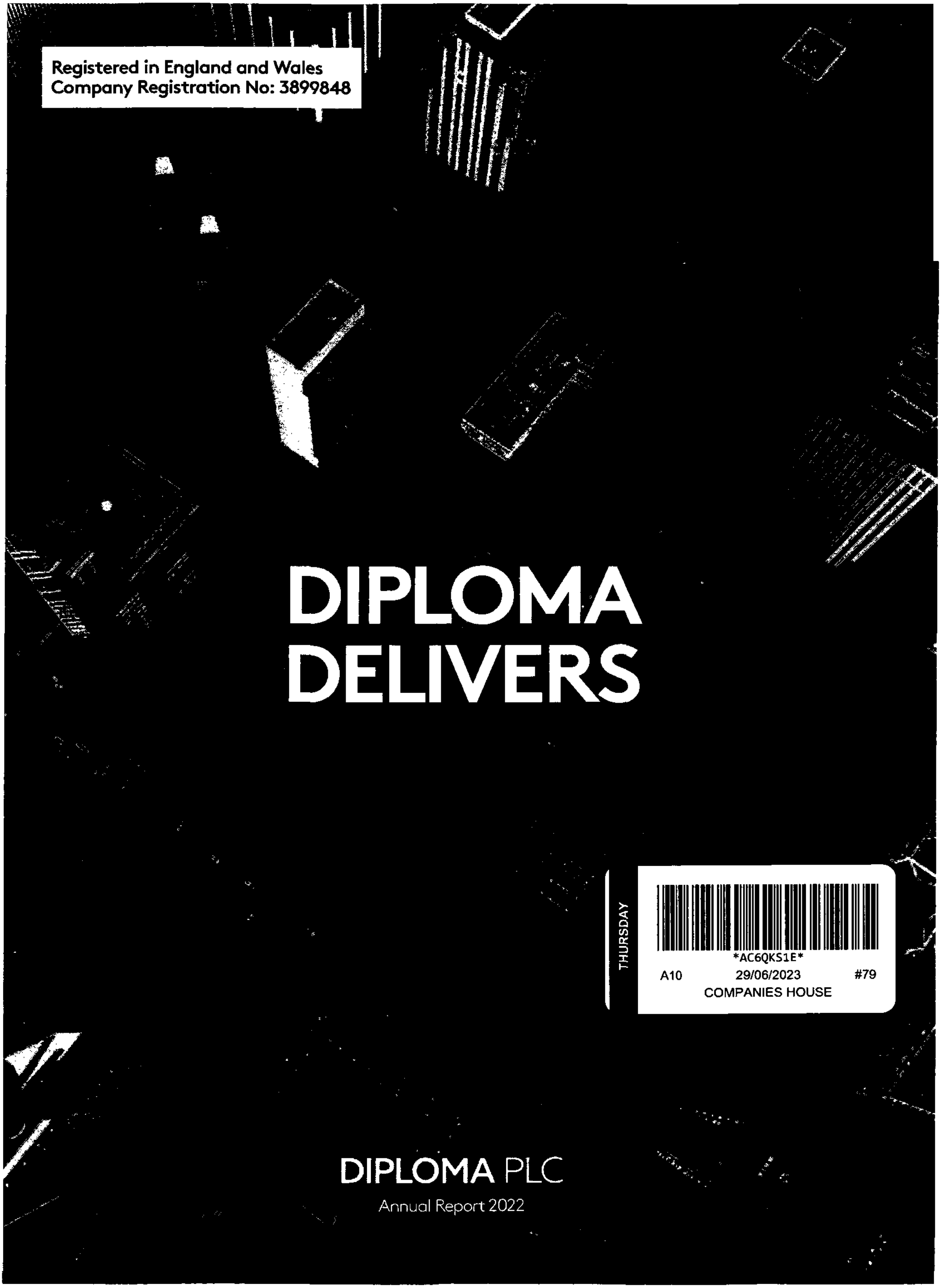


DIPLOMA DELIVERS

DIPLOMA PLC

Annual Report 2022

CONTENTS

EVERYTHING WE DO IS
DRIVEN BY OUR PURPOSE

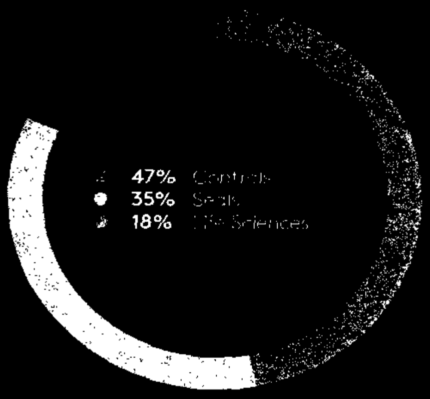
Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

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.

SEALS

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*

43% US
10% Canada
20% UK
17% Europe
10% Australia/other

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

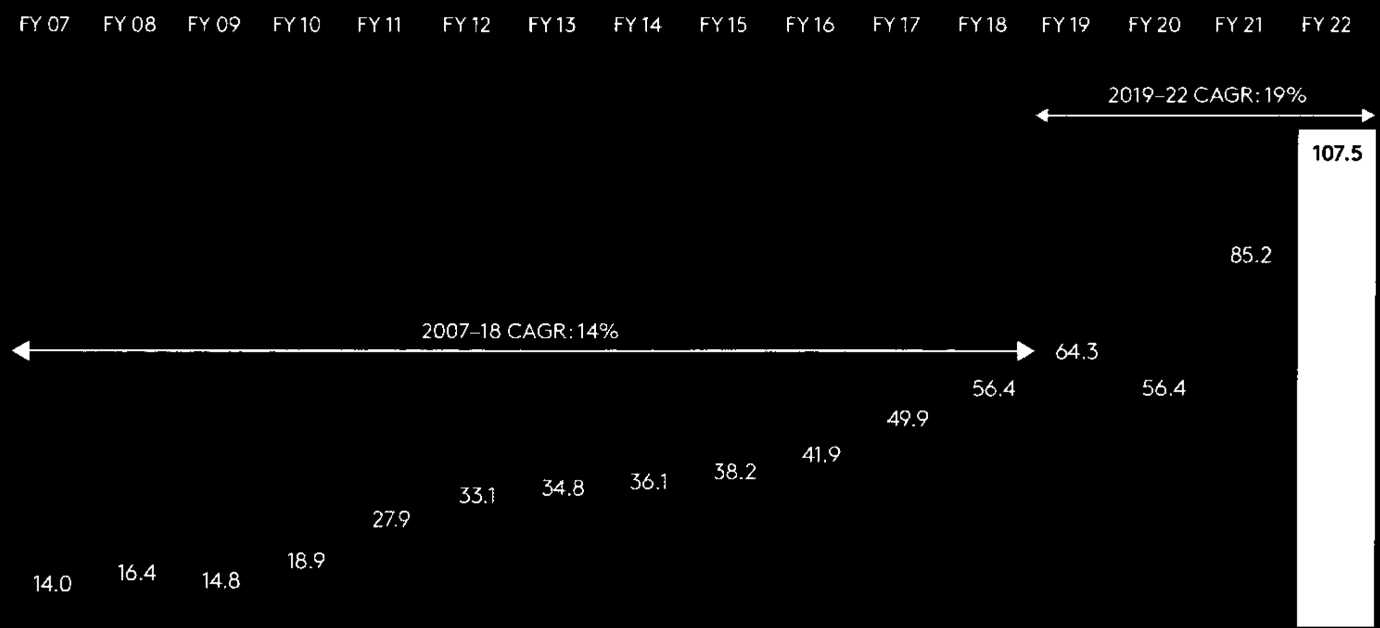
Innovative solutions

WE HAVE A DECENTRALISED BUSINESS MODEL WITH SHARED AND ALIGNED VALUES

[illegible]	Determined to get better every day
Accountability	Striving for high standards
[illegible]	Doing the right thing

TRACK RECORD OF COMPOUNDING GROWTH

Adjusted EPS (pence)



15-year EPS CAGR: 15%

HIGHLIGHTS
YEAR ENDED 30 SEPTEMBER 2022

FINANCIAL PERFORMANCE

Organic growth
15%

Model: 5%

Free cash flow conversion[1]
90%

Model: ca.90%+

Reported revenue growth[1]
29%

Model: 10%+

Net debt/EBITDA[1]
1.4x

Model: <2.0x

Adjusted operating margin[1]
18.9%

Model: 17%+

ROATCE[1]
17.3%

Model: High teens

Adjusted EPS growth[1]
26%

Model: double digit

Dividend cover[1]
2.0x

Model: ca. 2.0x

	FY 2022	FY 2021	% change
Revenue	£1,012.8m	£787.4m	+29%
Adjusted operating profit[1]	£191.2m	£148.7m	+29%
Statutory operating profit	£144.3m	£104.3m	+38%
Adjusted EPS	107.5p	85.2p	+26%
Statutory EPS	76.1p	56.1p	+36%
DPS	53.8p	42.6p	+26%

[1] [illegible]

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.

DELIVERS FOR OUR STAKEHOLDERS

KEY ELEMENTS OF OUR LONG-TERM VALUE CREATION STORY

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

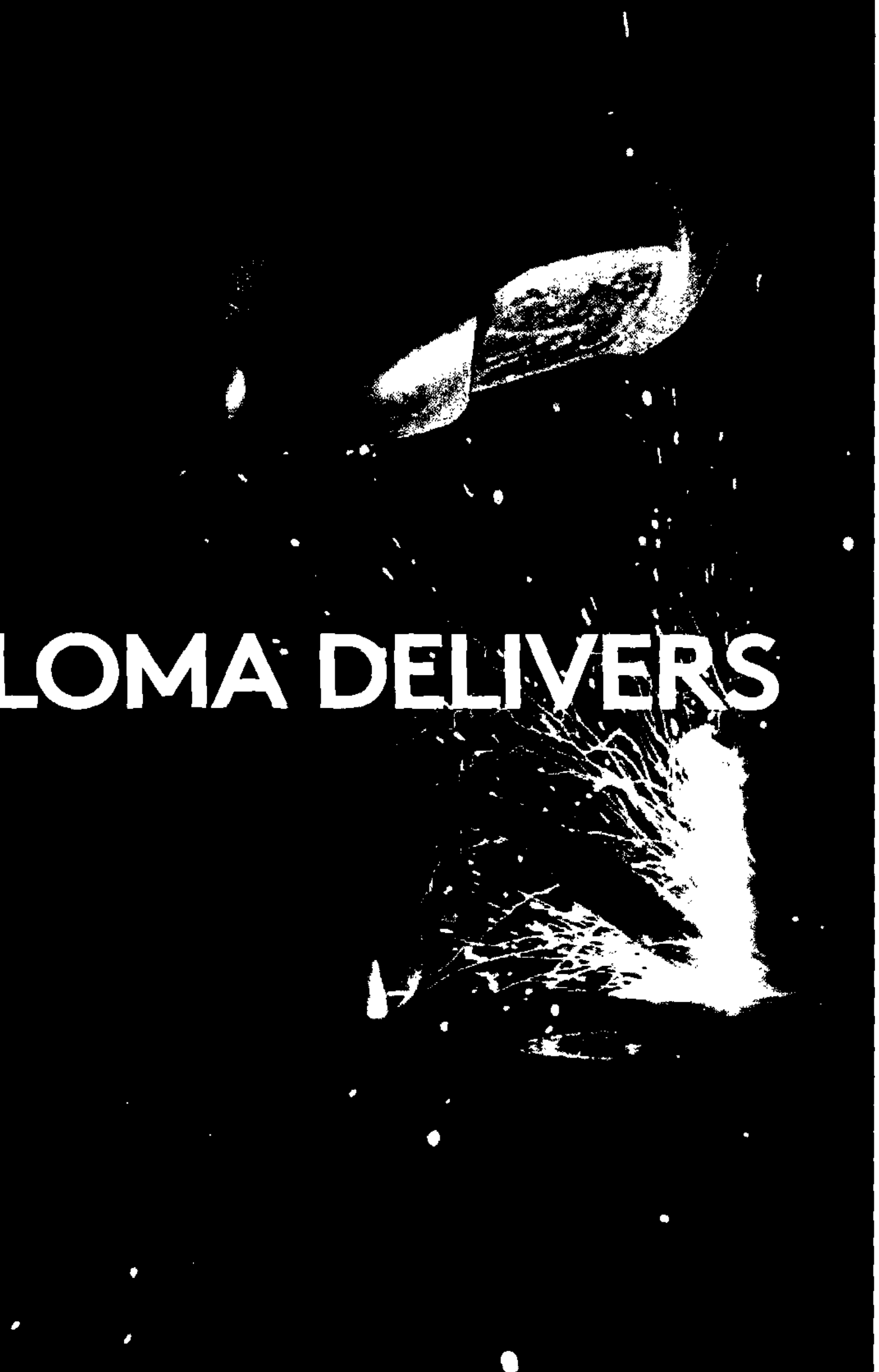
578

Key suppliers identified

75%

Increase in donations to charity

WHAT WE DO



DIPLOMA DELIVERS

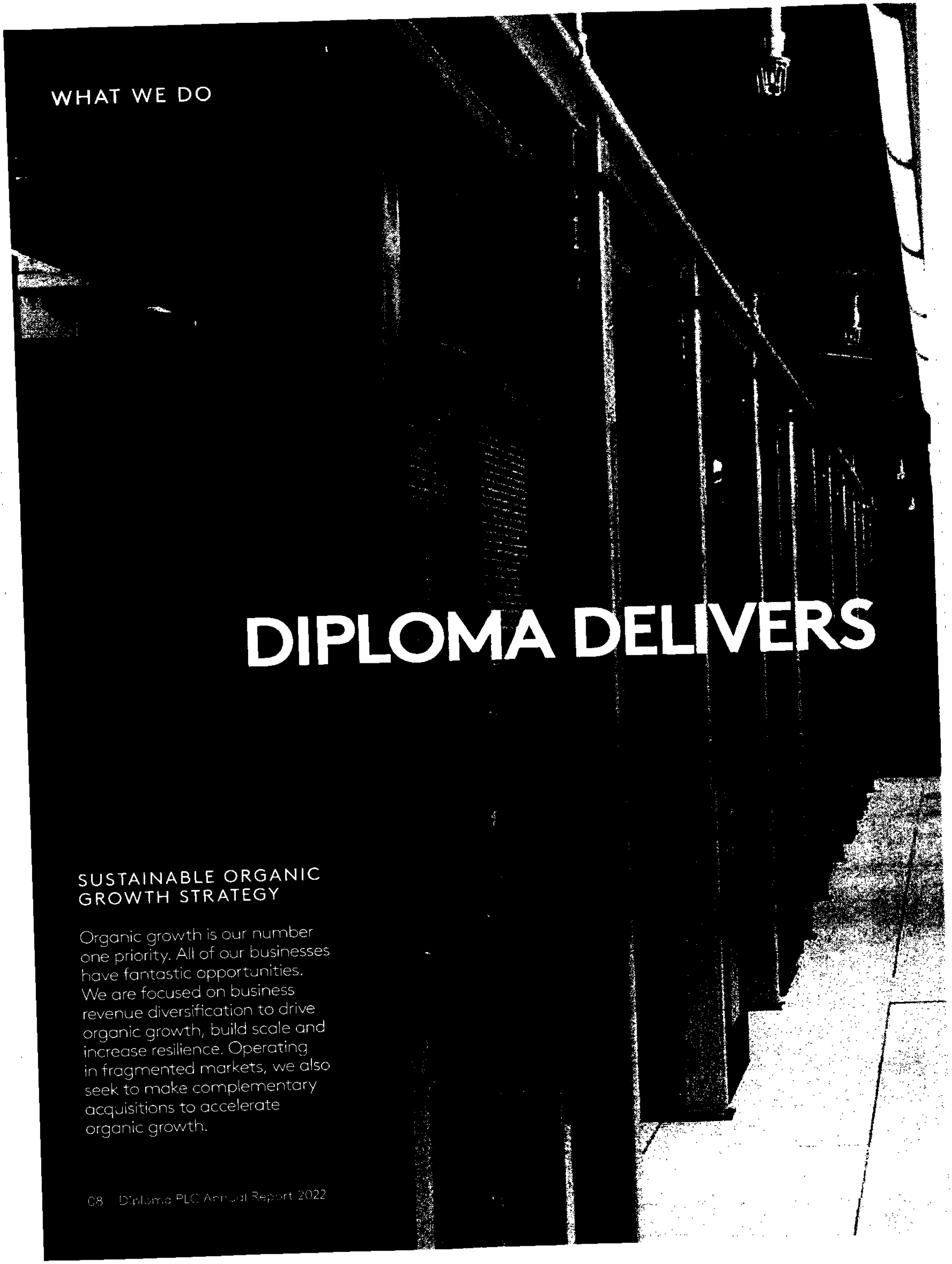
DIFFERENTIATED VALUE-ADDED SOLUTIONS

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



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.

