was valued on the same basis as the underlying investments.

In addition to the Buy-in policy, the pension scheme net asset includes £3.5m of historical profits and related costs on a net basis, rather than on a gross basis.

b) Amounts charged to the Consolidated Income Statement

	2022 £m	2021 £m
Charged to operating profit:		
Interest cost on liabilities	(0.8)	10.6
Interest on assets	0.8	0.6
Charged to financial expenses (net income)	–	0.0
Amounts charged to the Consolidated Income Statement	–	11.2

c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2022 £m	2021 £m
Investment (loss) / gain on Scheme assets in excess of interest	(6.5)	0.0
Effect of changes in financial assumptions on Scheme liabilities	15.4	0.0
Effect of changes in demographic assumptions on Scheme liabilities	0.3	0.9
Experience adjustments on Scheme liabilities	(0.7)	–
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	8.5	4.2

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income under the transition to IFRS is £1.2m (2021: £9.7m).

d) Analysis of movement in the pension (asset) / deficit

	2022 £m	2021 £m
Deficit as at 1 October	2.7	12.7
Amounts charged to the Consolidated Income Statement	–	11.2
Contributions paid by employer	(0.6)	5.9
Net effect of non-financial items on Scheme assets and liabilities	(8.5)	4.2
(Asset) / deficit as at 30 September	(6.4)	2.7

e) Analysis of movements in the present value of the Scheme liabilities

	2022 £m	2021 £m
At 1 October	41.0	40.8
Experience adjustments on Scheme liabilities	0.7	–
Interest cost on liabilities	0.8	10.6
Impact from changes in actuarial assumptions	(15.7)	0.8
Benefits paid	(1.3)	1.1
At 30 September	25.5	41.0

f) Analysis of movements in the present value of the Scheme assets

	2022 £m	2021 £m
At 1 October	38.3	28.1
Interest on assets	0.8	0.5
Return on Scheme assets	(6.5)	5.0
Contributions paid (employer)	0.6	3.9
Benefits paid	(1.3)	(1.2)
At 30 September	31.9	36.3

The actual return on the Scheme assets (including interest on assets during the year) was a loss of £6.5m (2021: £5.0m) per

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management. At 30 September 2022 the major categories of assets were as follows:

	2022 %	2021 %
North America equities	28	23
UK equities	12	10
European equities (excl. UK)	11	10
Asia Pacific and Emerging Markets equities	12	10
Oil	14	14
Bond portfolio	23	33

Principal actuarial assumptions for the Scheme at balance sheet dates

	2022 %	2021 %	2020 %	2019 %
Interest rate (GBP)	3.6	3.2	2.5	3.4
Expected rate of return (GBP)	3.2	3.1	2.5	2.4
Expected rate of pension increase (GBP)	3.2	3.0	2.5	2.4
Discount rate	5.3	4.0	3.5	3.8

The volatility in bond yields in the period leading up to and after the Group's year end meant there was a non-trivial but variable impact on the present value of the Scheme's liabilities. This volatility also had an adverse impact on the value of the Scheme's equities since the year end bond yields have to be applied to the value of the equities. The Scheme ended 14 months after the year end with 3% September 2022, with an expected return of 3.2%.

Demographic assumptions

Mortality table used:	2017
Year when mortality table was put in effect	2017
Assumed retirement age for employees (range)	Retirement age range 55 to 65
Assumed retirement age for men (range) to take a normal pension (retirement)	Men pension age 65 (range 60 to 65)
The weighted average duration of the defined benefit obligations is 10.14 years	

Sensitivities

The sensitivity of the 2022 pension liability to changes in assumptions is as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	Decreased by 0.1%	1.7	1.7
Expected rate of return	Increased by 0.1%	0.4	0.6
Expected rate of pension increase	Increased by 0.1%	0.4	0.6

Risk mitigation strategies

With a strong investment in debt in the scheme the Trustees' main objective is to ensure the value of the liability is met. The current strategy is designed to ensure the value of the liability is met. A number of measures have been taken to ensure the value of the liability is met. The Trustees have also taken steps to ensure the value of the liability is met.

In addition to the various sensitivity analyses the Trustees have also conducted a sensitivity analysis of the liability to the value of the assets. The Trustees have also conducted a sensitivity analysis of the liability to the value of the assets. The Trustees have also conducted a sensitivity analysis of the liability to the value of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

Effect of the Scheme on the Group's future cash flows

The Company is required to agree a schedule of contributions with the trustees of the Scheme following each triennial actuarial valuation. Following the triennial actuarial valuation carried out as at 30 September 2019, the Company agreed to contribute £0.5m in cash to the Scheme annually, increasing at 2% per year. The current year contribution was £0.5m. No one-off contributions were made in the year 2022; one-off contribution of ca. £5.0m.

The Kubo Pension Scheme (the Kubo Scheme)

In accordance with Swiss law, Kubo's pension benefits are contribution based with the level of benefits varying according to category of employment. Swiss law requires certain guarantees to be provided on such pension benefits. Kubo has opted to Swiss pension benefits through the AGFA Pensionskasse, a multi-employer plan of non-associated companies which pools risks between participating companies. Set out below is a summary of the key features of the Kubo Scheme.

a) Pension deficit included in the Consolidated Statement of Financial Position

	2022 £m	2021 £m
Assets of the Kubo Scheme	13.5	12.4
Actuarial liabilities of the Kubo Scheme	(13.5)	(14.6)
Pension scheme net deficit	-	2.2

The assets of the Kubo Scheme are held as part of an employee pension fund (AGFA Pensionskasse).

b) Amounts charged to the Consolidated Income Statement

	2022 £m	2021 £m
Service cost	(0.5)	(0.5)
Amount charged to operating profit in the Consolidated Income Statement	(0.5)	(0.5)

c) Analysis of movement in the pension deficit

	2022 £m	2021 £m
At 1 October	2.2	1.0
Amounts charged to the Consolidated Income Statement	0.5	0.5
Contributions paid by employer	(0.5)	(0.5)
Net effect of remeasurements of Kubo Scheme assets and liabilities	(2.1)	0.1
Exchange adjustments	(0.1)	0.2
At 30 September	-	2.2

d) Amounts recognised in the Consolidated Statement of Comprehensive Income

The actuarial gain credited to the Consolidated Statement of Comprehensive Income in 2022 is £2.1m.