CONSIS

GREAT SERVICE

TECHNICAL EXPERTI

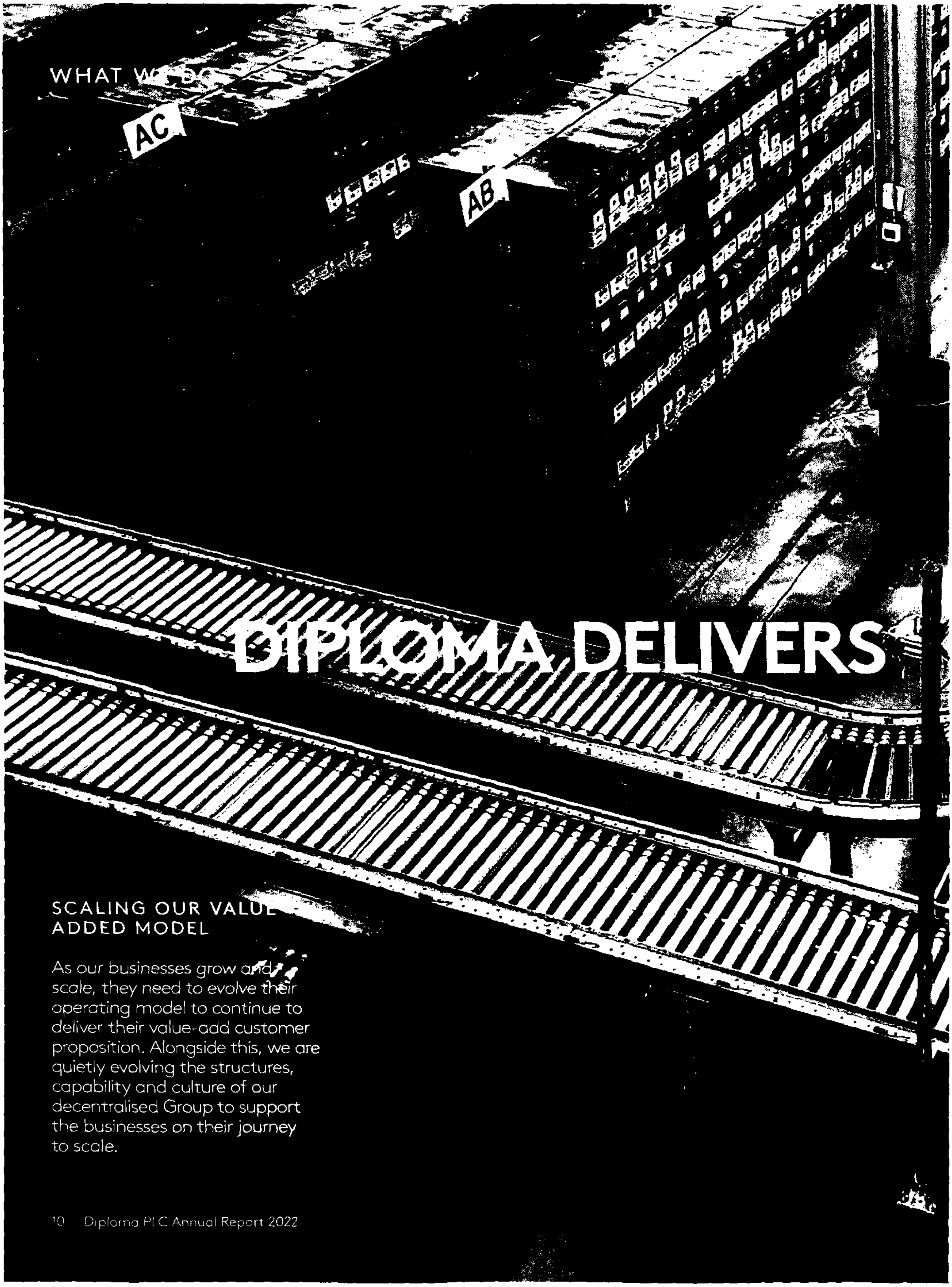
VALUE-ADD

ORGANIC GROWTH

SCALE

RESPONSIBLY

POSITIVE IMPACT



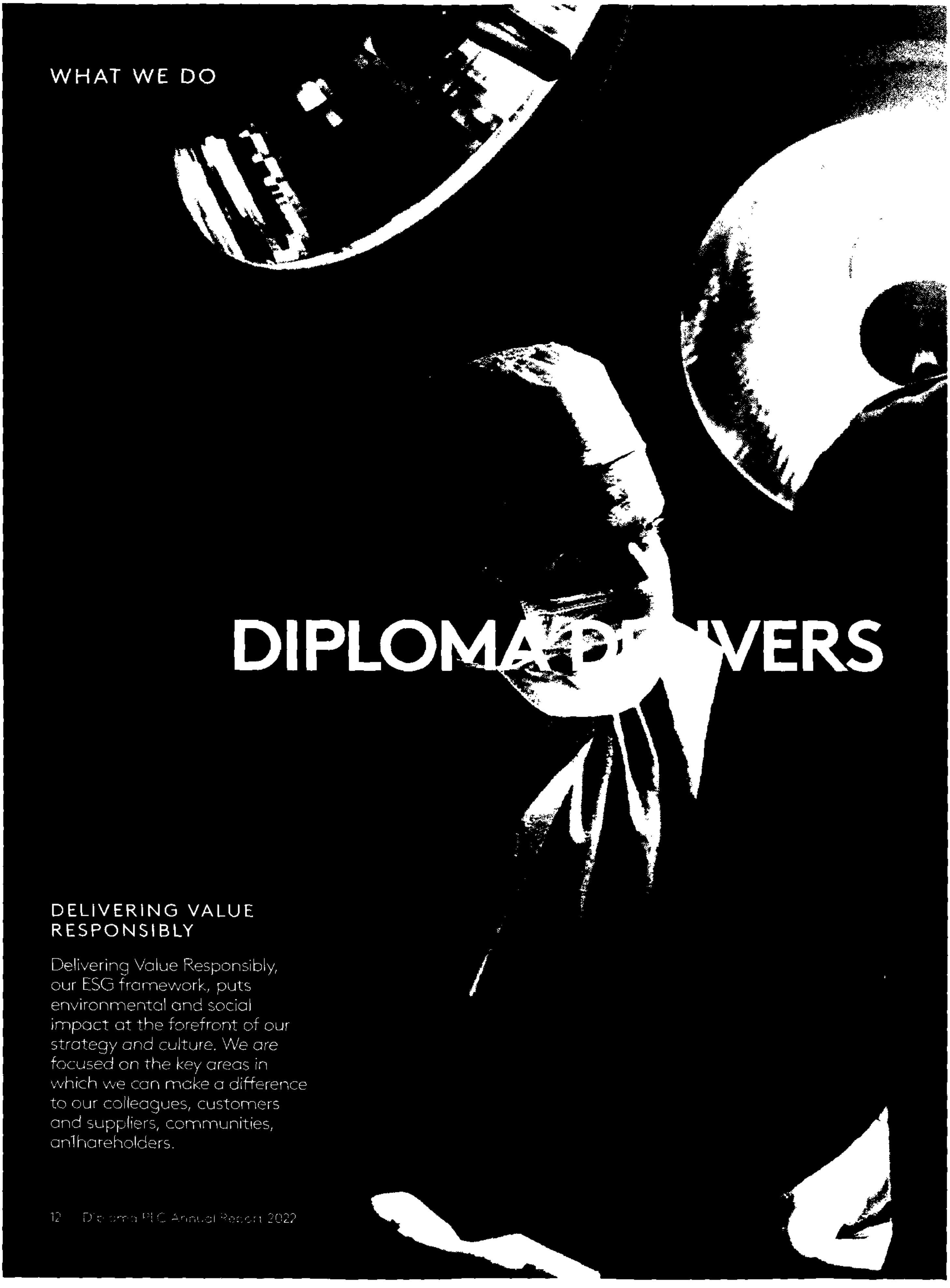
DIPLOMA DELIVERS

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



DIPLOMA DELIVERS

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.

VALUE-ADD
ORGANIC GROWTH
SCALE

RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD

VALUES

Overview Strategic Report Corporate Governance Financial Statements Other Information

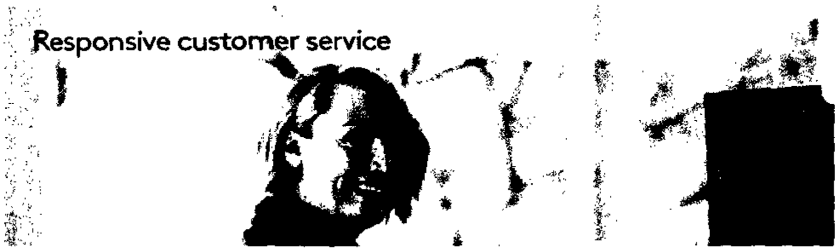
OUR BUSINESS MODEL

DRIVEN BY OUR PURPOSE

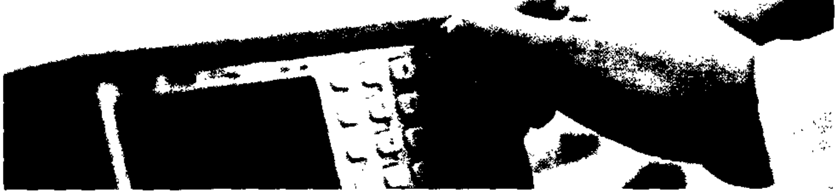
Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

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.

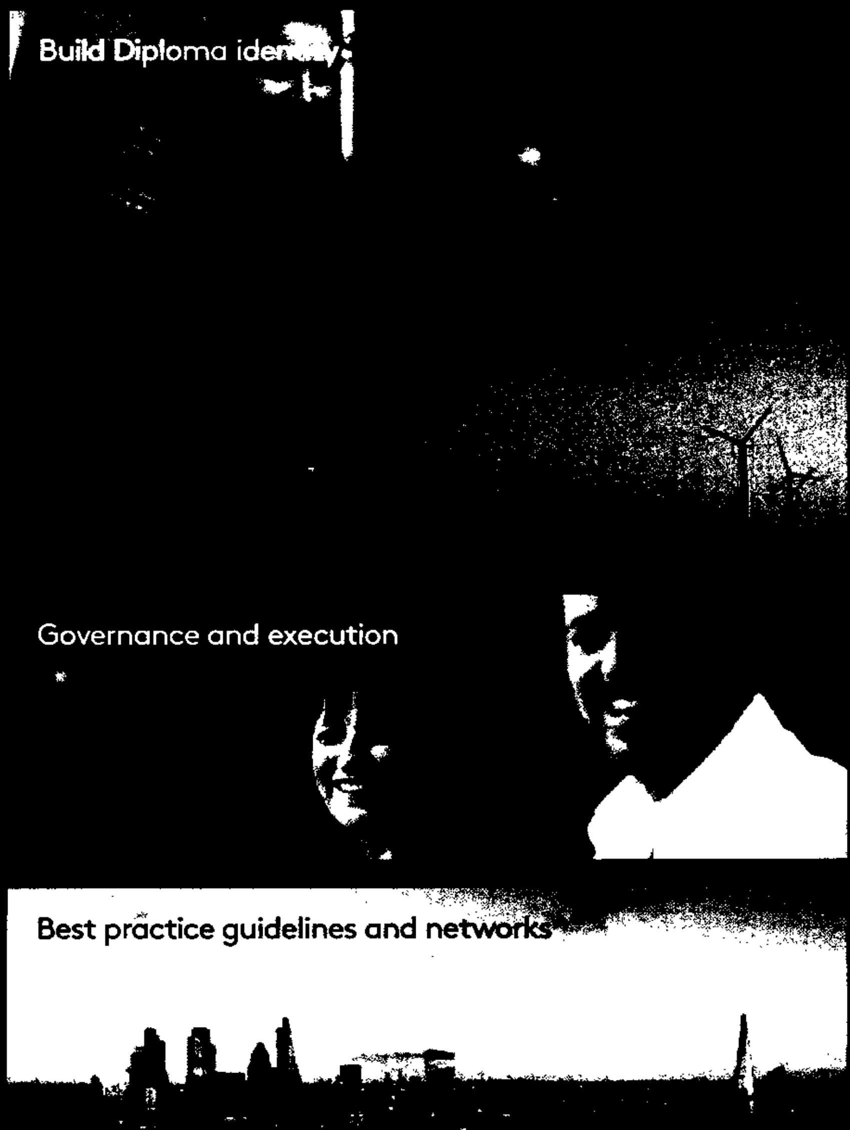


Innovative, value-added solutions



WE DELIVER FOR OUR STAKEHOLDERS

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.



We work closely with >10,000 suppliers to deliver value-added products and services to our customers.

Our colleagues are a priority. We work hard to invest in, engage and retain our talent across the Group.

79%

We work to support the local communities that our businesses work within, through responsible business governance, our DVR framework and Group fundmatching.

Strong performance that builds on our track record of consistent, compounding, long-term delivery.

CHAIR'S STATEMENT

Our businesses have strong cultures, but share the same inherent values – they are accountable, entrepreneurial and empowered to deliver for their customers.

[illegible]

Very strong financial performance, excellent strategic progress

[illegible]

[illegible]

Colleagues and culture

[illegible]

[illegible]

[illegible]

[illegible]

Board changes

[illegible]

[illegible]

[illegible]

Dividends

[illegible]

Outlook

[illegible]

[illegible]

David Lowden
Chair

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

A very strong financial performance

Controls +24%:

Seals +14%:

Life Sciences –4%:

Organic growth

+15%

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

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

1. Positioning behind high growth end segments:

- **Technology**
- **Renewable energy and infrastructure investment**
- **Accelerating diagnostics spending:**

2. Geographic penetration of core developed economies:

North American Aftermarket

- [illegible] **US and Europe at International Controls** [illegible]
  [illegible] **Australian Seals** [illegible]
- [illegible] **Europe in Life Sciences** [illegible]

3. Product range extension to expand addressable markets: [illegible]

- [illegible] **R&G Fluid Power Group (R&G) represents a step change for Seals** [illegible]
- [illegible] **exciting Adhesives business line in Controls:** [illegible]
- [illegible] **incremental product adjacency initiatives** [illegible]

Focused portfolio development

[illegible]

Acquisitions to accelerate organic growth

[illegible]

- **LJR Electronics (Controls):** [illegible] February for £[illegible] [illegible] to give [illegible] access to the [illegible] 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 [illegible] The business has added [illegible] the UK and broadened the Seals product [illegible] to expand addressable markets
- **Accuscience (Life Sciences):** [illegible]
- **ACT (Seals):** a specialist provider [illegible]
- **Silicone Solutions (Controls):** [illegible]
- **Two small bolt-ons at R&G (Seals):** [illegible]

[illegible]

Portfolio discipline

As part of a disciplined approach to portfolio management [illegible] November last year, we also disposed [illegible]

Scaling our value-added businesses and the Group

Scaling our value-added businesses

[illegible]

[illegible] **Core Competencies** [illegible]

Supply chain: [illegible]

Commercial discipline (or pricing): [illegible]

- **Operational excellence:** [illegible] use of automation. Through [illegible] best practice, we are [illegible] to standardise processes

We support the development of these Core Competencies through reinvesting [illegible] **Talent, Technology and Facility:**

Talent: [illegible]

[illegible] **Technology** [illegible]

[illegible] **Facility** [illegible]

We have maintained high-teens margins of

18.9%

Scaling the Group

Delivering Value Responsibly: embedding into our commercial strategy and culture

Excellent and consistent colleague engagement score

Increasing the diversity of our Senior Management Team (SMT)

Carbon emissions flat despite 15% organic revenue growth

Increasing resilience underpins our outlook

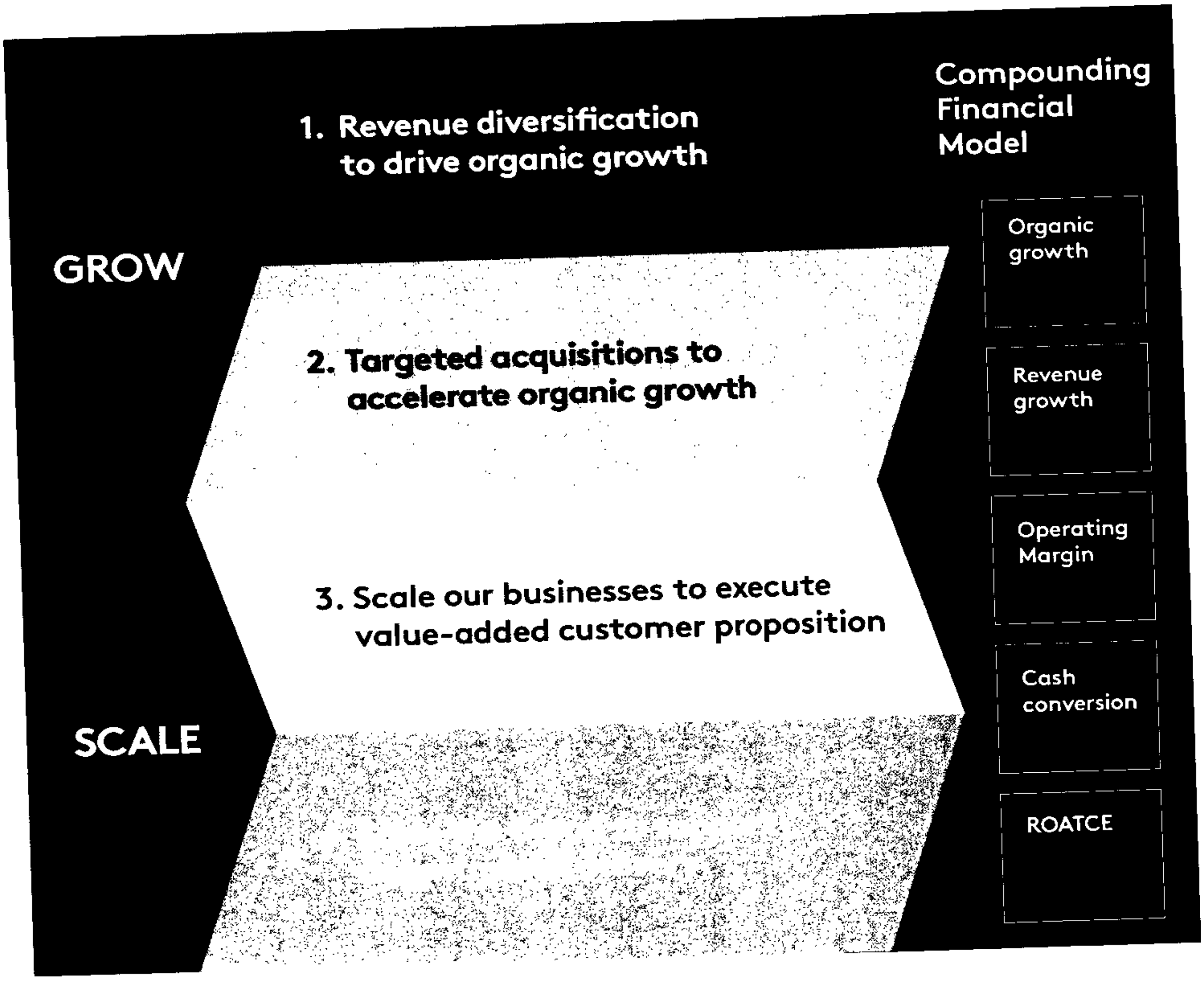
We have grown EPS by

26%

sustaining our impressive compounding track record

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

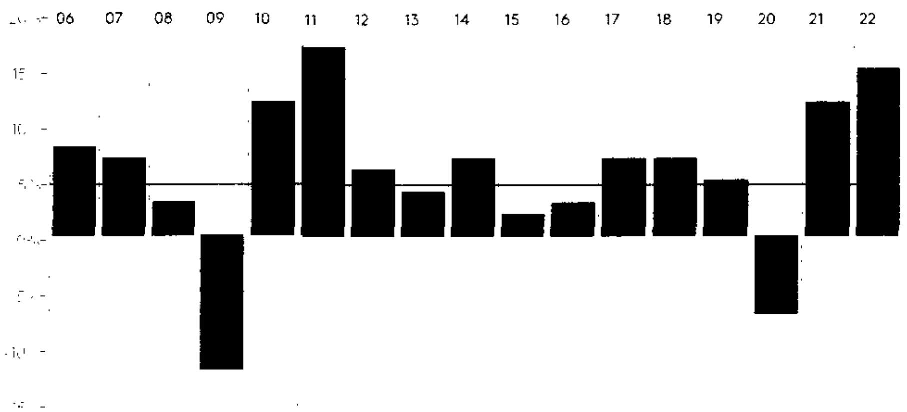
We are relatively underpenetrated in our core developed markets of North America, Europe and Australia where there is significant potential to increase market share.

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

[illegible]

[illegible]

"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

[illegible]

[illegible]

03

Success factors

Target attributes

[illegible]

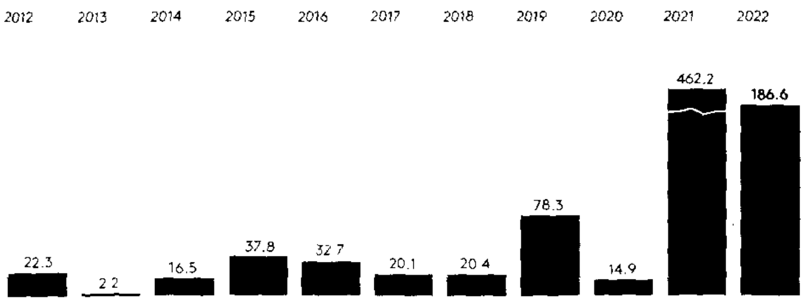
How we add value

[illegible]

Strategically & financially disciplined

[illegible]

Historic M&A spend (£m)



CASE STUDY

Windy City Wire: accelerating organic growth for the Group

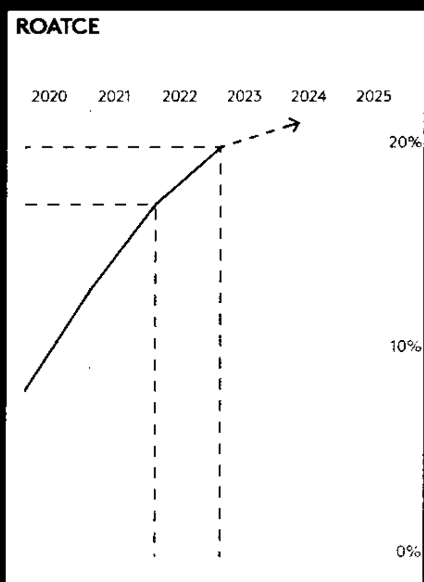
Windy City Wire is a leading value-added distributor of premium quality low voltage wire and cable.

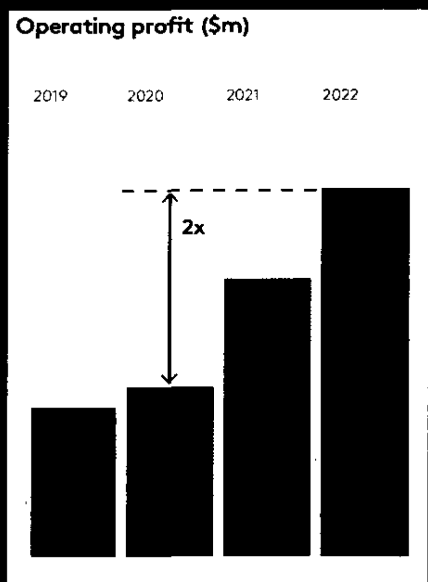
Acquired in October 2020 for £348m, the business represented a material strategic step forward, accelerating organic growth for the Group as a whole. Importantly, Windy City Wire diversified Controls into the large, attractive US industrials market and significantly increased the Group's exposure to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

Since joining the Group, Windy City Wire's operating profit has doubled and the business is significantly outperforming its acquisition case – 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.





STRATEGY IN ACTION:
ACQUISITIONS ACCELERATING ORGANIC GROWTH

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

ACCUSCIENCE

[illegible]

[illegible]

Characteristics:
- [illegible]

Value drivers:
- [illegible]

Portfolio fit:
- [illegible]

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

LJR

[illegible]

Characteristics:
- [illegible]

Value drivers:
- [illegible]

Portfolio fit:
- [illegible]

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

Value drivers:
- Excellent organic growth track record and significant potential through developing the aftermarket ecommerce 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

Portfolio fit:
- Scale in core UK market and scope to drive revenue synergies with the existing UK Seals businesses
- Expands addressable markets + product diversification for global Seals

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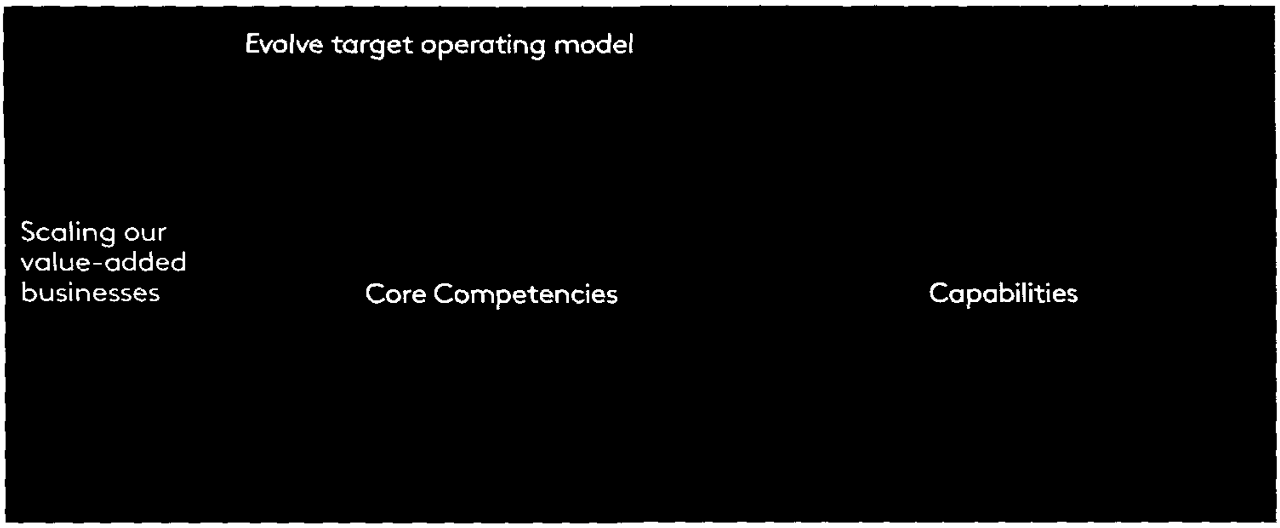
3. Scale our businesses to execute value-added customer proposition

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

Supply Chain Management

Operational Excellence

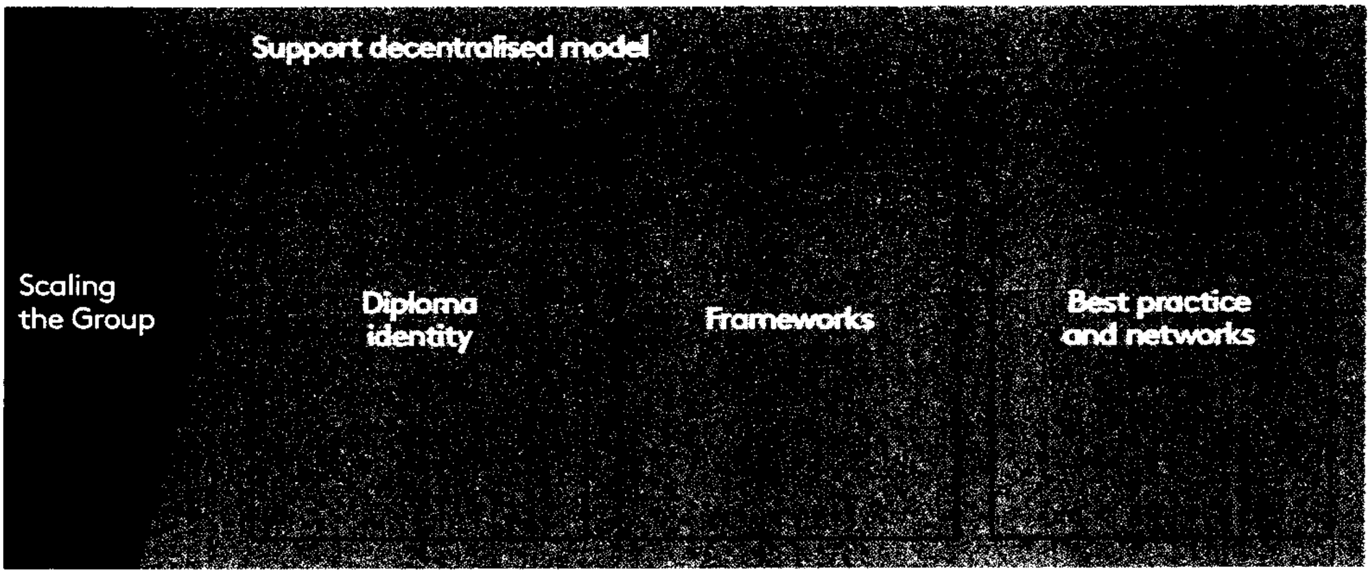
Value-Add

Commercial Discipline

Route to Market

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.



Key capabilities

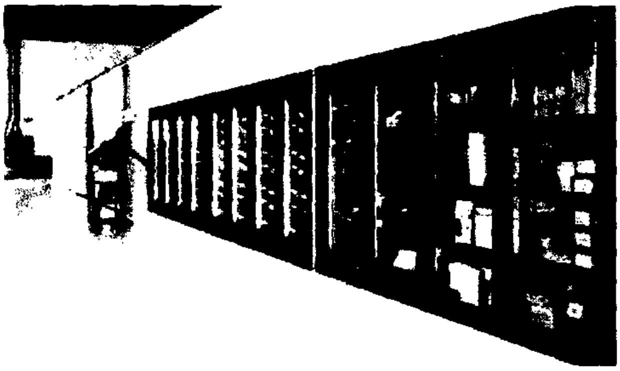
Talent

Technology

Facility

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

Australian Life Sciences: building a scalable platform for growth



[illegible]

[illegible]

[illegible]

Chicago June 2022: sharing best practice and building leadership networks

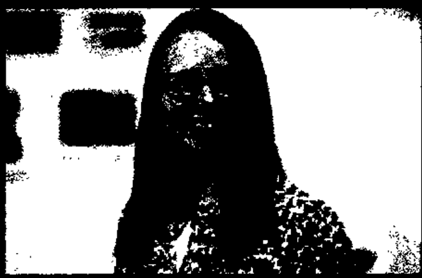
[illegible]

[illegible]

[illegible]

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 experiences 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.

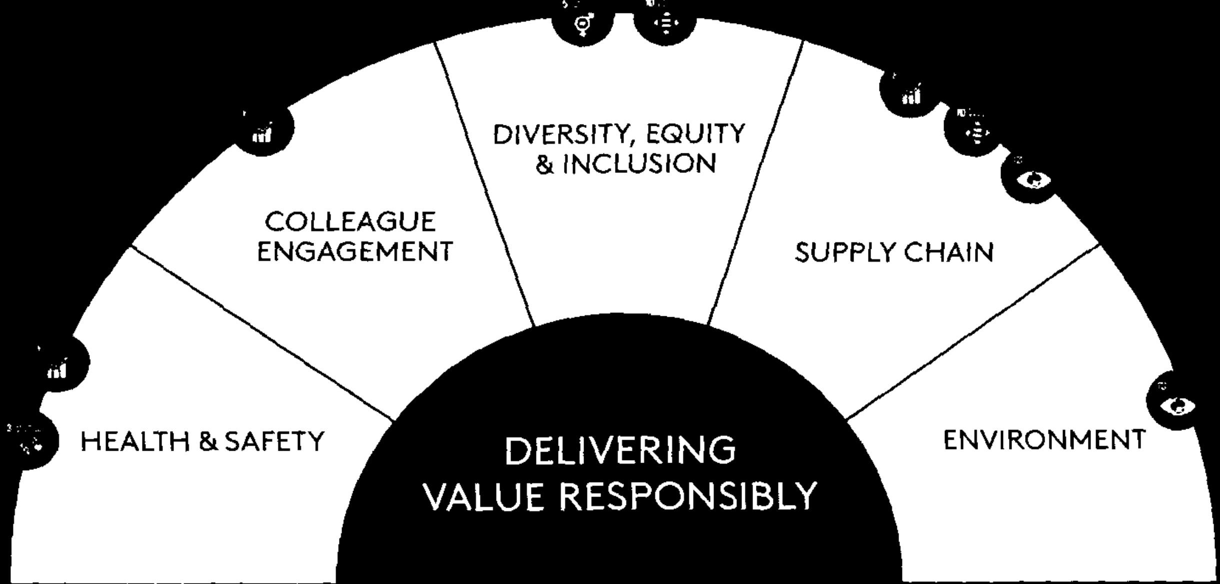
The majority of external recruitment has been focused on our businesses. Building scale means building capability. Smaller businesses are typically built around a small number of key individuals who often wear many hats. Incremental investment in functional expertise is critical to scaling. In 2022, 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.

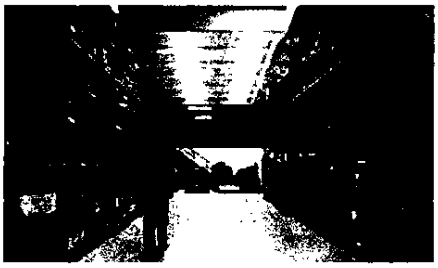
5. Delivering value responsibly

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.



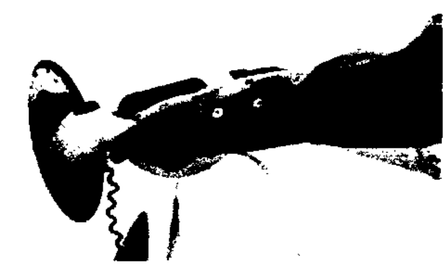
By aligning our businesses with our five focus areas and positioning ourselves for commercial growth with a positive impact on society and the environment, we can play a meaningful role in building a more sustainable world.