	2022 £m	2021 £m
Investment gain (loss) on Scheme assets in excess of interest	(1.3)	1.8
Effect of changes in financial assumptions on Scheme liabilities	4.2	-
Effect of changes in demographic assumptions on Scheme liabilities	-	0.1
Experience adjustments on Scheme liabilities	(0.4)	0.5
Adjustment in retirement of FRIC 24	(0.4)	-
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	2.1	2.4

Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2022	2021
Expected rate of pension increase	0%	0%
Expected rate of salary increase	1.0%	1.0%
Discount rate	2.3%	0.2%
Interest rate rate	1.0%	0.1%
Membership	BVG2020	BVG2020

Sensitivities

The sensitivity of the 2022 pension liabilities to changes in assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase	Estimated increase
Discount rate	Decreased by 0.25%	£1	£4
Expected salary	Increased by 0.5%	-	£1

Effect of the Kubo Scheme on the Group's future cash flows

	£m
best estimate of net cash flows attributable to 2023	0.4
Best estimate of net cash flows attributable to 2022	0.4

The weighted average duration of the deferred benefit obligation is approximately 15 years (2021: 18 years).

25. Auditors' remuneration

During the year, the Group has been paid the following services from the auditors:

	2022 £m	2021 £m
fees payable to the auditors for the audit of the Group's financial statements and the Company's Annual Report & Accounts	1.1	0.9
the Company's Annual General Meeting	0.4	0.8
Audit fees	1.5	1.7

Non-audit fees of £19,201 (2021: £18,200) were payable to the Group's auditors for carrying out agreed upon non-audit services in relation to the Half Year Announcement, which is unbudgeted, and subscription costs to access to a market-wide technical accounting database.

26. Exchange rates

The exchange rates used to translate the results of the Group's foreign operations are as follows:

	Average		Closing	
	2022	2021	2022	2021
US dollar to £	1.27	1.27	1.12	1.35
Canadian dollar to £	1.63	1.72	1.53	1.74
Euro to £	1.18	1.17	1.14	1.16
Swedish krona to £	1.20	1.11	1.10	1.16
Australian dollar to £	1.79	1.83	1.74	1.87

27. Alternative performance measures

The Group uses a number of alternative non-Generally Accepted Accounting Practice (non-GAAP) financial measures which are not defined within IFRS. The Directors use these measures for internal management reporting of key performance indicators. It is important to understand the nature and performance of the Group on a comparable basis against the Group's KPIs as a key constituent of the Group's planning process, as well as on a comparable basis against which compensation is determined. As such these measures should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in the Annual Report & Accounts:

27.1 Adjusted operating profit and adjusted operating margin

Adjusted operating profit is defined as operating profit before amortisation and impairment of intangible intangible assets, excluding research and development, restructuring and other non-recurring costs and adjustments to deferred consideration, the loss of an owned subsidiary, gain on disposal of a subsidiary, and the profit or loss relating to the sale of businesses. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's revenue.

	Note	2022 £m	2021 £m
Revenue		1,012.8	814
Operating profit		144.3	104.3
Add: Acquisition costs and other non-recurring costs in administration costs		46.9	44.4
Adjusted operating profit	2.3	191.2	148.7
Adjusted operating margin	2.3	18.9%	18.3%

27.2 Adjusted profit before tax

Adjusted profit before tax is defined as adjusted operating profit after net finance expenses but before deduction of the net finance charges and interest tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

		2022 £m	2021 £m
Adjusted operating profit	2.3	191.2	148.7
Goodwill impairment expense and other non-recurring costs	6	(11.6)	1.8
Adjusted profit before tax		179.6	150.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022
CONTINUED

27.3 Adjusted earnings per share

Adjusted earnings per share (adjusted EPS) is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact on the items included in the calculation of adjusted profit, less profit costs attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,468,210). The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			129.5	46.6
Tax expense			(34.1)	126.9
Minority interests			(0.7)	0.1
Earnings for the year attributable to shareholders of the Company	76.1	56.1	94.7	69.6
Acquisition related and other charges and acquisition related finance charges net of tax	31.4	29.1	39.2	36.3
Adjusted earnings	107.5	85.0	133.9	106.1

27.4 Free cash flow and free cash flow conversion

Free cash flows defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations, investments including buybacks, acquisition related and other charges and acquisition related finance charges and proceeds from business disposals, borrowings received to fund acquisitions and capital expenditure to the minority shareholders and the Company's shareholders. Free cash flow conversion is the free cash flow as a percentage of adjusted earnings.

The Directors believe that free cash flow gives an important measure of the cash flow of the Group available for future investment or distribution to shareholders.

	Note	2022 £m	2021 £m
Net interest receivable, investment and dividend income		17.5	42.6
Add: Dividends paid to shareholders	1	56.2	60.9
Dividends paid to minority interests	20	0.2	0.3
Acquisition of minority interests	20	0.3	
Proceeds from minority interests	20	-	0.7
Adjustment purchased and payments of acquisition related fees net of cash acquired		177.6	421.4
Acquisition and disposal expenses paid	20	6.5	4.0
Proceeds from sale of property, plant and equipment	21	(13.7)	0
Proceeds from sale of shares and financial assets		-	0.6
Deferred consideration	21	7.1	6.6
Proceeds from investment in property and other	23	(131.3)	100.9
Free cash flow		120.4	108.8
Adjusted earnings		133.9	106.1
Free cash flow conversion		90%	103%

27.5 Trading capital employed and ROATCE

The group's reconciliation includes trading capital employed being defined as net assets (cash and cash equivalents, debtors and other receivables, trade and other receivables, other than lease liabilities, retirement benefit obligations, deferred tax and provisions on liabilities in respect of future purchases of minority interests and deferred intangible assets). Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off, net of deferred tax on provision of intangible assets and retranslated at 12-month average exchange rates. Return on adjusted trading capital employed (ROATCE) is defined as the profit from adjusted operating profit, divided by adjusted trading capital employed, where pro forma adjusted operating profit is adjusted operating profit adjusted for the full year effect of adjustments and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

	2022 £m	2021 £m
Net assets	668.2	841.5
Add: Goodwill		
– Deferred tax (net)	38.2	21.6
– Retirement benefit (assets) / obligations	(6.4)	4.9
– Acquisition related intangible assets, net	29.6	27.7
– Net debt	328.9	581.4
Reported trading capital employed	1,058.5	774.1
– Historical goodwill and acquisition related charges, net of deferred tax and currency and version	99.6	29.6
Adjusted trading capital employed	1,158.1	803.5
Adjusted operating profit	191.2	48.7
Pro forma adjustments	9.7	8.7
Pro forma adjusted operating profit	200.9	57.4
ROATCE	17.3%	7.1%

1. Adjustments are made to the reported trading capital employed from acquisition related items.

27.6 Net debt to EBITDA

Net debt to EBITDA is the net debt, defined as cash and cash equivalents and borrowings translated at 12-month average exchange rates, divided by EBITDA. EBITDA is defined as the Group's operating profit, adjusted for depreciation and amortisation of tangible and other intangible assets, the share of adjusted EBITDA attributable to minority interests, the consolidation of EBITDA for acquisitions and disposals made during the financial year and the removal of the impact of RFR fee leases. The Directors consider this metric to be an important measure of the Group's financial performance.