Delivering for our People



Delivering for the Environment

Delivering a Positive Impact



DVR PROGRESS DURING THE YEAR

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

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

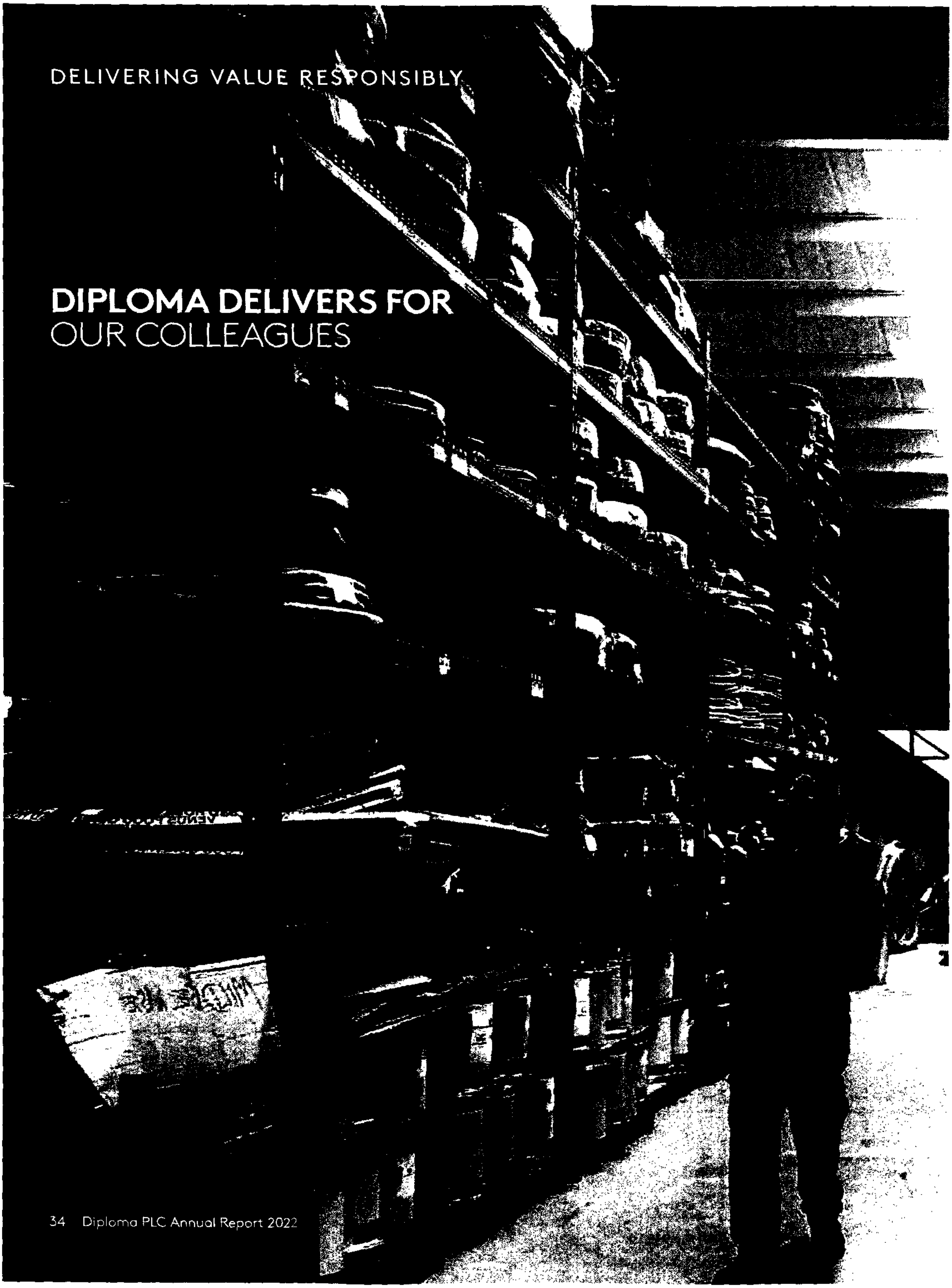
Our businesses have established DVR committees and appointed persons responsible for performance and progress against targets.

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

"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 DVR governance, responsible business practices, and policies and procedures on pages 50-57.

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: 22.6%), reflecting a restructure of Australian healthcare and International Dental, increased automation of our facilities, and a challenging talent market.

Our Colleague Engagement Survey allows us to understand how engaged our workforce is and helps us to identify themes and areas for improvement or focus. 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 businesses set up listening groups to focus on key themes from their survey and put engagement plans in place for the year ahead. These are supported by Group HR which assists the businesses in understanding and responding to their results and shares 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

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

Leadership style

75% +2%

2022	75
2021	73

Learning and development

70% +4%

2022	70
2021	66

Wellbeing

79% +1%

2022	79
2021	78

CASE STUDY

M Seals UK Employee Working Group

"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.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Action during 2022

[illegible]

[illegible]

[illegible]

86%

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

[illegible]

[illegible]

Group performance stats

LTI rate

Severity rate

Potential hazards

[illegible]

The primary cause of LTIs across the Group continues to be slips and trips. Our most severe injury was a sprained ankle which resulted in 24 days of lost time as the person could not perform the duties of their active warehouse role.

Potential hazard reporting increased across the Group to 572, for the year, with improved consistency of reporting across the businesses. We will continue to focus on ensuring that potential hazard reporting results in mitigating actions.

There were no fatalities during the year.

CASE STUDY

North American Seals

[illegible]

[illegible]

Strategic Report

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.

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)

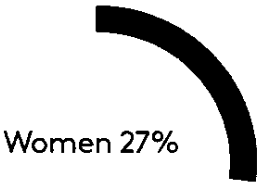
	Male	**Female**	Total
Board	[illegible]	**3**	[illegible]
[illegible]	[illegible]	**2**	[illegible]
[illegible]	[illegible]	**36**	[illegible]
[illegible]	[illegible]	**910**	[illegible]

Ethnic diversity (as at 30 September)

	Non-minority	**Ethnic minority**	Prefer not to say	Total
[illegible]	[illegible]	**0**	[illegible]	[illegible]
[illegible]	[illegible]	**13**	[illegible]	[illegible]

Diversity of our Senior Management Team

Gender diversity



Ethnic diversity

Gender diversity across the Group

Board

All employees

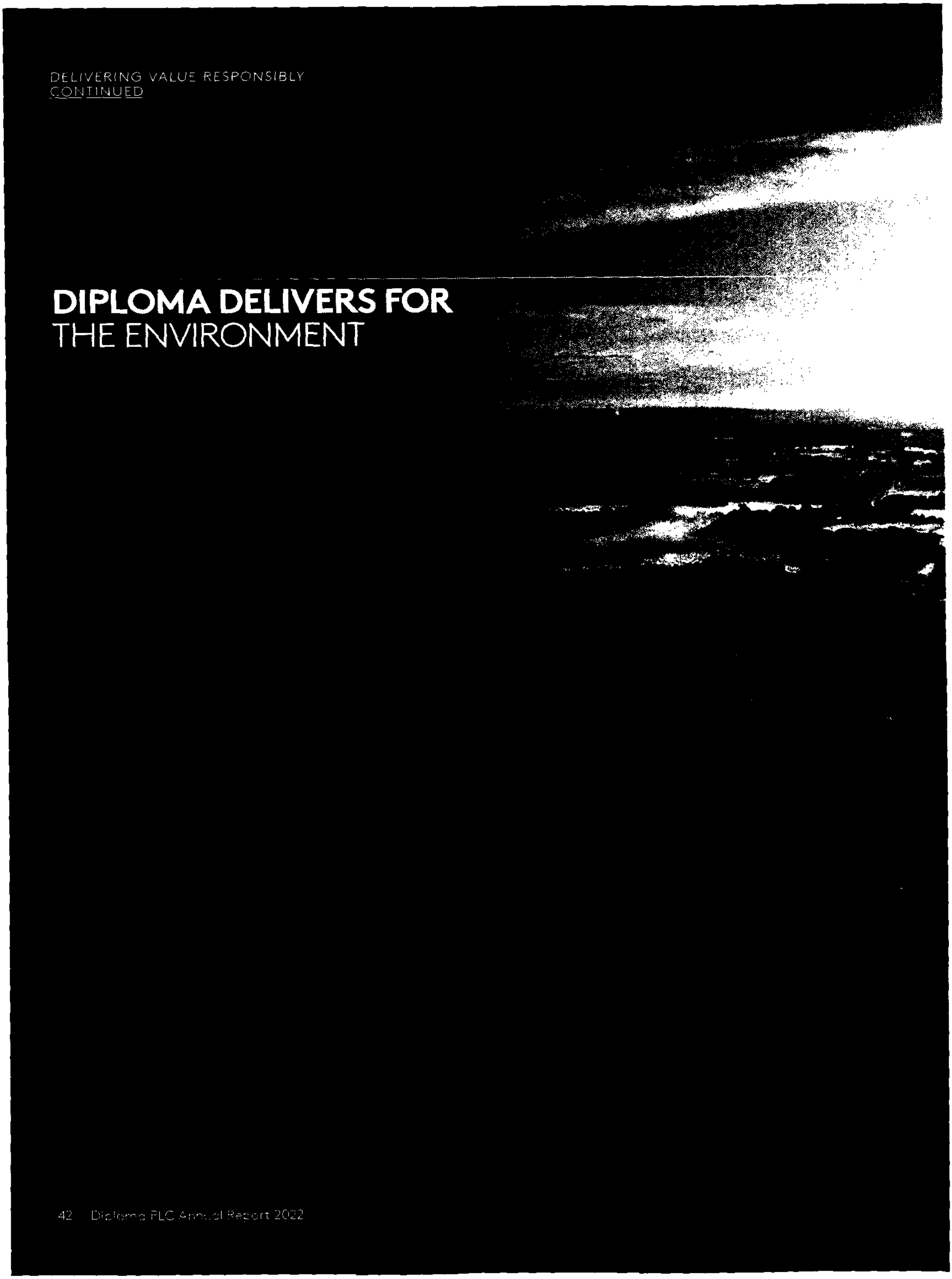
CASE STUDY

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.



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

[illegible] was the first full year of implementing our Supply Chain Policy and engaging our suppliers on our Supplier Code. [illegible]

During the year, our businesses have identified their key suppliers. These are [illegible] by the businesses that must [illegible] in aggregate for at least 50% [illegible] supplier [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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 CO_2e

Emissions KPI
% reduction of Scope 1 and 2 emissions (tonnes CO_2e) against FY22 baseline (10,615 tonnes CO_2e)

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.

[illegible]

		FY22	FY21	FY20
[illegible]	[illegible]	**3,256**	[illegible]	[illegible]
[illegible]	[illegible]	**7,359**	[illegible]	[illegible]
	[illegible]	**10,615**	[illegible]	[illegible]

Tonnes CO_2e 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

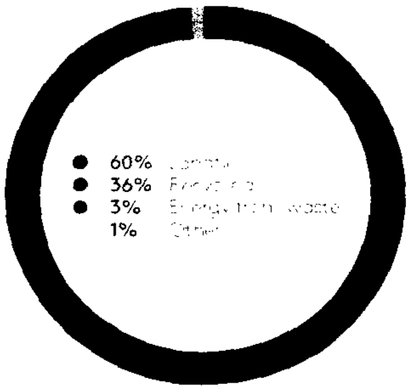
10,615

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

Strategic Report

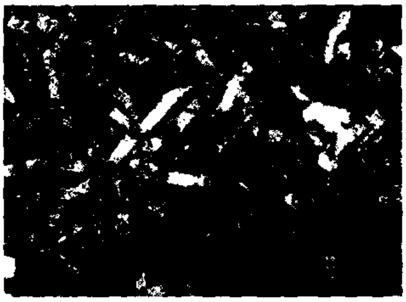
Waste

Waste by destination



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.

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 defibrilators and ECG electrodes.

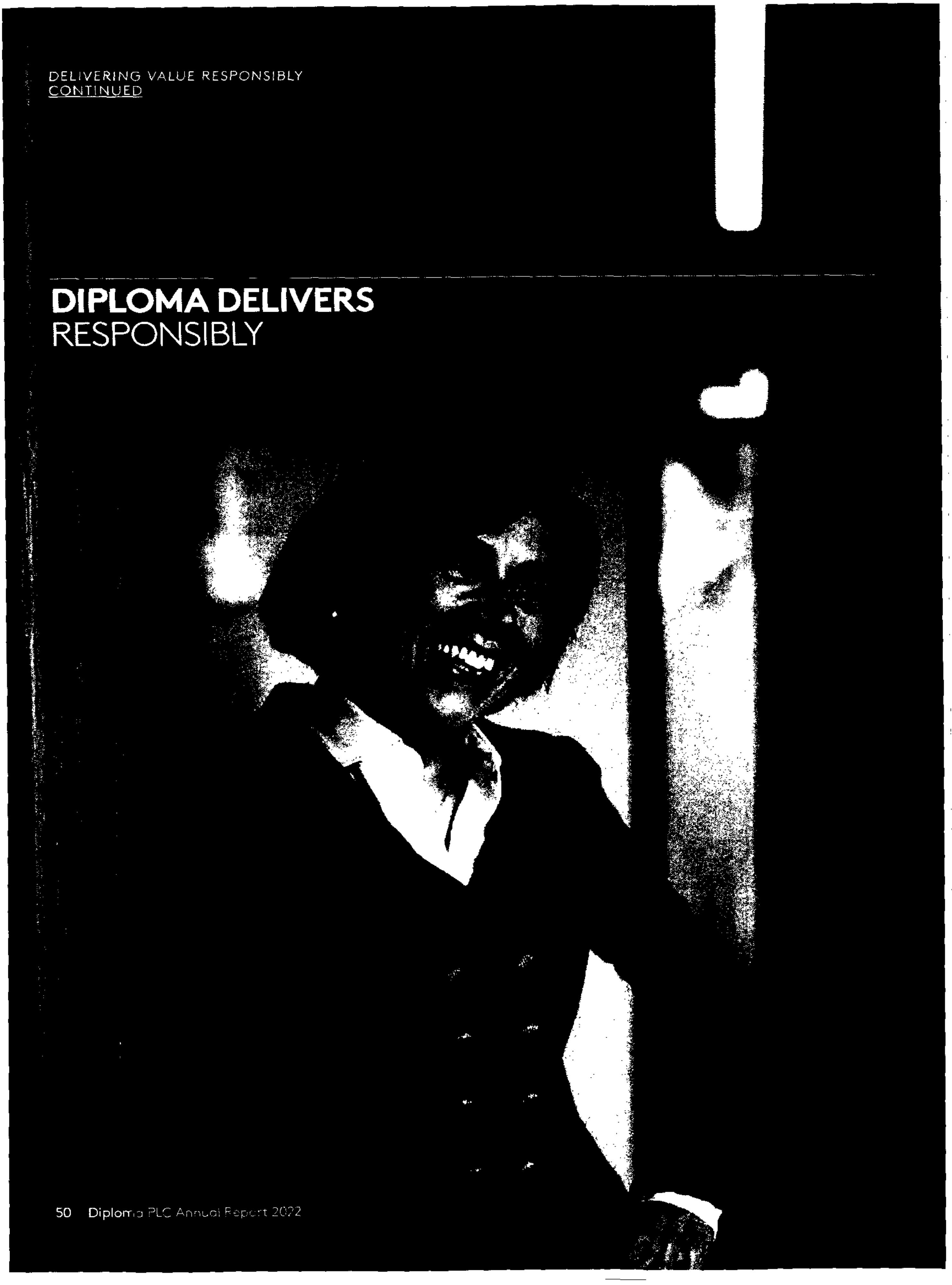
Our Life Sciences businesses offer diagnostic solutions that make it quicker and easier to identify life-threatening diseases, including cutting-edge technology that allows for early detection of diseases in newborns, and home testing kits for remote communities.

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.

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

DVR Strategy Committee

- DVR strategy & framework
- Group DVR governance
- Reporting & performance
- Sharing resources, tools, best practice & support
- Development of DVR networks

⇄ **Diploma PLC Board & Group CEO**

- Oversight of DVR strategy & performance
- Oversight of climate-related risks & opportunities

↓ ↑

- Sector & Group performance against targets

⇄ **Executive team**

- Sector & business governance and reporting
- Identification & management of Group & Sector climate-related risks

↓ ↑

- DVR performance and initiatives

⇄ **Business MDs & DVR Committees**

- Identification and management of climate-related risks

Our metrics and targets

[illegible]

Focus Area	KPI	Target	Target date	FY22	Our long-term vision
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible] Management Team	[illegible] Management Team	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	Baseline year [illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Responsible business

[illegible]

[illegible]

Charitable donations

[illegible]

Strategic Report

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

We recognise that climate change is an urgent and global crisis, and we are committed to building 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 dispersed businesses with lean management structures. Our approach to climate in our first reporting has focused initially on developing a sound understanding of our own emissions (Scope 1 and 2) in order to set credible and science-based 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 models. We have already engaged third party expertise, engaging EcoAct 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 (b)
- Strategy (a)
- Risk management (a) and (b)

[illegible] we are planning to undertake scenario analysis during FY23. [illegible] Scope 3 footprint and support us in submitting [illegible] net zero no later than 2050.

[illegible] FY23 Annual Report.