	Note	2022 £m	2021 £m
Cash and cash equivalents	12	41.7	14.8
Borrowings	13	(370.6)	(206.2)
Reconciliation at average exchange rates		23.1	2.2
Net debt (average exchange rates)		(305.8)	(189.2)
Adjusted operating profit	27.1	191.2	48.7
Depreciation and amortisation of tangible and other intangible assets	10.11	11.2	9.9
RFR fee impact		1.2	(0.5)
Minority interest share of adjusted EBITDA		(1.1)	(0.8)
Pro forma adjustments		10.2	8.3
EBITDA		212.7	55.6
Net debt to EBITDA		1.4x	3.4x

1. Adjustments are made to the reported net debt from acquisition related items.

27.7 Dividend cover

Dividend cover is adjusted earnings per share, or per share 27.7, divided by dividend and dividend for the year, or dividend for the year.

	Note	2022	2021
Adjusted earnings per share	27.1	107.5	85.2
Total dividend for the year (interim and final proposed)		53.8	40.6
Dividend cover		2.0	2.1

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2022

1.1 Basis of preparation

The consolidated financial statements have been prepared on a consistent basis to prior year and based on the historical cost convention, except for derivative financial instruments which are held at fair value.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became the adopted international Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Diadora PLC transitioned to UK-adopted international Accounting Standards in its consolidated financial statements on 1 October 2021. This change constituted a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 89. The financial position of the Group, its cash flows, capital structure and borrowing facilities are described in the Financial Review on pages 92 to 99. In addition, pages 156 to 159 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, policies for financial instruments, hedging activities, and its exposure to credit risk and liquidity risk.

The Group continues to operate globally as a multi-sectored, independent manufacturing organisation with a broad global footprint, rising interest rates and the continued impact of the Covid-19 pandemic. In particular, its ongoing impact on global supply chains. According to the Directors, no major immediate adverse consequences regarding concerns exist from the previous years. The Group maintains diverse financial resources together with a broad spread of further AEs and suppliers across different geographical areas and regions, often secured with long-term agreements. As a consequence, the Directors believe that the Group will be able to manage its business successfully for another year further on pages 82 to 85.

Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 19 and 23 to the consolidated financial statements. On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m (£170.0m) and a committed but currently held undrawn RCF for an aggregate principal amount of £136.0m which was increased to £185.0m during the previous financial year.

During the year, the Group has amended the SFA to increase the total facility size. As at 30 September 2022 the SFA comprised a committed but currently held undrawn RCF for an aggregate principal amount of £119.0m and a committed term loan for an aggregate principal amount of £114.0m (£125.0m). A bullet term loan for an aggregate principal amount of £28.0m (£36.0m) and a committed term loan for an aggregate principal amount of £45.0m (£45.0m) of the SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year the Group entered into interest rate swap contracts with the effect of fixing the interest rate on £100.0m (£85.0m) of debt. The effective fixed rate debt was 2.4% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional £100.0m of debt.

At 30 September 2022, the Group's Net Debt (EBITDA ratio is 1.4) as illustrated in note 27.

As at 30 September 2022, the term loan made up aggregate outstanding principal amount of £113.7m (£93.5m) and the Group has utilised £201.0m of the revolving facility. There remains £158.7m undrawn on the revolving facility and £45.3m undrawn on the bullet term loan borrowings. It includes £10m (£0.4m) of accrued interest on the revolving amount of capitalised debt fees of £4.7m (£2021: £2.2m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £115.0m (£92.0m) and borrowings of £97.0m under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £89.9m.

Total net debt of £256.0m (£2021: £229.7m) comprising cash funds of £47.0m (£2021: £14.5m), borrowings of £177.0m (£121.0m) and capitalised debt fees of £1.0m (£0.5m). Bank covenants are tested against net debt to total revenue excluding cash funds.

Financial modelling

The Group's current cash and debt position was developed on the assumption of a going concern. The cash and debt position of the Group is detailed under cash and debt in the notes to the financial statements and includes current, historic and forecasted cash and debt positions which include management's assumptions and judgements. The Group's cash and debt position is based on the assumption that current forecasts of the operating performance of the Group will be achieved and that the Group will continue to have sufficient cash and debt resources to meet its obligations. The Group's cash and debt position is based on the assumption that the Group will continue to have sufficient cash and debt resources to meet its obligations.

The Group's cash and debt position is based on the assumption that the Group will continue to have sufficient cash and debt resources to meet its obligations. The Group's cash and debt position is based on the assumption that the Group will continue to have sufficient cash and debt resources to meet its obligations.

Going concern basis

After making all other matters considered, the Directors have a reasonable expectation that the Group will adequately finance its operations and meet its obligations for the foreseeable future and they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

1.2 Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Group and its subsidiaries as at the end of the financial year. The Group's financial statements are prepared on the basis of the financial statements of the Group and its subsidiaries as at the end of the financial year. The Group's financial statements are prepared on the basis of the financial statements of the Group and its subsidiaries as at the end of the financial year. The Group's financial statements are prepared on the basis of the financial statements of the Group and its subsidiaries as at the end of the financial year.

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

1.7 Foreign currencies

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into UK sterling, which is the presentation currency of the Group.

- a) Reporting foreign currency transactions in functional currency
Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:
 - i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Consolidated Income Statement.
 - ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated.
 - iii) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rate at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and minor exchange components of that gain or loss are also recognised in the Consolidated Income Statement.
- b) Translation of financial statements to presentation currency
When the functional currency of a Group entity is different from the Group's presentation currency, the results and financial position are translated into the presentation currency as follows:
 - i) Assets and liabilities are translated at the exchange rates prevailing at the balance sheet date.
 - ii) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not adequately reflect the exchange rate at the date of the transaction, in which case the transaction rate is used.
 - iii) A significant exchange difference is recognised in Other Comprehensive Income if these cumulative exchange differences are recognised in the Consolidated Income Statement in the period in which the transaction took place.
- c) Net investment in foreign operations
Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the Consolidated Income Statement in the consolidated statement of other reporting entity's net foreign position or, alternatively, in the consolidated financial statements. Any exchange differences arising on the reporting entity's net investment in the foreign operation are recognised in Other Comprehensive Income at the date the consolidated financial statements are approved by the Board of Directors. The Consolidated Income Statement is prepared in the reporting currency.