GOVERNANCE

[illegible]

Board Oversight

[illegible] during the year, including:

- [illegible]
- [illegible]
- Quarterly updates
- Training on TCFD reporting [illegible]
- Annual ESG updates

[illegible]

[illegible]

Management's role

[illegible]

[illegible]

STRATEGY

[illegible]

[illegible]

Internal control and risk management

pages 60–68

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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 material 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 [illegible] 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 appropriate systems of control are in place, as well as horizon scanning for emerging and potential risks. [illegible] outcomes of risk reviews [illegible] reviewing and approving [illegible]. The Audit Committee ensures the effectiveness of the internal control environment for the Group and that the Group's risk management, governance and internal control are operating effectively.

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities [illegible]

We recognise that the emissions produced as a result of our operations and value chain contribute to climate change and global warming. We also recognise the [illegible] climate change as well as our exposure to some transition risks [illegible].

Environmental metrics page 57

Governance pages [illegible]

Audit Committee Report [illegible]

We measure and manage our emissions [illegible] Scope 1 and 2 emissions [illegible] ratio for Scope 1 and 2. These are reported quarterly [illegible] and progress. These metrics and our performance against them can be found on pages [illegible].

During the year we have worked with [illegible] to review our Scope 1 and 2 [illegible] methodology and are currently working with them to [illegible] Scope 3 [illegible].

We have announced a 50% reduction target for Scopes 1 and 2 by 2030 against a FY22 baseline. This target aligns with the analysis of our value chain emissions and Scope 3 [illegible] 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 [illegible] climate [illegible] focus on improving the energy efficiency of our facilities. Alongside the calculation of our Scope 3 footprint [illegible] targets [illegible] reduce our exposure to some transition risks.

Our Scope 3 calculation will also help us to better understand the [illegible] our business as the latter [illegible] to both physical and transition climate-related risks.

Our policies and procedures

Anti-bribery & Corruption	The Group has a policy on anti-bribery and corruption that complies with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure [illegible] and effective compliance in our businesses around the world. We [illegible] our businesses through our Learning Management System [illegible] 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 our people, [illegible] media, and stakeholder engagement. Much of the Code of Conduct is underpinned by other Group policies, including Modern Slavery, Whistleblowing, Diversity, Equity and Inclusion and Health & Safety.
Diversity, Equity and Inclusion	Our Diversity, Equity and Inclusion (DE&I) [illegible] every aspect of how we work and we believe our businesses [illegible] inclusive, diverse and equitable workplace. We believe that an effective DE&I strategy [illegible] our business, contribute to employee wellbeing and satisfaction, and allow us to recruit and retain a wider pool of exceptional talent.
Equal Opportunity	We are an equal opportunities employer [illegible] due to ethnicity, background, religion, sexual orientation, gender identity [illegible] maternity, citizenship, nationality, marital status or any other protected characteristic. We comply with all applicable DE&I [illegible] and regulation [illegible] responsible standards where legislation [illegible]. We [illegible] to report discrimination or discriminatory behaviour [illegible] their line manager or through our whistleblowing hotline.
Environmental Policy	Our Environment Policy applies to all our businesses [illegible] the standards and requirements set out. These include [illegible] applicable environmental laws, understanding the risks and [illegible] the environment and climate change and how they might impact the [illegible] businesses are required to submit data on their emissions and waste.
Health & Safety Policy	Our objective is to ensure the Health & Safety of our [illegible] through a proactive culture, clear standards [illegible] of incidents. Group performance and protocols are reviewed regularly to ensure that suitable standards are maintained and the Board reviews Health & Safety [illegible] and performance annually. The Group CEO has ultimate responsibility for Health & Safety [illegible] the Group, including ensuring provision of a safe working environment. Operating businesses are responsible for developing procedures and frameworks [illegible]
Human Rights and Labour Conditions	The Group's activities are principally carried out in countries [illegible] human rights regulation, which the Group complies with in the countries in which it operates. Our businesses carry out due diligence on their supply chain and [illegible] suppliers are asked to comply with our Supplier Code, which has standards and requirements related to human rights and labour conditions. Our [illegible] colleagues are [illegible] and healthy environment in which to work and have access to employee assistance programmes.
Modern Slavery Statement	The Group has a zero-tolerance approach to slavery [illegible] human trafficking, forced labour and child labour. Each business undertakes an [illegible] assessment of modern slavery within the business and its [illegible] supply chain. Group businesses also monitor and carry out due diligence on suppliers. Based on these assessments and the initiatives implemented by the businesses [illegible] the Board has been assured that slavery is not taking place [illegible] Modern Slavery Statement is available on the Diploma PLC website.
Whistleblowing Policy	We have a Group-wide Whistleblowing Policy that [illegible] and is monitored by the Audit Committee. The Policy is [illegible] businesses. Employees are encouraged to raise concerns [illegible] hotline which is independently managed by an external [illegible] 24/7 [illegible] reports are reviewed by the Group [illegible] investigation with the support of internal and external [illegible]

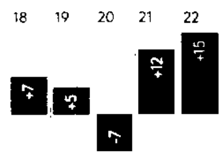
MEASURING OUR PROGRESS

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

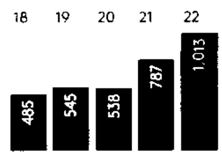
Organic revenue growth
Organic revenue growth is the Group's number one priority. We focus on products and solutions which are critical to customers' needs, giving resilience to revenues. We target mid single digit organic growth.

6%
Five-year average



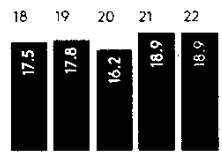
Reported revenue growth
We aim to deliver sustainable double-digit growth through a combination of organic growth and high-quality, value-enhancing acquisitions which accelerate our organic growth.

18%
Five-year compound



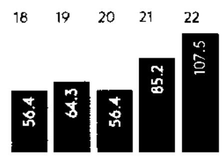
Adjusted operating margin
Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins. We target a margin of 17%+.

17.9%
Five-year average



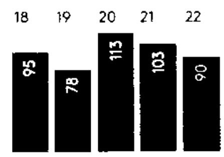
Adjusted EPS
EPS growth is a measure of how successful we have been in growing organically and through acquisition, including capital allocation and tax considerations. We target double digit EPS growth.

17%
Five-year compound



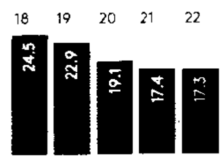
Free cash flow conversion
A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends. We target free cash flow conversion of 90%+.

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



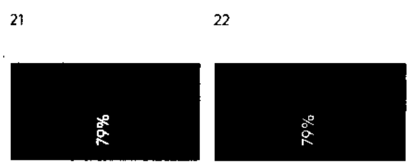
NON-FINANCIAL KPIs

OUR COLLEAGUES

Engagement index
An externally benchmarked score from our annual engagement survey

TARGET

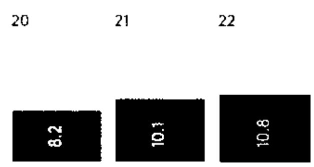
maintain 70%+



Lost time incident (LTI) rate
Number of LTIs per 1,000 employees

TARGET

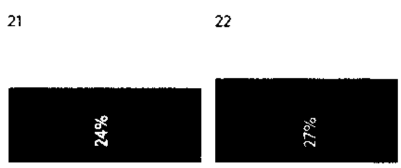
5% year-on-year reduction



% women on the Senior Management Team (SMT)

FY30 TARGET

40%+



OUR ENVIRONMENT

% key suppliers aligned with Supplier Code[1]

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 CO_2e

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. [illegible] standards of the Supplier Code.

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.

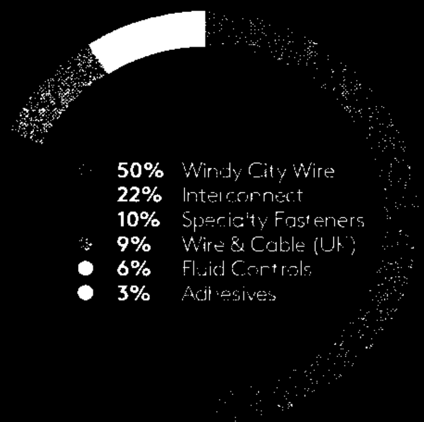
Interconnect: 22%
Harness components and specialist connectors used in technically demanding applications across multiple industries in Europe and the US. Our businesses supply a range of products and value-add services and products including protective sleeving, cut-to-length tubing, kitting, connector 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.

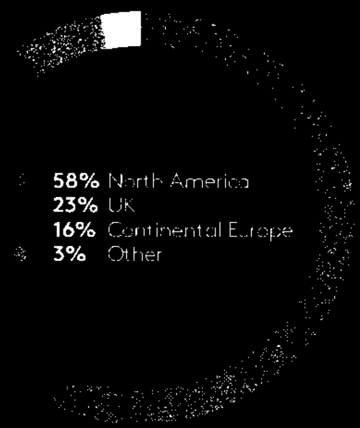
Fluid Controls: 6%
Fluid controllers, compressors, valves, temperature and pressure measurement devices, and specialised liquid dispensing components primarily for customers in the UK Food & Beverage sector.

Adhesives: 3%
Specialty silicones, adhesives and sealants together with technical support and other value-added services.

Revenue by segment[1]



Revenue by geography[1]



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

+30% p.a.

1. Pro forma revenue 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
[illegible]

[illegible]

International Controls [illegible]

[illegible] **Wire & Cable** [illegible]

[illegible]

Interconnect [illegible]

Specialty Fasteners [illegible]

last year, has now been integrated into our existing operation; the combined business is winning new contracts and capitalising on recovering aerospace demand. Geographic diversification has also been a theme in aerospace, with growth in Asia and an important contract win in France for a major seating manufacturer. Newer end markets such as space are growing rapidly, while growth in high performance road vehicles and Formula One rule changes have also contributed.

Fluid Controls had another good year, delivering strong double digit growth and capitalising on the recovering food and beverage market. [illegible]

Adhesives [illegible]

Windy City Wire [illegible]

[illegible]

[illegible]

Strategic progress

[illegible]

[illegible]

[illegible]

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

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.

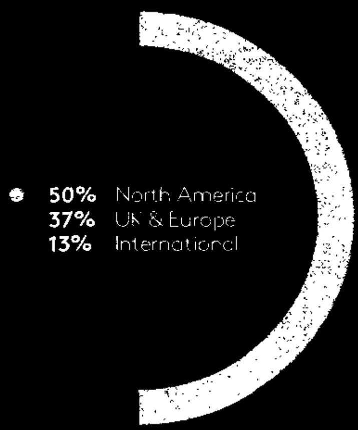
North American Aftermarket: 23%
Supplies a variety of seals, generally on a next-day basis, for a broad range of mobile machinery used in heavy Construction, Mining and Agriculture. Products are used in repair and maintenance after equipment has completed its initial warranty period or been sold on the 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 segment[1]

Revenue by geography[1]



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

+11% p.a.

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
[illegible]

[illegible]

North American Seals [illegible]

North American Aftermarket [illegible]

[illegible]

[illegible] **MRO** [illegible]

US Industrial OEM [illegible]

value-added services and improve supply [illegible] 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 [illegible], building on a track record of revenue and consistency that reflects the business's diverse profile.

In the US, **FPE** delivered double-digit organic growth [illegible] excellent service and better stock availability has enabled the business to capitalise on demand in construction and the refuelling [illegible] & [illegible] segment. The acquisition of **R&G** in April has been transformational and materially increased our scale in the UK. [illegible] R&G [illegible] performance has been strong. [illegible] product portfolio and expanding [illegible] opportunities [illegible] value from our M&A [illegible] M&A programme has continued [illegible] since April [illegible] two completing [illegible].

Elsewhere, **Kubo** had another solid year, with high single-digit organic growth against a strong [illegible]. Having successfully [illegible] in FY 2021, the business has [illegible] industrial [illegible] better product availability [illegible] double-digit growth in Australia [illegible] end markets [illegible] penetration [illegible] in Germany.

Similarly, high single-digit organic growth at **M Seals** reflected strength in Europe and the UK, [illegible] Chinese OEM and [illegible] in Sweden was driven by [illegible] activity [illegible]. The business is investing in organic growth [illegible] operations [illegible] the benefits [illegible] to drive growth. M Seals [illegible] to drive growth [illegible].

[illegible] **Australian Seals** [illegible] infrastructure [illegible].

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 Aftermarket with the team successfully converting the opportunity into accelerated share gains. The facility is also delivering clear quality and efficiency improvements; we plan to invest in expanding the autostore to increase capacity in the year ahead.
- M&A to accelerate organic growth:
  – Acquisition of R&G in April for £101m: a key milestone not just for the UK but the Seals Sector as a whole. A value-added aftermarket distributor, R&G has added scale in the UK and significantly broadened the Seals product portfolio, expanding addressable markets.
  – Bolt-on acquisition of ACT in July for £7m, a specialist provider of sustainable materials engineering and corrosion control solutions. It is highly complementary to our existing Australian Seals business with potential revenue and cost synergies.
- Building scale in our value-added businesses:
  – 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 Tato Seal and facility expansion in Australia. Over the last three years, we have transformed Australian Seals through acquisitions to add scale and structuring the business into two strong pillars in the East and West, creating a high-quality platform for growth.
  – Across the Sector, all businesses continue on their journey to scale with incremental investment in talent, automation solutions and capabilities, including new machining capability to support product innovation.
- We have made really good strategic progress in Seals in the year. The Sector is more resilient now than ever, supported by end segment exposures such as medical, food and beverage and renewable energy, as well as the impact of the greater infrastructure investment through the cycle in the US. We are optimistic 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
diplomaplc.com/about-us/our-sectors/seals/

LIFE SCIENCES
SECTOR

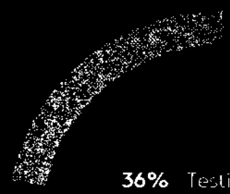
The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the Healthcare industry.

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 segment[1]



36% Testing & Diagnostics
24% Surgical
18% Gastrointestinal
22% Other healthcare

Revenue by geography[1]

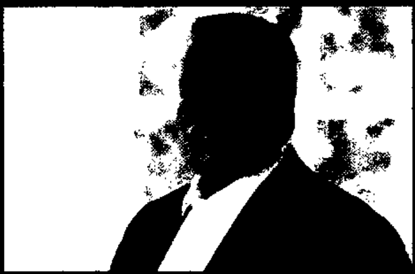
43% Canada
36% Europe
21% Australia

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

+8% p.a.

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

Overview Strategic Report Corporate Governance Financial Statements Other Information



"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 a1-envirosciences

Sector financial performance

[illegible]

[illegible]

[illegible]

[illegible] **testing and diagnostics** [illegible]

[illegible]

[illegible] **surgical** [illegible]

[illegible] **critical care** [illegible]

Strategic progress

[illegible]

[illegible]

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
diplomaplc.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 always believed that stakeholder engagement is critical to building a sustainable business.

In discharging their duties, each Director will seek to balance the interests, views and expectations of the various stakeholders, whilst recognising that not every matter will be equally relevant to each stakeholder, nor every decision necessarily result in a positive outcome for all [illegible] with The Diploma purpose and [illegible] promote the long-term success of the Group.

Stakeholder engagement

The Board is committed to effective engagement with all stakeholders and has established a culture that ensures this commitment [illegible] businesses. Directors consider the views and interests of a wide set of stakeholders and are conscious that expectations and [illegible] continuously evolving.

Stakeholder interactions take place at all levels of the Group and [illegible] strategy [illegible] recognise the value of [illegible] and ensure that decisions are made at the appropriate level. The Board will sometimes engage directly with stakeholders [illegible] the [illegible] nature of our Group and [illegible] that some stakeholder engagement [illegible] level. Our governance framework [illegible] appropriate level [illegible] businesses [illegible] teams [illegible] and to 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. It also reviews strategy, financial and operational performance, as well as information covering areas such as [illegible] legal and regulatory compliance. At Group and subsidiary Board [illegible] must demonstrate 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 enables the Directors to comply with their legal duties under s172 of the Companies Act 2006 and therefore improve decision-making. Please see pages 95 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 consider the interests of our key stakeholders and the impacts of these decisions on the need to foster the Company's business relationships with customers, suppliers and other stakeholders. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By considering the Group's purpose and values together with its strategic priorities and having a process in place for decision-making, Directors aim to balance those different perspectives.