1.8 Taxation

The tax expense relates to the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year, which differs from profit before tax or as reported in the Consolidated Income Statement. Taxable profit excludes items of income and expense that are taxable (or deductible) in other years and just excludes items that are never taxable or deductible. The Group's liability for current tax (including UK corporation tax and overseas tax) is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the liability method. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences arise primarily from the recognition in the definition of the Group's deferred tax expense or income of the differences between accelerated capital allowances and depreciation and for short-term timing differences where a liability for a deferred tax receivable or inventory is not deductible for tax purposes. However, deferred tax assets and liabilities are not recognised for temporary differences arising from goodwill or from the recognition in other than in a business combination of intangible assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are ignored in respect of temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In deferred tax, we recognise the current tax earnings of a Group subsidiary as the Group's profit or the dividend profits of that subsidiary.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is recognised or credited to the Consolidated Income Statement, except where the temporary difference arises from an initial recognition of an asset or liability in a transaction that affects neither the taxable profit nor the accounting profit. In such cases, deferred tax is also recognised in equity. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Tax assets and liabilities are offset where there is a legally enforceable right to enforce current tax assets against current tax liabilities and where the deferred income tax relates to the same fiscal authority.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Repairs and maintenance expenditure is charged to the Consolidated Income Statement in the period in which it is incurred.

Impairment and impairment reversal of the carrying amount of property, plant and equipment occurs when the asset's carrying amount is not recovered to the Consolidated Income Statement or, subsequently, to write off the carrying amount of the asset and its estimated useful future value.

Fixed property	between 20 and 50 years
Leasehold property	term of the lease
Plant and Equipment	<p>Equipment and fixtures between 3 and 10 years</p> <p>Motor cars between 3 and 4 years</p> <p>Furniture and fittings between 3 and 10 years</p>
Intangible fixed equipment	5 years

The depreciation method used has major effect on impairment and useful lives are reviewed and changed if appropriate at least annually. Tangible and Intangible fixed equipment is depreciated over their expected useful lives on the straight-line method, unless otherwise specified in the terms of the relevant lease. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses arising on disposals are determined by comparing sales proceeds with carrying amount and are recognised in the Consolidated Income Statement.

1.10 Intangible assets

All intangible assets, excluding goodwill, are carried at cost less impairment. Intangible assets are stated at the lower of carrying amount and fair value less impairment and are subject to impairment. An impairment of intangible assets is recognised as an impairment loss.

a) Research and development costs

Research expenditure is written off as incurred. Development costs are written off as incurred unless forecast revenue exceeds total expected cash attributable to forecast development costs. In all cases the assets are valued on principles of prudence and the assets' estimated useful life. Costs are capitalised as intangible assets unless the assets, such as technology, are self-generated and purchased property, plant and equipment.

b) Computer software costs

Where computer software is an integral part of item of property, plant or equipment its costs are capitalised as part of that property, plant or equipment and are depreciated on a straight-line basis over its useful life. If the software is not an integral part of the property, plant or equipment, its costs are expensed as incurred.

c) Acquired intangible assets – business combinations

Intangible assets that have a measurable value at the date of an acquisition include, but are not limited to, customer relationships, patents, intellectual property, and contracts with customers and suppliers. Having a measurable value at fair value on the acquisition date requires that the intangible asset's future value, together with the other identifiable intangible assets, can be separated from the acquired business to the benefit of the acquirer. Intangible assets are valued at the fair value on the date of acquisition.

Fair value of customer and supplier relationships and other intangible acquisitions are valued using a discounted cash flow model. Patents are valued using a replacement cost model. For smaller acquisitions, intangible assets are valued using historical or experience of similar transactions.

d) Goodwill – business combinations

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of the consideration given for the aggregate fair value of the identifiable intangible, tangible and current assets and not of the aggregate fair value of the fair values (including contingent liabilities) that are recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at least less any accumulated impairment losses. Transaction costs are expensed and are not included in the cost of acquisition.

1.11 Impairment of tangible and intangible assets

An impairment loss is recognised to the extent that the carrying amount of an asset or a CGU exceeds its recoverable amount.

The recoverable amount for an asset or CGU is the higher of its fair value less costs to sell, and its value in use. Its value in use is the present value of the future cash flows expected to be derived from the asset or CGU, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset or CGU. Impairment losses are recognised immediately in the Consolidated Income Statement.

a) Impairment of goodwill

Goodwill arising in a business combination is attributed to a CGU. At the time of purchase the Group is three Centon, which represent the highest level within the Group in which the goodwill is attributable to the Group's Board of Directors for financial reporting purposes. Goodwill arising from goodwill has been allocated and tested for impairment annually or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is then first to reduce the goodwill attributable to the CGU and then any losses carried to the more frequently reversed.

b) Impairment of other tangible and intangible assets

Other tangible and intangible assets are reviewed for impairment when indications or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses on any assets whose recoverable are recognised in the Consolidated Income Statement.

1.12 Inventories

Inventories are stated at the lower of cost, generally calculated on a FIFO or weighted average basis, and net realisable value. The nature of the inventory is an important factor in determining the appropriate method of valuing inventory. Cost comprises direct material, labour and the other costs.

Net realisable value represents the estimated net realisable value, determined as the cost or net realisable value, less any costs to complete and the net realisable value necessary to make the sale.

1.13 Financial instruments

Financial assets and liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual relationship of the instrument.

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

a) Trade receivables and loss allowance

Trade receivables are initially measured at fair value, do not carry any interest and are reduced by a charge for impairment for estimated irrecoverable amounts. Such impairment assets are recognised in the Consolidated Income Statement, calculated under FRS 9 (see note 12.2a).

b) Trade payables

Trade payables are non-interest bearing and are initially measured at their nominal value.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, interest-bearing deposits, bank overdrafts and short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are repaid on demand and can form an integral part of the Group's cash management. Bank overdrafts (where used) are presented net of cash and cash equivalents on the balance sheet.

d) Put options held by minority interests

The purchase price of shares to be acquired under options held by minority shareholders in the Group's subsidiary are calculated by reference to the estimated profitability of the relevant subsidiary at the time of exercise, using a multiple-based formula. The net present value of the estimated future payments under these put options is shown as a financial liability. The corresponding entry is recognised in equity as a deduction against retained earnings. At the end of each year, the estimate of the financial liability is reassessed and any change in value is recognised in the Consolidated Income Statement, as part of finance income or expense. Where the liability is in a foreign currency, any change in the value of the liability resulting from changes in exchange rates is recognised in the Consolidated Income Statement.

e) Derivative financial instruments and hedge accounting

The Group has derivative financial instruments in the form of forward foreign exchange contracts to hedge its foreign currency exposure and interest rate swaps to hedge its exposure to interest rates. These derivatives are designated as cash flow hedges. The Group has elected to continue to apply the hedge accounting requirements of AS 39, as shown under FRS 9.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently changed in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the hedging reserve and in Other Comprehensive Income and are recycled to profit or loss on maturity of the derivative. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in accordance with AS 39 are recognised in the profit or loss Consolidated Income Statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

For derivative instruments that are designated as fair value hedges, any profit or loss from the hedge

f) Borrowings

Borrowings are initially recognised at the fair value of the consideration received. They are subsequently measured at amortised cost. Borrowings are classified as non-current when the repayment date is more than 12 months from the period end date or where they are drawn on a facility with more than 12 months to expiry.