Throughout this Strategic Report the Board has sought to demonstrate how the views of our stakeholders are embedded in how we do business, guided by our clear purpose. 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, local regulatory or community 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

[illegible]

How we engage

[illegible]

How the Board engages

[illegible]

Outcomes/action taken

[illegible]

[illegible]

OUR BUSINESSES

Why we engage

[illegible]

How we engage

[illegible]

How the Board engages

[illegible]

OUR CUSTOMERS

Why we engage

[illegible]

How we engage

[illegible]

How the Board engages

[illegible]

OUR SUPPLY CHAIN

Why we engage

Our supply chain is fundamental to Diploma'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 realise innovation
- Regular engagement including audits as appropriate
- Group Supplier Code and [illegible] Policy
- Clear payment practices

How the Board engages

As part of the role of the Board, [illegible] the needs of our supply chain. They remain well informed on key matters through:

- Updates from Group CEO and Section CEOs
- 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

- Results presentations by CEO and CFO
- One-on-one meetings [illegible] CFO, CEO and Head of [illegible] throughout the year [illegible]
- Annual General Meeting
- Trading updates [illegible]
- [illegible]
- [illegible]

How the Board engages

[illegible]

- [illegible] Annual General Meeting
- CEO and CFO [illegible]
- Engagement with the [illegible] Committee Chair [illegible]
- [illegible] Relations
- [illegible]
- Reviews of [illegible]

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 [illegible]. 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 [illegible]
- [illegible] Policy
- Monitoring greenhouse gas emissions reporting
- [illegible] waste recycling
- [illegible]
- Training [illegible] net zero [illegible]

How the Board engages

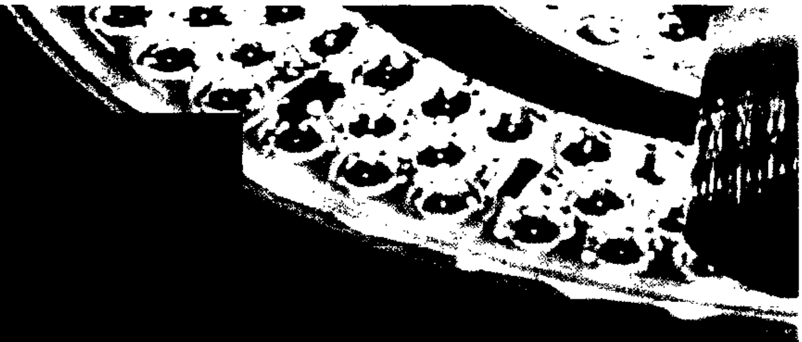
As part of its role, the Board remains informed [illegible] environment [illegible] through CEO reports
- Updates from the Group ESG Committee [illegible]

Outcomes/action taken

As a result of the aforementioned engagement [illegible]:

- Adopting [illegible] metrics [illegible]
- Businesses adopting [illegible] energy efficient [illegible]
- [illegible] transition to renewable energy [illegible]

For more information on how we engage [illegible] please see pages 54 to 57



CASE STUDY

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

Silver EcoVadis award at VSP Technologies

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

A1 award

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

96%

customer satisfaction at M Seals

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.

[illegible]

Q
What do you bring to the role?

A
[illegible]

[illegible]

[illegible]

Q
What are your priorities for the year ahead?

A
[illegible]

[illegible]

[illegible]

[illegible]

FINANCIAL REVIEW

[illegible]

Financial highlights (See table 1)

[illegible]

Double-digit organic growth

[illegible]

Attractive, high teens margins

(See table 2)

[illegible]

Higher financing costs

[illegible]

Profit before tax

[illegible]

Effective tax rate broadly unchanged

[illegible]

26% growth in adjusted EPS and total dividend

[illegible]

Table 1: Financial highlights

		Reported results			Adjusted results		
		FY 2022	FY 2021	% change	**FY 2022**	FY 2021	% change
Revenue	[illegible]	**1,012.8**	[illegible]	[illegible]			
Operating profit	[illegible]	**144.3**	[illegible]	[illegible]	**191.2**	[illegible]	[illegible]
Free cash flow conversion	[illegible]				**90**	[illegible]	
Earnings per share	[illegible]	**76.1**	[illegible]	[illegible]	**107.5**	65.2	+26%
Total dividend per share	[illegible]	**53.8**	[illegible]	[illegible]			

Table 2: Adjusted operating profit

	Adjusted operating profit			Adjusted operating margin		
	2022 £m	2021 £m	% change	**2022 %**	2021 %	bps change
Controls	**105.8**	[illegible]	[illegible]	**21.5**	[illegible]	[illegible]
Seals	**62.6**	[illegible]	[illegible]	**18.9**	[illegible]	[illegible]
Life Sciences	**41.0**	[illegible]	[illegible]	**21.7**	[illegible]	[illegible]
Central costs	**(18.2)**	[illegible]	[illegible]			
Group	**191.2**	[illegible]		**18.9**	[illegible]	[illegible]

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 [illegible] in the year to £120.4m (2021: £108.8m). Free cash flow conversion for the year was 90% (2021: 103%), in-line with our targeted 90%+ demonstrating the highly 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 £9.9m (2021: £4.8m).

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 service in the year. We are focused on ensuring optimal levels of inventory, taking into account working capital management and customer service. The Group's working capital to revenue at 30 September 2022 improved to 15.6% (2021: 15.8%).

Group tax payments increased [illegible] to £40.6m (2021: £24.0m). On an underlying basis, [illegible] tax payments [illegible] 21% (2021: 17%) of adjusted profit before tax. Our effective cash tax rate is lower than our Group effective tax rate, mainly due to acquisition goodwill which is deductible for US tax purposes. Our cash tax rate is higher than [illegible] due to capital gains 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 [illegible] equipment in the Healthcare businesses of £6.8m (2021: £2.0m) which directly supports revenue growth. Excluding this, capital expenditure increased £4.4m to £8.6m, consisting of infrastructure and equipment to enable us to efficiently [illegible] growth ([illegible]) and improvements [illegible] efficiency [illegible]. IT systems [illegible] investments into newly acquired businesses ([illegible]).

The Group spent £[illegible] (2021: £[illegible]) on acquisitions and £56.4m (2021: £[illegible]) on dividends to both Diploma and minority shareholders.

Acquisitions to accelerate our growth

Acquisition spend of £[illegible] which includes fees, mainly comprises the initial spend for R&G (£[illegible]) and Abbeychance (£49.9m) as well as an additional £[illegible] principally relating to five smaller businesses. The total spend also includes £6.5m of acquisition fees and deferred consideration of £[illegible]. We remain mainly [illegible] our approach with [illegible] these high quality value-add [illegible] the [illegible] opportunities to accelerate [illegible] growth and create value.

[illegible]

Disciplined portfolio management

[illegible]

Liabilities to shareholders of acquired businesses

[illegible]

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 acquired 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 17.3% (2021: 17.4%), in line with our mid-teens target. The full year outcome reflects a number of moving parts with the [illegible] from recent acquisitions and targeted inventory investment partially offset by WCA continuing to outperform its acquisition case. [illegible] future acquisition activity, we expect ROATCE to [illegible] in FY 2023.

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

Strong balance sheet

[illegible] At 30 September 2022, the Group's Net Debt (excluding IFRS 16 lease liabilities) stood at £216.9m. The Group continues to maintain a robust balance sheet with net bank debt [illegible] of [illegible] £[illegible].

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 £[illegible] (£[illegible]) and a committed multi-currency revolving facility for an aggregate principal amount of £[illegible], which was increased to £[illegible] during the previous financial year.

During the year the Group [illegible] the SFA to increase the facility [illegible]. As at 30 September 2022 the SFA comprised a [illegible]

[illegible]

[illegible] (See table 3)

Employee pension obligations

[illegible]

[illegible]

[illegible]

FX tailwind and interest headwind largely offsetting

[illegible]

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
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	GBP		[illegible]	Floating
[illegible]	[illegible]	[illegible]	[illegible]	Floating
[illegible]			[illegible]	

Gross debt drawn at year end	**£370.6m**
[illegible]	[illegible]
Net debt at year end	**£328.9m**

[illegible]

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, together with the processes 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 the path to delivering for their customers and ensures 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 but adaptable approach to the management of risk is fundamental to the continued success of the Group. By improving our understanding and management of risk, 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 of our businesses is accountable for managing risks effectively to take advantage of opportunities. This is done while ensuring necessary mitigations and controls are incorporated with appropriate guidance, review and challenge from the Group. This is an integral part of our decentralised business model which encourages local accountability. 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 strengthen our risk management and governance in 2022 by developing our 'top down' approach, horizon scanning for emerging and potential risks and enhancing efficiency of management and governance procedures. We have undertaken initiatives to develop risk reporting, training and culture and embedding the necessary capabilities to assess, monitor and mitigate risk as appropriate.

The Audit Committee is responsible for overseeing the effectiveness of the internal control environment in the Group. An internal audit function has been in place for many years to provide independent assurance of the Group's risk management, governance and internal control processes operating effectively.

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

[illegible]

Identifying and monitoring material risks

[illegible]

[illegible]

[illegible]

[illegible]

Emerging risk

[illegible]

[illegible]

[illegible]

Emerging risk	Description
Technology evolution	[illegible]
Climate change	[illegible]
Digitalisation	[illegible]

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 in the previous page, to have the greatest potential impact on the Group's future viability.

[illegible]

[illegible]

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 recategorised 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 concentration. [illegible]
- Tax Compliance [illegible] Non-compliance with Laws and Regulations [illegible]

Principal risk	Risk description and assessment	Mitigation
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.	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.	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.

No change

New risk

Principal risk	Risk description and assessment	Mitigation
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.	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.	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.

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	Risk description and assessment	Mitigation
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.	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.	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	Risk description and assessment	Mitigation
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.	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.	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.

Increase
No change
Decrease
New risk

Principal risk	Risk description and assessment	Mitigation
Foreign currency **Risk category** Financial risk **Board risk appetite** Cautious **Change in risk** This risk has remained at a similar level to last year.	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.	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.

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.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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 138.

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

100% Non-ethnic minority

Gender diversity

57% Male
43% Female

Length of tenure

57% 0–3 years
14% 3–6 years
29% 6–9 years

Skills and experience	
B2B, Industrial & Distribution Sectors	●●●●●●
Retail and FMCG Sectors	●●●●
Financial and Risk Management	●●●●●
Operations	●●●●●
Customer Service	●●●●●
Health & Safety	●●●
Strategy	●●●●●●
M&A/Financing	●●●●●●
International Business	●●●●●●●

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 Board and [illegible] meeting to approve 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

00 25 50 75 100

- Strategy and strategic execution
- Colleagues and Culture
- Finance
- Risk
- Operations
- Governance

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.

David Lowden
Chair

Leads the Board and ensures its overall effectiveness in discharging its duties.

Anne Thorburn
Senior Independent Director

The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for other Directors and shareholders.

Independent Non-Executive Directors

Independent Non-Executive Directors ensure that no individual or small group of individuals can dominate the Board's decision making.

Group Company Secretary

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

Board Committees

Audit Committee
Chair: Anne Thorburn

Oversees and monitors the Company's financial statements, accounting processes, audit (internal and external), internal controls systems and financial risk management procedures. Also monitors the effectiveness of the internal audit function and reviews the external auditor independence and performance.
See more on pages 102 to 107.

Nomination Committee
Chair: David Lowden

Regularly reviews structure, size and composition of the Board and its Committees. Identifies and nominates suitable candidates to be appointed to the Board. Leads the Board's succession planning and keeps the senior leadership needs of the Group under review. Oversees the development of a diverse succession pipeline.
See more on pages 108 to 113.

Remuneration Committee
Chair: Andy Smith

Reviews and recommends the framework and policy on Executive Director and senior management remuneration. Reviews workforce remuneration policies and alignment with culture.
See more on pages 114 to 138.

Treasury Committee

Provides oversight of treasury activities in implementing the treasury policies approved by the Board.

Administration Committee

Conducts general business administration on behalf of the Company within clearly defined limits delegated by the Board and subject to the matters reserved to the Board.

Disclosure Committee

Oversees the disclosure of market sensitive information.

Executive Directors
Chief Executive Officer and Chief Financial Officer

The Group CEO and CFO lead the implementation of the Group's strategy set by the Board.

Executive team

The Executive team provide strategic and operational leadership to the Group [illegible] strategies are executed effectively. The team comprises the direct reports of the Group CEO.

Senior Leadership Team

The Senior Leadership Team oversees essential day-to-day business [illegible] Managing Directors of the businesses [illegible]

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, Taylor 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 & Risk 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

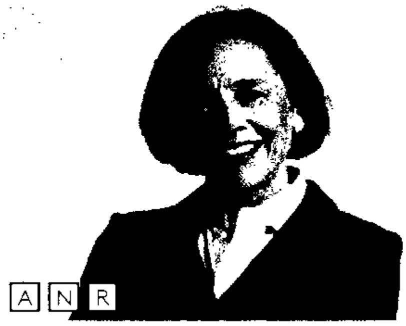
Andy Smith
Independent Non-Executive Director
& Remuneration Chair

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



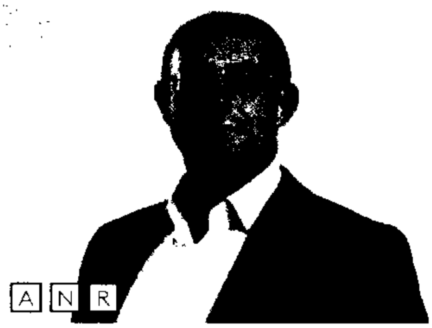
Geraldine Huse
Independent Non-Executive Director

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.

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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 [illegible]; sets the agenda for Board meetings [illegible] strategy, performance, value creation, risk management, culture, stakeholders and accountability
- chairs meetings ensuring there is timely information before meetings and adequate time for discussion and debate
- fosters relationships based on trust [illegible] and outside the boardroom
- leads relations with major shareholders [illegible] governance and performance [illegible]

Independent Non-Executive Directors

- [illegible] Board decision-making
- [illegible]

[illegible]

Senior Independent Non-Executive Director

- [illegible]
- [illegible]

Group CEO & Group CFO

- [illegible]
- [illegible] of the Group
- [illegible]
- [illegible]

[illegible]

Group Company Secretary

- [illegible]
- [illegible]
- [illegible]

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 Aftermarket 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 [illegible] governance and regulatory updates from the Group Company Secretary.
- Continued externally facilitated Board effectiveness review.
- Agreed [illegible] actions from the 2021 [illegible] evaluation of the Board's performance.
- Approved the appointment of a new Executive Director.
- Reviewed [illegible] matters reserved for the Board and Terms of Reference of its Committees.
- [illegible] approved the Company's [illegible]

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AUDIT COMMITTEE REPORT

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

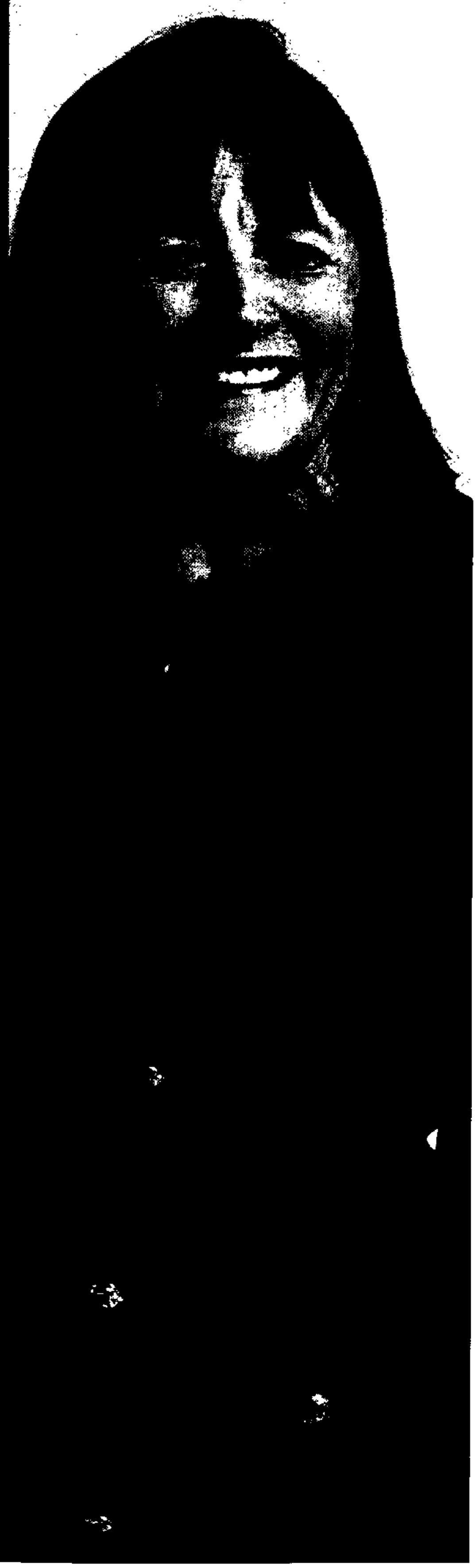
The role of the Committee

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 Burns 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
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.

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.

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

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 Gibbes.

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 Gibbes 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

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

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
[illegible] we follow the five steps outlined below. We disclose the name of the search agent and any other connection they have with the Company in the Annual Report & Accounts published following the search. In due course, a tailored induction programme is developed for the new Director.

[illegible] the Board [illegible] than providing executive search [illegible]

Step 1
The Committee reviews and approves an outline brief and role specification and appoints a search agent to facilitate the search

Step 2
A Committee member discusses the specification with the independent search agent, who prepares an initial longlist of candidates

Step 3
The Committee then defines a shortlist of candidates and we hold interviews

Step 4
The Committee makes a recommendation to the Board for its consideration

Step 5
Following Board approval the appointment is announced in line with the requirements of the FCA's Listing Rules

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

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

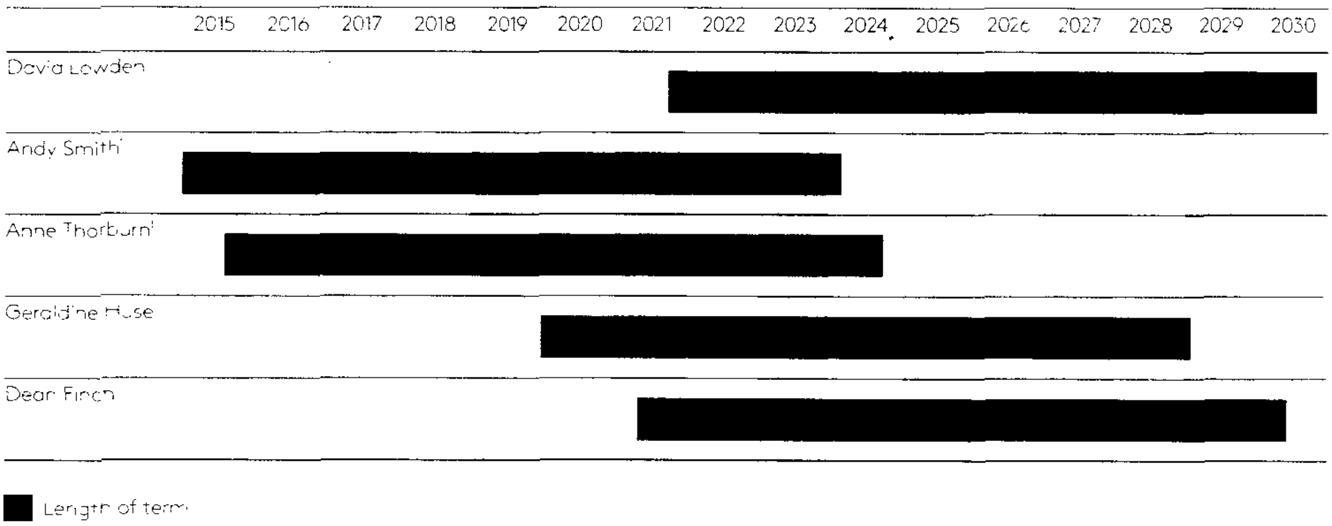
The Committee formally reviews succession planning for the Board, Group Company Secretary and Head of Legal, and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background, skills and expertise that will be required by the Group 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



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.

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

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 discretional 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 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

Strategic pillar	Short term incentive: Annual Bonus	Long term incentive: Performance Share Plan	Remuneration Principles
1: GROWTH 2: SCALING	Operating profit: **50%** Revenue: **25%** Free cash: **25%**	EPS (ROATCE underpin): **75%** Relative TSR: **25%**	- Remuneration aligned to business strategy and promoting the long-term success of the Company. - Supporting creation of long-term shareholder value. - Providing an appropriate balance between remuneration elements which are transparent, stretching and rigorously applied. - Providing a balance between immediate and deferred remuneration and encouraging a high performance culture.
3: DELIVERING VALUE RESPONSIBLY	**Non-financial KPIs and targets in place, flexibility to introduce DVR (ESG) metrics into remuneration included in the Policy**		

CASCADE OF REMUNERATION IN OUR DECENTRALISED BUSINESS:

EXECUTIVE DIRECTORS

- Remuneration Policy: updated Policy presented to shareholders for voting at AGM in January 2023; implementation reviewed annually.
- Emphasis on pay for performance and alignment with shareholders on sustainable long-term performance: Group Annual Bonus and PSP measured on a balanced set of defined financial measures linked to strategy.

LEADERSHIP ROLES

- Set locally by referring to Group framework which aligns metrics, targets and quantum for different types of role. Group governance (including pay equity).
- Reviewed annually.
- Emphasis on pay for performance. Aligned variable pay, using a blend of Group and local performance targets.
- Wider participation in Group PSP.

WORKFORCE

- Set locally, Group/Sector governance.
- Reviewed annually.
- Fair and competitive in local market.
- Linked to colleague value proposition.

Business Performance 2022 Annual Report of Remuneration

Strategic execution	Performance	Reward
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, £137m invested in seven strategically important acquisitions. Disciplined portfolio development: disposals of Fentek 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.	**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)	Maximum bonus payable Maximum vesting on PSP
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.	**Engagement index** 79% (2021: 79%) **Scope 1 & 2 emissions** 10,615 tonnes CO_2 e (baseline year) **Waste to landfill** 60% (first year of measurement)	Flexibility to introduce DVR metrics in remuneration included in Policy.

2022 Broader Reward Priorities

Goal	Action
Support lower paid colleagues most affected by the cost of living crisis	**Wage increase for colleagues paid less than £40k of 7.5%, which is higher than the overall workforce increase.**
Retain talent in the competitive talent market	**Wage increase for the workforce of 7% (2021: 4%).** **Review of variable pay structures and quantum.**
Incentivise brilliant leaders on long-term success	**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.**

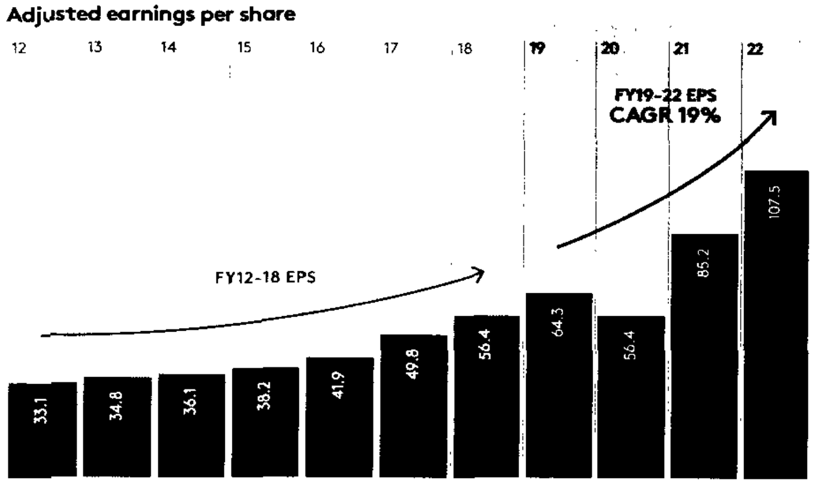
2022 Remuneration Policy Review – process

Changes to Remuneration Policy and its implementation

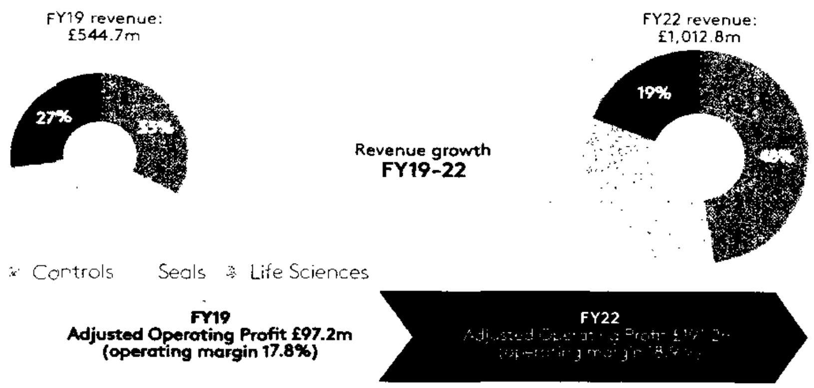
This section sets out the Directors' Remuneration Policy (the Policy) proposed for approval by shareholders at the Company's AGM on 18 January 2023. The Company's current Remuneration Policy (the Policy) was approved by shareholders at the 15 January 2020 AGM and the updated policy, subject to shareholder 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':

a) Information on UK pay levels for companies of similar size FTSE 150-100 (Diploma: FTSE 111, 30 September 2022).
b) 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.
c) 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	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: – 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. – 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).
Shareholder alignment	Increased shareholding guideline (MSR) to align with new PSP policy maxima – 300% of salary for CEO and 250% of salary for CFO. Extension of post employment shareholding requirement to now require 50% of MSR to be held for two years after termination date.
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 Davies[1] (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	CEO 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 from 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 on 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, tax 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 effective 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 throughout the [illegible]. The Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for senior management more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	[illegible]	Pension contributions can either be paid directly into a pension savings scheme or taken as a cash allowance.	Maximum pension contributions will be no higher than the rate offered to the majority of the UK workforce for UK based Executive Directors. Maximum pension contribution for non-UK based Executive Directors will be aligned with employees in the relevant local market.	No performance metrics.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as car allowance, life assurance, permanent health insurance and private medical insurance. The Committee may offer any additional benefits it considers appropriate, in line with the interests of the Company and local market practice. Any reasonable business related expenses (including any tax thereon) can be reimbursed or paid [illegible] as a taxable benefit.	No maximum limit is prescribed but the Committee monitors annually the overall cost of the benefit provision.	No performance metrics.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual Performance Bonus Plan	[illegible]	[illegible]	[illegible]	[illegible]
Performance Share Plan (PSP)	[illegible]	[illegible]	[illegible]	[illegible]

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	Fees [illegible] and reviewed each year. Although Non-Executive Directors currently receive their fees in cash, the Company may pay part or all of their fees in the form of shares. Any reasonable business related expenses (including tax thereon) if determined to be a taxable benefit can be reimbursed.	[illegible]	No performance metrics

Selection of performance measures and targets for Annual Bonus and PSP

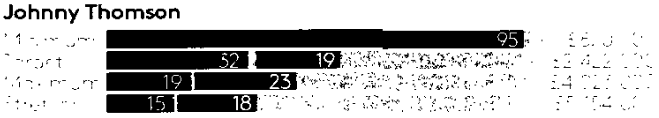
[illegible]

[illegible]

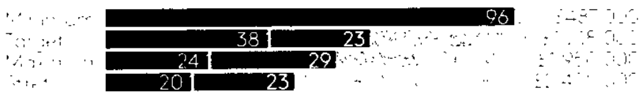
Illustration of application of Policy

[illegible]

Johnny Thomson



Chris Davies



[illegible]

New CFO Remuneration package

[illegible]

[illegible]

Consideration of shareholder views

Differences in remuneration policy for other employees

Service contracts

The Executive Directors' service contracts [illegible] which are held at the Company's registered office, together with any service contract for new appointments [illegible] provisions for compensation in the event of any termination or change of control equal to the value of salary, pension and contractual benefits for the Director's notice period. The Company may make a payment in lieu of notice in the event of early termination and the Company may make any such payment in instalments with the Director being obliged in appropriate circumstances to mitigate loss (for example by gaining new employment). The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

Details of the service contracts of the Executive Directors who served during the year are set out below:

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
[illegible]	[illegible] 2019	Rolling	1 year	1 year
Barbara [illegible]	5 Feb 2019	Rolling	1 year	1 year

[illegible]

Payment for loss of office

[illegible]

[illegible]

[illegible]

Change of control

Change of control provisions provide for [illegible] equal to the value of salary, pension and contractual benefits for the notice period in the event of a change in control. Vesting of an award of shares under the Company's PSP depends on the extent to which performance conditions had been met at that time. Time prorating may be disapplied if the Committee considers it appropriate given the circumstances of the change of control.

Malus and clawback

Malus provisions apply to all awards made under the Company's long term incentive and annual bonus plans [illegible] the Committee the right to [illegible]

[illegible]

Remuneration for new appointments

[illegible]

[illegible]

[illegible]

[illegible]

Committee discretion

[illegible]

Policy in respect of external board appointments for Executive Directors

[illegible]

Employee and post-employment shareholding requirements

[illegible]

Chair and Non-Executive Directors

Recruitment and term

[illegible]

Fees

[illegible]

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 transparent and promote effective engagement with shareholders and the workforce. **Example:** the structure of the Annual Performance Bonus Plan comprises, based on financial metrics which align with published accounts.	The Committee is committed to providing open 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 open and transparent disclosures of our Executive Directors' remuneration arrangements, including undertaking engagement with key shareholders when considering 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 comprise 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 pay (salary, benefits, pension) and variable pay (annual bonus plan and a long-term incentive plan, the PSP).
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. **Example:** the ROATCE underpin in the PSP [illegible] quality earnings.	Targets are reviewed to ensure they do not encourage excessive risk taking. Malus and clawback provisions apply to both the annual [illegible] and long-term incentive plans. Members of the Committee are provided with regular briefings on developments in executive remuneration.
Predictability The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Policy. **Example:** variable pay maximums are set out in the Policy.	The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the Policy table.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance. **Example:** [illegible] of budget must be achieved to trigger payment of Annual Performance Bonus; [illegible] of budget [illegible] payment.	Annual bonus and Performance Share Plan awards require robust performance [illegible] that [illegible] the Company's strategy. The Committee has discretion to override formulaic outcomes to ensure that they [illegible] and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy. **Example:** [illegible] continuous improvement [illegible] continuous improvement [illegible] each year to reach remuneration target.	The variable incentive schemes and performance measures are [illegible] consistent with the Group's purpose, values and strategy.

[illegible]

Executive Directors (audited)
Total remuneration in 2022 and 2021

	Johnny Thomson		Barbara Gibbes			
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Salary	**711**	690	**365**	[illegible]	**1,076**	[illegible]
Taxable benefits	**25**	25	**19**	[illegible]	**44**	44
Pension	**71**	96	**15**	4	**86**	100
Total fixed	**807**	[illegible]	**399**	[illegible]	**1,206**	[illegible]
Annual performance bonus	**889**	855	**456**	[illegible]	**1,345**	[illegible]
Long-term incentive plans – dividend equivalent paid	**75**	58	**17**		**92**	[illegible]
Long-term incentive plans – performance element	**1,725**	1,675	**340**	–	**2,065**	[illegible]
Long-term incentive plans – share appreciation element	**262**	[illegible]	**110**		**372**	[illegible]
Long-term incentive plans remuneration	**2,062**	[illegible]	**467**		**2,529**	[illegible]
Total variable	**2,951**	[illegible]	**923**	[illegible]	**3,874**	[illegible]
Single total figure	**3,758**	[illegible]	**1,322**	[illegible]	**5,080**	[illegible]

[illegible]

Departure of Barbara Gibbes and appointment of Chris Davies (audited)

[illegible]

[illegible]

[illegible]

[illegible]

Executive Directors' base salary (unaudited)

[illegible]

	Salary from 1 October 2022 £000	Salary from 1 October 2021 £000	Increase in salary
[illegible]	**754**	[illegible]	[illegible]
Barbara Gibbes	**–**	[illegible]	[illegible]
Chris Davies (appointed 1 November 2022)	**450**		[illegible]

[illegible]

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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. [illegible] cash in lieu of pension from 10.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2023 his pension contribution 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**	10.5	56
Barbara Gibbes	**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) 50% of bonus opportunity	Minimum £154.1m On-target £162.4m Maximum £170.5m	Adjusted operating profit for FY22 was [illegible] at [illegible] exchange rates. The maximum target was met and the maximum award is payable.
Revenue [illegible] 25% of bonus opportunity	Minimum £809.1m On-target £[illegible]4.4m Maximum £89[illegible]m	Revenue for FY22 was £[illegible]m [illegible]. The maximum [illegible] maximum award is payable.
Free cash flow [illegible] 25% of bonus opportunity	Minimum £[illegible]m On-target £[illegible]m Maximum £[illegible]m	Free cash flow for the year was £[illegible]m. The maximum [illegible] that [illegible] maximum award [illegible].

1. [illegible]

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	[illegible]	[illegible]	63[illegible]	125[illegible]	**125%**	**125%**	**889**
Barbara Gibbes	365	[illegible]	63	125%	**125%**	**125%**	**456**

[illegible] Remuneration Policy minimum shareholding requirement (MSR) for the CEO [illegible] 200% of base salary and [illegible] Executive Directors [illegible] Company's shareholding [illegible] 300% [illegible] bonus for the year [illegible] cash. [illegible] Barbara Gibbes [illegible] CEO and left the Company on 30 September 2022 [illegible] Company's existing Remuneration Policy [illegible] 12 months post-termination.

Bonus awards for year ended 30 September 2023

[illegible] 2022 the Annual Performance Bonus Plan [illegible] 25% [illegible] The financial performance targets set for the Annual Performance Bonus Plan [illegible]

Long-term incentive awards (audited)

[illegible]

Performance conditions

[illegible]

[illegible]

[illegible]

EPS

[illegible]

Adjusted EPS growth (over three years)	% of awards vesting
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

[illegible]

TSR

[illegible]

	% of awards vesting
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

[illegible]

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Awards vesting in 2022 (audited)

The PSP award granted on 23 December 2019 (PSP (2019)) to Johnny Thomson and on 10 March 2020 (PSP (2019)) to Barbara Gibbes 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
PSP (2019)[1]	64.3p	**109.4**	19.4%	14%	50%	50%

1. [illegible]

The Committee has reviewed the ROATCE outturn and concluded that [illegible]% 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
PSP (2019)	**20.0% p.a.**	[illegible] p.a.	8.24% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson and Barbara Gibbes 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 PSP (2019)	[illegible]	[illegible]	**100%**	**85,481**	[illegible]	[illegible]	[illegible]
Barbara Gibbes PSP (2019)	[illegible]	[illegible]	**100%**	**19,374**	[illegible]	[illegible]	450

[illegible]

Dividend equivalent payments (audited)

Dividend equivalent payments of £[illegible] [illegible] are payable to Barbara Gibbes [illegible] payments [illegible] all payments made in the three-year performance period.