1.14 Investments (fair value through Other Comprehensive Income)

The investments held by the Group comprise equity shares which are not held for the purposes of equity trading and in accordance with FRS 9, classified as fair value through Other Comprehensive Income. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in Other Comprehensive Income.

1.15 Leases

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, using the following components of the lease liability, adjusted for any lease payments made at or before the commencement date.

Lease liabilities are recorded at the present value of lease payments. Leases are accounted for if the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, less any residual value.

Interest is recognised on the lease liability, resulting in a higher than straight-line expense over the lease term.

Lease payments on short-term low value assets, or to minimise in leases and accounted for as an expense on a straight-line basis over the lease term, and short-term leases with a lease term of 12 months or less duration.

1.16 Other liabilities

Other liabilities are recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Other liabilities are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

1.17 Dividends

The annual final dividend is not paid until approved at the AGM. Interim dividends, which are paid in the period they are paid.

1.18 Share capital and reserves

Ordinary shares are classified as equity and awards of the Group's ordinary shares to employees are shown in the Reserve Consolidated Income Statement, in accordance with the relevant accounting standards. The Group also shows in equity its paid-up capital, its share premium and its reserves and provisions. The Group also shows in the following reserves:

a) Share option reserve. The share option reserve comprises all foreign currency translation differences arising from the translation of the financial statements into the reporting currency.

b) Hedging reserve. This is made up of the cumulative effective portion of the fair value changes of the hedging instrument, less any profit or loss from the hedging instruments that are determined to be an effective hedge.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	c	297.2	297.2
Debtors: amounts falling due within one year			
Amounts owed by Group undertakings		35.8	
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		–	134.7
Net assets		333.0	262.5
Capital and reserves			
Called up share capital	c	6.3	6.3
Share premium		188.6	168.6
Profit and loss account		138.1	67.6
Total shareholders' equity		333.0	262.5

1. The financial statements are approved by the directors.

The financial statements of Diploma PLC and the notes on 176 to 178, which form part of these financial statements, company number 3899848, were approved by the Board of Directors on 21 November 2022 and signed on its behalf by


JD Thomson
 Chief Executive Officer


C Davies
 Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total shareholders' equity £m
At 1 October 2020		6.3	168.6	50.4	245.3
Total Comprehensive Income	d			69.6	69.6
Dividends paid	e			(52.9)	(52.9)
Settlement of LTIF awards	c			0.5	0.5
At 30 September 2021		6.3	168.6	67.6	262.5
Total Comprehensive Income	d			125.5	125.5
Dividends paid	e			(56.2)	(56.2)
Settlement of LTIF awards				1.2	1.2
At 30 September 2022		6.3	188.6	138.1	333.0

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

a) Accounting policies

a.1) Basis of accounting

The Parent Company Financial Statements (the Financial Statements) have been prepared consistently in accordance with the Companies Act 2006 and FRS 101 'Reduced Disclosure Framework'. The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the Financial Statements. The Financial Statements, which are prepared on an historical cost basis, are presented in sterling and all values are rounded to the nearest £0.00M except when otherwise indicated.

Diploma PLC is a public company limited by shares, incorporated in the United Kingdom and registered and admitted in England and Wales and listed on the London Stock Exchange. The company's name is recorded in the Companies House Gazette (London EC14 6FE). The financial statements were authorised by the Directors for publication on 31 November 2022.

The following disclosures do not have to be disclosed as permitted by FRS 101:

- disclosure statement and related notes;
- comparative period information for comparative data;
- disclosures in respect of relationships with controlled subsidiaries;
- disclosures in respect of capital management;
 - the effect of new but not yet effective IFRS;
- disclosures in respect of the compensation of key management personnel as required.

The Company has availed itself of the exemption under FRS 101 available in respect of the requirements in paragraphs 40(a) and 40(b) (2) of FRS 101 (share-based payment) in respect of Group settled share based payments at the time it issued its financial statements of the Company. It also has the equivalent of paragraphs 40(a) and 40(b) (2) of FRS 101 in respect of the Remuneration Committee Report.

a.2) Total Comprehensive Income

Total Comprehensive Income comprises dividends received from subsidiaries, interest payable and other income, balanced at the UK base rate plus 2% and other relevant expenditure.

a.3) Dividend income

Dividend income is recognised when received. Final dividends from companies are recognised in the Company's Financial Statements in the year in which the dividends are payable to the Company and are payable in the year dividends are recognised when paid.

a.4) Diploma PLC Employment Benefit Trust and employee share schemes

Shares held by the Diploma PLC Employee Benefit Trust (the Trust) are stated at cost and subject to financial deduction from shareholdings in accordance with As PLC as required by FRS 101. Dividends paid by the Trust are not eligible for dividends until such time as the dividends are vested and distributed to employees who have opted to do so.

a.5) Auditors' remuneration

Fees payable to the auditors in the audit of the Company's financial statements of £3,500,000 (2021: £3,000,000) were borne by and for Group undertaking.

b) Directors' and employees' remuneration

No remuneration is paid directly by the Company in relation to the Directors' remuneration, which is paid by a subsidiary company and the interests in the share capital of the Company are not subject to the Remuneration Committee Report on pages 114 to 138 and note 4 to the Consolidated Financial Statements on page 148. The Company has 1,000 employees (2021: none).

c) Company profit and loss account

As permitted by section 408 of the Companies Act 2006, the company profit and loss account is presented for the Company. There were no gains or losses either in the current or preceding periods in respect of Other Comprehensive Income. The Company's profit for the year was £105.6m (2021: profit of £65.6m) before deduction of tax on profits.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022
CONTINUED

d) Investments

	2022 £m	2021 £m
Shares in Group undertakings held at cost		
At 30 September	297.2	297.2

A full list of subsidiary and other related undertakings is set out on pages 187 to 189. Investments in subsidiaries are reviewed annually to see if there are any indicators of impairment. There were none (2021: none).

e) Called up share capital

	2022 Number	2021 Number	2022 £m	2021 £m
issued, authorised and fully paid ordinary shares of 5p each				
At 30 September	124,616,170	124,568,515	6.3	6.3

During the year 72,262 ordinary shares in the Company (2021: 21,914) were transferred from the Trust to participants on an after income tax basis in connection with the exercise of options in the performance awards which had vested under the 2011 Long-Term Incentive Plan as set out in the Remuneration Committee Report.

At 30 September 2022, the Trust held 1,163 (2021: 90,641) ordinary shares in the Company, representing 0.9% of the called up share capital. The market value of the shares at 30 September 2022 was \$1.1m (2021: \$2.6m).

f) Dividends

Details in respect of dividends proposed and paid during the year by the Company are included in notes 1 to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. In our opinion:

- Diploma PLC's Group financial statements and Parent Company financial statements (the financial statements) "give a true and fair view" of the financial position of the Group and of the Parent Company as at 30 September 2022 and of the Group's profit and the Group's cash flows for the year then ending.
- The Group financial statements have been prepared in accordance with UK-adopted international accounting standards.
- The Parent Company financial statements have been prepared in accordance with the UK-adopted General Accounting Practice (United Kingdom Accounting Standards, now known as FRS 101 Reduced Disclosure Requirements) and approved by the Board.
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have also audited the financial statements included within the Annual Report (the "Annual Report"), which comprises the consolidated and Parent Company Statements of Financial Position as at 30 September 2022, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated Statement of Financial Movements, for the year then ended, and the notes to the financial statements, which include disclosures about the high-risk areas of financial statements.

Our opinion is consistent with our recommendation to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and applicable law. Our opinion is based on the independent audit work performed by the Auditor, responsibilities for the audit of the financial statements of the Group and the Parent Company. We believe that the audit evidence we have obtained is sufficient and appropriate to form our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are applicable to us as auditors of the financial statements of the Group, which included the FRC's Ethical Standard, as applicable to listed entities in the United Kingdom. We have not provided any non-audit services to the Group in accordance with these requirements.

To the best of our knowledge and belief, we are not aware of any audit services prohibited by the independence standards which were not disclosed to the Audit Committee. We have provided no audit services to the Group or its subsidiaries or associated entities during the period under audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

Our audit approach

Overview

Audit scope

The Group is split into three Sectors (Life Sciences, Seed and Controls) and we have conducted audit work across all of them. Through our full scope component audits, audit of the consolidation and additional audit procedures performed at a Group level, we have achieved coverage of 100% (2021: 79%) of Group profit before tax and 75% (2021: 47%) of Group revenue.

Key audit matters

- Valuation of the intangibles for the R&D and Accession businesses (Group)
- Carrying value of investments in subsidiaries (Parent)

Materiality

- Overall Group materiality: £6.2m (2021: £4.8m), based on approximately 5% of profit before tax
- Overall Parent Company materiality: £3.3m (2021: £3.0m) based on 1% of total assets
- Performance materiality: £4.7m (2021: £3.6m) (Group) and £2.5m (2021: £2.2m) (Parent Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements and, in the information given in this report, and we do not provide a separate opinion on these matters.

This report does not provide an opinion on the risks identified by our audit.

Carrying value of investments in subsidiaries (Parent Company) and valuation of the intangibles for the R&D and Accession businesses (Group) are key audit matters this year. Provision for impairment of investment in City Wind for the Windy City Wind Accession for the Windy City Wind is subject to intangible valuation (Group) which were key audit matters last year are no longer included because of the reduced impact of COVID-19 on the industries in which the Control Seed operates and there is no significant risk associated with the intangibles accounting for the valuation of the Windy City Wind intangibles.

Key audit matter

Valuation of the intangibles for the R&G and Accuscience acquisitions (Group)

Refer to page 175 for significant accounting estimates and critical judgements. A question of accounting (and note 23 Acquisitions and disposal of businesses) within the Group is highlighted in a diagram.

The Group acquired R&G and Accuscience businesses for a consideration of \$140.7m.

Acquired intangible assets of \$87.7m were identified and recognised in respect of these acquisitions. There is a used customer relationship of \$77.0m and brands of \$10.7m.

We have identified this as a significant risk associated with the valuation of the intangibles due to the magnitude of the acquisitions, the significant level of estimation involved in determining the fair value of the acquired intangibles and the sensitivity to changes in key assumptions.

The valuation of the parent's intangible assets requires management estimation and is dependent on a number of key assumptions including a forecast revenue and profit rate, discount rates and average market for customer attrition rates. In considering such assumptions, there is an inherent level of estimation uncertainty and subjectivity.

How our audit addressed the key audit matter

Procedures undertaken to address the significant risk identified in respect of the valuation of the acquired intangibles include:

We validated the mathematical accuracy of management's models and appropriateness of the methodologies used to determine the fair values with support from our internal valuation experts.

We obtained an understanding of the assumptions used to determine these estimates and identified the following key assumptions:

Discount rates: We engaged our valuation experts to corroborate the reasonableness of the discount rates using comparable market data, for example discount rates of other companies in similar industries.

Forecast revenue growth rates and margins: We compared the assumptions in respect of forecast revenue growth rates and margins to historical trading experience and the annual trading performance of the businesses post acquisition. In addition, we compared the forecasts used in the valuations to the Board approved budgets, the three year forecast and long plan, where completed.

Customer attrition rates: In respect of the customer attrition rate for intangible assets, we corroborated the customer attrition rate assumption and forecast cash flows. We compared the assumptions in respect of forecast cash flows for intangible customer sales. We engaged our valuation experts to assist in the evaluation of the methodology used in management.

From our procedures, we concluded that management's estimate of the fair value of the acquired intangibles was appropriate.

Carrying value of investments in subsidiaries (Parent Company)

At the balance sheet date, the Parent Company had investments in subsidiaries of £29.12m (2021: £29.12m) held in the Parent Company. Included in the carrying value of investments is the Parent Company financial statements.

We have touched our audit efforts on this balance given the significance of it. The carrying amount of the Parent Company's investments in subsidiaries represents 28% of the Parent Company's total assets (2021: 300%). Given the trading performance of the underlying subsidiary investments, we do not consider the valuation of these investments to be a principal source of misstatement or to be subject to a high level of estimation uncertainty and judgment. However, due to their materiality in the context of the Parent Company financial statements, this risk is considered to be the principal risk in the statement of financial position for the Parent Company.

We checked that the net assets of the subsidiary entities in the individual investments were in excess of the carrying value of the Parent Company's investment in those subsidiaries. In addition, our work performed through the audit did not identify any other impairment indicators regarding the carrying value of the carrying value of these investments at the balance sheet date. We have no issues to report in respect of this work.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is focused on three core Sectors: Life Sciences, Seeds and Cereals, with operations primarily geographically located in Australia, Canada, the USA, the UK and Continental Europe. Within the aforementioned Sectors are a number of sub-sectors, management reporting entities which are consolidated by Group management. The financial statements are a consolidation of multiple reporting components representing the operating businesses within these three core Sectors. Our audit scope was determined by considering the significance of each component's contribution to profit before tax and contribution to individual financial statement line items, with special consideration to obtaining sufficient coverage over financial risks and other areas of higher risk. We identified 20 financial reporting components across eight countries for which we determined that full scope audits would need to be performed. Through our full scope audits, the audit of the consolidation and other audit procedures performed at a Group level, we have achieved coverage of 75% of the Group's profit before tax and 75% of the Group's revenue, giving us the evidence we needed for our opinion on the financial statements as a whole.

The reporting components, excluding those audited by the Group engagement team, were audited by eight component teams. The Group engagement team attended audit departure meetings via video conference or in-person, met with management from certain UK, USA and Canada businesses and discussed the audit approach and audit findings with all reporting component teams. Our other audits at the hemisphere meetings, review of the component team reporting and review and discussion of the audit working papers of a number of overseas locations together with the additional procedures performed at Group level, gave us the evidence we needed for our opinion on the financial statements as a whole. Our additional procedures at the Group level included the audit of the consolidated fair value adjustments and financial asset valuations for subsidiary groups, and investment in partnership trigger assessments, UK personal and certain tax procedures. The Group engagement team also performed the audit of the Parent Company and five UK subsidiaries.

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group and Parent Company financial statements. Management considered that the impact of climate change does not give rise to a material financial statement impact due to the Group's decreasing and diverse nature and ability to adapt to a changing environment. We used our knowledge of the Group's business and management's knowledge of the Group's climate change risks which are part of the business risk management framework, defined by management, included in their environment and going concern analysis. We discussed with management the work which climate change could and would continue to deliver at the Group, continued to discuss its response to the impact of climate change. We also considered the climate change disclosures in relation to climate change brought in by the new international standard, the IASB's IFRS 13, in the financial statements, and how we addressed them in our audit.

Materiality

The nature of our audit was influenced by our assessment of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures. The main quantitative thresholds we used were: the overall materiality for the Group, which was 1% of the Group's profit before tax, and the aggregate of the financial statements as a whole.

Based on our professional judgement, we determined that misstatements below these thresholds are not likely to influence the economic decisions of users of the financial statements and are, therefore, not material.

	Financial statements - Group	Financial statements - Parent Company
Overall materiality	£6.2m (2021: £4.6m)	£3.3m (2021: £2.6m)
How we determined it	1% of Profit before tax	1% of Total assets
Rationale for benchmark applied	An appropriate measure of the Group's performance, reflecting the nature and extent of the risks to the Group.	A measure of the Group's performance, reflecting the nature and extent of the risks to the Group.

For each component in the scope of our Group audit, we determined materiality that was less than the overall Group materiality. The range of materiality allocated across components was £0.4m to £1.5m. The range of materiality was determined by considering the nature, timing and extent of the audit procedures that we planned to perform on each component, and the overall materiality of the Group.

We use performance materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. In doing so, we have determined that the aggregate of uncorrected and undetected misstatements in the financial statements is less than 75% of the overall materiality. The overall materiality for the Group's financial statements was £6.2m (2021: £4.6m) and the overall materiality for the Parent Company's financial statements was £3.3m (2021: £2.6m).

In determining the performance materiality for the Group, we have taken into account the nature, timing and extent of the audit procedures that we planned to perform on each component, and the overall materiality of the Group.

We have agreed with the Audit Committee that the overall materiality for the Group is £6.2m (2021: £4.6m) and the overall materiality for the Parent Company is £3.3m (2021: £2.6m).

and of £22,125,000 and of £100,000,000, Parent Company and 2021 of £42,000,000, as well as management, to put the circumstances that in our view warranted reporting not audit but is resolved.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's going concern assessment to ensure it was based upon the latest available financial forecasts and that the cash flow assumptions were consistent with our understanding of the outlook for the Group, business and the wider market, testing the cash flow model to ensure it was robust;
- Comparing management's inputs with other procedures performed over the course of the audit;
- Discussing inclusions within management's cash flow to ensure compliance with a going concern perspective in the documents within the business;
- Comparison of the prior year forecasts against current year actual performance to assess management's ability to forecast accurately; and
- Reviewing the latest signed financing agreements to validate covenants used in the modelling and the timing of debt maturities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because of the inherent uncertainty of future events or conditions, this conclusion is not a guarantee as to the Group and the Parent Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to report or draw attention to in relation to the directors' statement in the financial statements that, where the directors are in breach, it is appropriate to address the going concern matter in accounting.

Our response under and the responsibility of the parent is with respect to going concern is explained in more detail in the explanation of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and auditors' report thereon. The directors are responsible for the other information, which includes accounting policies in the Fair Value of Climate-related Financial Disclosures 2022, remuneration policy, Company and the financial statements, financial reporting controls, forward-looking statements and accounting. We do not express an audit opinion or except to the extent otherwise explained in the report on the report on the assurance of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and to consider whether the other information is materially inconsistent with the financial statements and our knowledge obtained in the audit or otherwise, or whether there is a material misstatement of the financial statements or a material misstatement of the other information. In doing so, we do not express an audit opinion or except to the extent otherwise explained in the report on the report on the assurance of assurance thereon.

With respect to the Strategic Report and Directors' Report, we are not required to report whether they are in accordance with the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us to report whether or not we are aware of any other information required to be included.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 September 2022 is consistent with the financial statements and our knowledge obtained in the audit or otherwise, or whether there is a material misstatement of the financial statements or a material misstatement of the other information.

In light of the knowledge and understanding of the Group and Parent Company and the business and financial statements, the work we have done in the audit, we do not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In connection with the audit of the Remuneration Committee report, we are not required to report whether they are in accordance with the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement and other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and ongoing risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Parent Company's prospects, the period of assessment to use and why, the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its address, and including any material uncertainties giving attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer term viability of the Group was substantiated by our inspection of audit and risk related information making inquiries and considering the directors' proper assessment of their statement of longer term viability against the requirements of the provisions of the UK Corporate Governance Code and in doing so whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent Company and the relevant risks identified in the course of the audit.

In addition to the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, fairly explains and represents the business and provides the information necessary for the members to assess the Group's and Parent Company's position, performance, financial position and prospects;
- The section of the Annual Report that describes the review of effectiveness of the management of financial controls, risks and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement is inconsistent with the Listing Rules.

In addition, since the Code does not properly discuss a departure from compliance with the Listing Rules, we will therefore report to the members of the company in respect of our responsibility to report when the directors' statement is inconsistent with the Listing Rules.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent Company's financial statements and a true and fair view of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exception to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 March 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the year ended 30 September 2013 to 30 September 2022.



Christopher Burns (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 November 2022

SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*		Registered office address*
Seals			
HS Seals Products Inc.	Q	Hose & Hydraulics Group Limited (UK)	A
HK Seals	E	Grinnell Hydraulics Services Limited (UK)	A
RIB Seals Corp.	I	Prodamco Services Limited (UK)	A
USF Terminals Inc.	C	AME (Brighton) Limited (UK)	A
Inco Sealing Products Limited	S	Millennium Drilling Company Limited (UK)	A
Mosses Australia Pty	M	Fluid Power Products Limited (UK)	A
M Seals AB (UK)	N	Industrial Hose & Pipe Fittings Limited (UK)	A
M Seals UK Limited	A	Millennium Engineering 2012 Limited (UK)	A
East Seals and Supply Limited	N	Anti Contaminant Technology Pty Limited	A
Diploma (Taiwan) Trading Co. Limited	N		
Diploma COA Limited	A		
FPE Seals Limited	A		
DMS Seals Holdings Limited	A		
DMS Gaskets Limited	A		
DMS Seals Limited	A		
H-B Seals Limited	A		
Crown Seals (Aberdeen) Limited	A		
FPE Seal B.V.	N		
Kapit Tech AG	N		
Kapit Tech GmbH	N		
PumpNSeal Australia Pty Limited	N		
Toto Seal Group Australia Pty Limited	I		
Toto Seal New Zealand PLC	I		
Fit Management Pty Limited	Ad		
Fit Resources Pty Limited	Ad		
Fit Trading Pty Limited	Ad		
Mechanex Limited (UK)	A		
R&B Investments Limited (UK)	A		
Clack Steel Fluid Power Limited (UK)	A		
Reinforced Hose & Hydraulics Limited (UK)	A		
Exeter Hose & Hydraulics Limited (UK)	A		
Exeter Hose & Hydraulics Limited (UK)	A		
North Devon Hose & Hydraulics Limited (UK)	A		
Pressuremaster Hose & Hydraulics Limited (UK)	A		
Somerset Hose & Hydraulics Limited (UK)	A		
West Cornwall Hose & Hydraulics Limited (UK)	A		
Redragon Hydraulics Limited (UK)	A		
Heron Cranes Ltd (UK)	A		
Fluidex Power Limited (UK)	A		
GHF Limited (UK)	A		
Grinnell Hydraulics Services Limited (UK)	A		
Penning Fine Abrasive Seals Ltd (UK)	A		
Compton Limited (UK)	A		
Norman Acker Machinery Limited (UK)	A		
Fluidcast Limited (UK)	A		
Rubber and Gaskets Limited (UK)	A		
Hydraulics & Offshore Supplies Limited (UK)	A		
Valve Liner and Fittings Limited (UK)	A		
Hatchers Limited (UK)	A		
AMC Drilling Limited (UK)	A		
Hydra Solutions Limited (UK)	A		
Century hose Limited (UK)	A		
Flexi-Tech Industrial Products Limited (UK)	A		
Life Protect Limited (UK)	A		
Hydro Products (UK)	A		

SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*		Registered office address*
Controls		Life Sciences	
S. Raycast Limited	A	Schinger Diagnostics Inc.	B
IS Motorsport, Inc.	C	AMT Electronics Inc.	B
Amfast Limited	A	Vantage Brakes Inc.	B
Clarendon Specialty Fasteners Limited	A	Big Green Surplus Corporation Pty Limited	B
Clarendon Specialty Fasteners (Asia) Limited	A	Diagnostic Solutions Pty Limited	B
Clarendon Specialty Fasteners Inc	B	Sphere Surplus Pty Limited	B
Clarendon Engineering Supplies Limited	A	Aspire Surplus Pty Limited	B
Clarendon Specialty Fasteners GmbH		Big Green Surplus Pty Limited	T
Cabletec International Component Systems Limited	A	Techno Path Distribution Limited	W
Sommer GmbH	C	Abacus Pty Limited	B
Picon Electronics GmbH	H	Abacus Pty Limited	T
Acros SAS	C	Simonsen and Wee AS	AC
Gremtek SAS	C	Simonsen and Wee AB	AA
Gremtek UK Limited	A	Kungshamn Mechanics AB	AD
Gremtek GmbH		Anger Science Inc Pty Limited	AE
Asome SAS	C	Medway Technology Limited	AE
Cablecraft Limited	A		
Brian Valley Plastics Limited	A		
Kremfast Limited	A		
Bethquist Limited	A		
Howe Limited	A		
Abbeycroft Limited	A		
RA Warrington Limited	A		
Howe Engineering Limited	A		
Howe Ltd	C		
Microtherm UK Limited	A		
S Group Europe Limited	A		
Specialty Fasteners Limited	A		
Specialty Fasteners & Components Limited	A		
FOC Ltd Limited	A		
FOC Cables Limited	A		
FOC Cables Limited	A		
Mapex Limited	A		
Enna Group Limited	A		
Specialised Mining Accessories Limited	A		
MatTel Limited (UK) Ltd	A		
Tecno Limited (UK) Ltd	A		
Griffin Limited (UK) Ltd	A		
Twist Acquisition LLC	C		
ACM International Holdings LLC	C		
Wind, City, Wire Cable & Technology Products LLC	C		
UFR Electronics LLC	AE		
Burkholder International LLC	AE		

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

Q1 Trading Update released	16 January 2023
Annual General Meeting 2022	16 January 2023
Half Year Results announced	16 May 2023
Q2 Trading Update released	20 July 2023
Financial results announced	20 November 2023
Annual Report posted to shareholders	8 December 2023
Annual General Meeting 2023	17 January 2024

Dividends (provisional dates)

Interim announced	15 May 2023
Paid	5 June 2023
Final announced	20 November 2023
Paid (if approved)	February 2024

Annual Report & Accounts

Copies can be obtained from the Group Company Secretary at the addresses and websites opposite.

Share Registrar

Computershare Investor Services PLC

The Registry
Bridge Water Road
Bristol, BS49 6DZ
Telephone: 0370 7339230

Go to website for further information and to view our patient care plans.

Shareholders' enquiries

If you have any enquiry about the Company or business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC), you are invited to contact the Group Company Secretary at the address and via below.

Group Company Secretary and Registered Office

John Morrison Solicitor
10-11 Charterhouse Square
London EC1M 6EE
Telephone: 020 7549 5700

Registered in England and Wales, number 2899648

Website

Diplomat's website is www.diplomapharm.co.uk

ADVISORS

Corporate Stockbrokers

Numis Securities
45, Old Broad Street
London EC2N 1DF

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Independent Auditor

PricewaterhouseCoopers LLP
1 Embury Square
London WC2N 6BH

Solicitors

Simmons & Simmons LLP
CityPoint
One Robert Maxwell Street
London EC2N 1QS

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

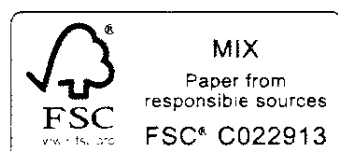
HSBC Bank plc
City Corporate Banking Centre
99 Queen Victoria Street
London EC4N 4TF

Overview
Strategic Report
Corporate Governance
Financial Statements
Other Information

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but also and a choice of further reading

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