Long-term incentive plan – awards granted in the year (audited)

Johnny Thomson and Barbara Gibbes were each granted PSP (2021) awards [illegible] This award was based on a share price of [illegible]p [illegible] the Company [illegible] immediately preceding the award. The award for Johnny Thomson was 250% [illegible] for Barbara Gibbes was [illegible]% of base salary.

Under normal circumstances, the option will not be [illegible] the performance conditions [illegible] determined after the end of the three-year measurement period [illegible] the award is made and provided the participating Director remains in employment. [illegible] at the end of the three-year measurement period. The performance conditions for this award are set out on page [illegible].

Outstanding share-based performance awards (audited)

Set out is a summary of the share-based awards outstanding at 30 September 2022 [illegible] awards which have vested during the year (based on performance) and those which have been granted during the year. The awards set out were granted at a face value of 250% of base salary to Johnny Thomson and a face value of [illegible] PSP (2021) and PSP (2020) and [illegible] PSP (2019) [illegible] base salary to Barbara Gibbes PSP (2019) [illegible] the performance conditions set out on page [illegible] 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									
[illegible]	[illegible]	[illegible]	30 Sep 2021	30 Sep 2022	85,481	**–**	**85,481**	**–**	**–**
PSP 2020	[illegible]	[illegible]	30 Sep 2023	30 Sep 2023	74,804	**–**	**–**	**–**	**74,804**
PSP 2021	[illegible]	[illegible]	30 Sep 2024	30 Sep 2024		**57,007**	**–**	**–**	**57,007**
Barbara Gibbes[1]									
[illegible]	[illegible]	[illegible]	30 Sep 2022	30 Sep 2022	19,374	**–**	**19,374**	**–**	**–**
[illegible]	[illegible]	[illegible]	30 Sep 2023	30 Sep 2023	25,802	**–**	**–**	**(8,601)**	**17,201**
PSP 2021	[illegible]	[illegible]	30 Sep 2024	30 Sep 2024		**20,485**	**–**	**(13,656)**	**6,829**

[illegible]

[illegible]

[illegible]

Chair and Non-Executive Directors' remuneration (audited)

[illegible]

	Total fees	
	2022 £000	2021 £000
[illegible]	**207**	[illegible]
[illegible]	**48**	[illegible]
[illegible]	**67**	[illegible]
[illegible]	**77**	[illegible]
[illegible]	**55**	[illegible]
[illegible]	**55**	[illegible]

[illegible]

[illegible]

Executive Directors' interests (audited)

In options over shares

In respect of nil-cost options granted under the PSP, 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 nil-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. Any subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the initial 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 nil-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[3]	Options unexercised as at 30 Sep 2022	Exercise price[4]	Earliest normal exercise date	Expiry date
Johnny Thomson	2021	122,801	122,801	–	**–**	**£1**	Nov 2021	Feb 2029
	2022		–	85,481	**85,481**	**£1**	Nov 2022	Nov 2029
Barbara Gibbes	2022		–	19,374	**19,374**	**£1**	[illegible] 2022	Mar 2030

[illegible]

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
[illegible]	**102,330**	**85,481**	**131,811**	[illegible]	[illegible]	[illegible]
[illegible]	**5,082**	**19,374**	**24,030**	[illegible]	–	[illegible]

[illegible]

[illegible]

As at 21 November 2022 there have been no changes to these interests in ordinary shares of the Company.

Chair and Non-Executive Directors' interests in ordinary shares (audited)

[illegible]

	Interest in ordinary shares	
	As at 30 Sep 2022	As at 30 Sep 2021
[illegible]	**2,500**	
[illegible]	**9,045**	[illegible]
[illegible]	**7,545**	[illegible]
[illegible]	**5,045**	[illegible]
[illegible]	**2,045**	[illegible]
[illegible]	**640**	–

As at 21 November 2022 there have been no changes to these interests in ordinary shares of the Company.

Remuneration in context

Chief Executive pay ratio (unaudited)

[illegible]

[illegible]

[illegible]

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
[illegible]	Option A	[illegible]	[illegible]	[illegible]
[illegible]	Option A	[illegible]	[illegible]	[illegible]
[illegible]	Option A	[illegible]	35.1	[illegible]

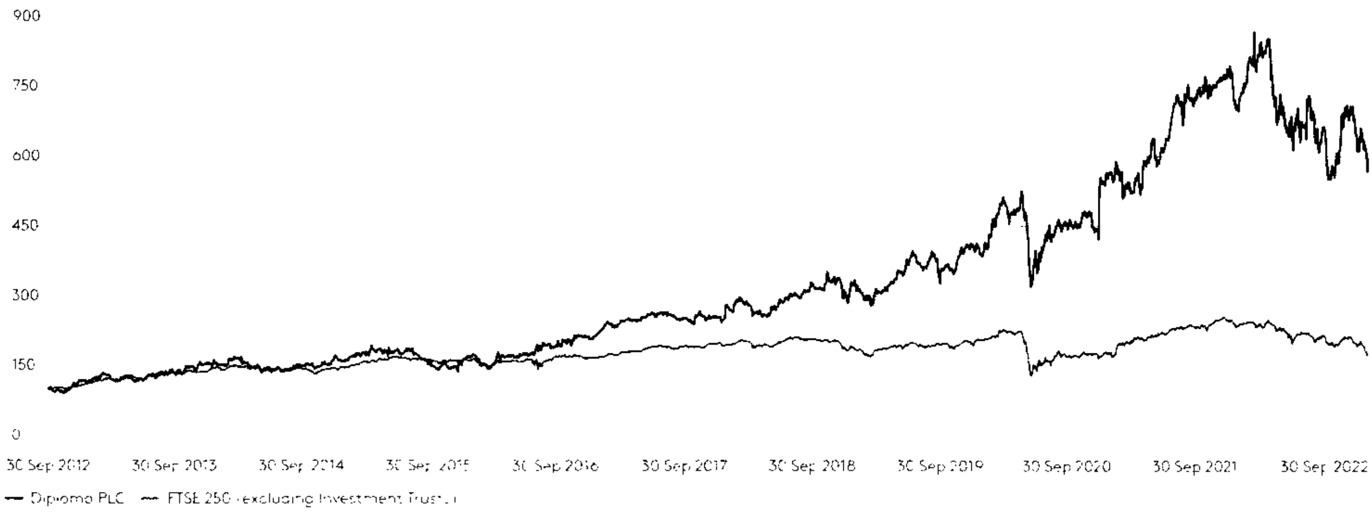
	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	[illegible]	[illegible]	[illegible]
25th percentile	[illegible]	[illegible]	[illegible]
Median	[illegible]	[illegible]	[illegible]
75th percentile	[illegible]	[illegible]	[illegible]

[illegible]

Aligning pay with performance (unaudited)

[illegible]

Growth in the value of a hypothetical £100 holding over ten years



[illegible]

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Chief Executive Officer remuneration compared with annual growth in TSR (unaudited)

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
2022	**Johnny Thomson**	**3,758**	**100%**	**100%**	**-17%**
[illegible]	[illegible]	5,242	[illegible]	[illegible]	[illegible]
2020	[illegible]	999	[illegible]	-	-34%
[illegible]	[illegible]	1,079	[illegible]	-	+20%
2019	John Nicholas	[illegible]	-	-	[illegible]
[illegible]	[illegible]	[illegible]	-	-	[illegible]
[illegible]	[illegible]	[illegible]	-		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+24%
[illegible]	[illegible]	[illegible]	[illegible]	45%	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Relative importance of Executive Director remuneration (unaudited)

	2022 £m	2021 £m	Change £m
[illegible]	**177.5**	[illegible]	[illegible]
[illegible]	**56.2**	[illegible]	[illegible]

Percentage change in remuneration of Directors and employees (unaudited)

[illegible]

	Base salary/fee change (%)			Pension change (%)			Taxable benefits change (%)			Bonus change (%)		
	2022 vs 2021	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019
Executive Directors												
[illegible]	**+3**	No change	[illegible]	**-18**	[illegible]	[illegible]	**+2**	[illegible]	No change	**+3**	[illegible]	[illegible]
[illegible]	**+7**	No change	[illegible]	**+7**	No change	[illegible]	**+2**	[illegible]	[illegible]	**+7**	[illegible]	[illegible]
Non-Executive Directors												
[illegible]	**n/a**	No change	[illegible]									
[illegible]	**-69**	No change	[illegible]									
[illegible]	**+3**	No change	No change									
[illegible]	**+6**	[illegible]	[illegible]									
[illegible]	**+3**	No change	[illegible]									
[illegible]	**+185**	[illegible]	[illegible]									
Employees of the Parent Company	**n/a**	[illegible]	[illegible]	**n/a**	[illegible]	[illegible]	**n/a**	[illegible]	[illegible]	**n/a**	[illegible]	[illegible]
Senior management team	**+7.5**	[illegible]	[illegible]	**+7.5**	[illegible]	[illegible]	**No change**	No change	No change	**+22**	[illegible]	[illegible]

[illegible]

Executives and senior management below the Board (unaudited)

[illegible]

	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
PSP 2019	[illegible]	[illegible]	[illegible]	[illegible]	–	29,546	4,460	–
PSP 2020	[illegible]	[illegible]	[illegible]	[illegible]	–	–	9,612	39,860
PSP 2021	3,108p 2,574p 2,680p	[illegible]	30 Sep 2024	-	102,258	–	8,086	94,172

GOVERNANCE

Remuneration Committee

[illegible]

The Remuneration Committee Report

[illegible]

Remuneration principles and structure

[illegible]

Key duties and focus in 2022

[illegible]

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 2022 were higher due the Policy review and the change of CFO. 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	10,375

Shareholder voting at previous Annual General Meeting (unaudited)

The Directors' 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 19 January 2022 with the following votes being cast:

	Policy		2021 Report	
Votes for	[illegible]	[illegible]	101,036,46[illegible]	93.26%
Votes against	[illegible]	[illegible]	7,304,[illegible]	6.74%
Withheld	[illegible]		[illegible]	-

At the AGM in January 2022, the 2021 DRR was approved with 93.26% of votes in favour. Given the positive voting outcome there was no immediate need for shareholder follow up. Extensive consultation was conducted during 2022 on the new Policy and the 2022 DRR. During consultation there was an opportunity to check with shareholders if they had any [illegible] 2021 [illegible]

DIRECTORS' REPORT

[illegible]

Shareholders

Incorporation and principal activity

[illegible]

[illegible]

Annual General Meeting

[illegible]

Substantial shareholdings

[illegible]

	Percentage of ordinary shares (September 2022)	Percentage of ordinary share capital (November 2022)
[illegible] Limited	[illegible]	No change
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	No change
The Vanguard Group, Inc [illegible]	[illegible]	No change
[illegible] Limited	[illegible]	No change
[illegible]	[illegible]	Below 5

[illegible]

Share capital

[illegible]

Shareholders

[illegible]

[illegible]

Contracts of significance and change of control

[illegible]

Restrictions on transfer of shares

[illegible]

[illegible]

Share allotment

[illegible]

Authority to make market purchases of own shares

[illegible]

Liability insurance and indemnities

[illegible]

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Disclosures required under Listing Rule 9.8.4C

To comply with Listing Rule 9.8.4C, the following table provides the information to be disclosed by the Company in respect of Listing Rule 9.8.4R.

	Listing Rule
The Trustees of the [illegible] Employee Benefit Trust waived dividends on all shares	9.8.4(12)R and 9.8.4(13)R

Non-financial information

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report on pages [illegible] to 89 that would otherwise be required to be disclosed in this Directors' Report.

Non-financial information statement

Other information that is relevant to the Directors' Report and which is incorporated by reference into this report can be viewed in the section on Delivering Value Responsibly on pages 54 to [illegible] and includes:

- Our employees
- Environmental matters
- Health & Safety
- Greenhouse gas emissions
- Human rights
- Business ethics, including anti-corruption and anti-bribery
- Modern slavery
- Community

Other related information can be found as follows:

- Business model – pages [illegible]
- Principal risks and how they are managed – on pages 82 to 88
- Non-financial key performance indicators – page [illegible]
- Employee engagement – pages [illegible]
- Stakeholder engagement – pages [illegible]

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £94.[illegible] (2021: £[illegible]). The Directors recommend a final dividend of [illegible] (2021: [illegible]) [illegible] February 2023. This together with the interim dividend of [illegible] (2021: [illegible]) makes a total dividend for the year of [illegible] (2021: [illegible]).

The results are shown in more detail in the consolidated financial statements on pages 14[illegible] to 17[illegible] and are discussed in the Financial Review on pages [illegible].

Independent Auditors

Each of the persons who is a Director at the date of approval of this Annual Report & Accounts confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware and that he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as independent auditor and a resolution to reappoint PwC will be proposed at the AGM to be held on 18 January 2023.

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 1[illegible].

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 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with United Kingdom adopted international financial reporting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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 at 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 6LE

Registered Number:
3899848

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CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Revenue	[illegible]	**1,012.8**	[illegible]
Cost of sales		**(638.3)**	(499.0)
Gross profit		**374.5**	288.4
Distribution costs		**(25.9)**	[illegible]
Administrative costs		**(204.3)**	[illegible]
Operating profit	[illegible]	**144.3**	[illegible]
Finance expense, net	[illegible]	**(14.8)**	[illegible]
Profit before tax		**129.5**	[illegible]
Tax expense	[illegible]	**(34.1)**	[illegible]
Profit for the year		**95.4**	[illegible]
Attributable to:			
Shareholders of the Company		**94.7**	[illegible]
Minority interests	[illegible]	**0.7**	[illegible]
		95.4	[illegible]
Earnings per share			
Basic earnings	[illegible]	**76.1p**	[illegible]
Diluted earnings	[illegible]	**75.9p**	[illegible]

ALTERNATIVE PERFORMANCE MEASURES[1]

	Note	2022 £m	2021 £m
Operating profit		**144.3**	[illegible]
[illegible]	[illegible]	**46.9**	[illegible]
Adjusted operating profit	[illegible]	**191.2**	[illegible]
[illegible]	[illegible]	**(11.6)**	[illegible]
Adjusted profit before tax		**179.6**	[illegible]
Adjusted earnings per share	[illegible]	**107.5p**	[illegible]

[illegible]

[illegible]

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Profit for the year		95.4	[illegible]
Items that will not be reclassified to the Consolidated Income Statement			
[illegible]	[illegible]	10.6	[illegible]
[illegible]	[illegible]	(2.8)	[illegible]
		7.8	[illegible]
Items that may be reclassified to the Consolidated Income Statement			
[illegible]		76.8	[illegible]
[illegible]	[illegible]	4.5	[illegible]
[illegible]	[illegible]	(0.4)	
[illegible]	[illegible]	(1.1)	[illegible]
		79.8	[illegible]
Total Other Comprehensive Income		87.6	[illegible]
Total Comprehensive Income for the year		183.0	[illegible]
[illegible]			
[illegible]		182.2	[illegible]
[illegible]		0.8	[illegible]
		183.0	[illegible]

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		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	527.0	[illegible]	530.7
[illegible]				[illegible]	[illegible]	[illegible]	60.8	[illegible]	60.5
[illegible]	4		–		–	[illegible]	1.8		1.8
[illegible]	[illegible]				–	[illegible]	1.0		1.0
[illegible]					–	[illegible]	(0.5)		(0.5)
[illegible]	[illegible]	–	–	–		–	–	–	0.9
[illegible]		–		–		[illegible]	(0.9)		(0.9)
[illegible]		–	–	–		–	–	[illegible]	0.7
[illegible]	[illegible]					[illegible]	(52.9)	[illegible]	(53.2)
At 30 September 2021		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	536.3	[illegible]	541.0
[illegible]				[illegible]	[illegible]	[illegible]	182.2	[illegible]	183.0
[illegible]	4				–	[illegible]	2.8		2.8
[illegible]						[illegible]	0.4		0.4
[illegible]		–	–		–	[illegible]	(2.8)	–	(2.8)
[illegible]	[illegible]	–	–		–		–	[illegible]	2.5
[illegible]	[illegible]			–			–		(1.3)
[illegible]					–	[illegible]	(1.9)		(1.9)
[illegible]			–	–	–	[illegible]	1.2		1.2
[illegible]	[illegible]						–	[illegible]	(0.3)
[illegible]	[illegible]				–	[illegible]	(56.2)	[illegible]	(56.4)
At 30 September 2022		6.3	188.6	88.8	3.2	375.1	662.0	6.2	668.2

[illegible]

[illegible]

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**	139.6
Trade and other receivables	15	**169.9**	117.8
Assets held for sale	15	**–**	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	16	**(189.5)**	[illegible]
Current tax liabilities	6	**(11.8)**	[illegible]
Other liabilities	19	**(19.0)**	[illegible]
Lease liabilities	12	**(12.7)**	(9.7)
		(263.5)	(176.4)
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)**	(168.2)
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**	166.6
Translation reserve		**88.8**	[illegible]
Hedging reserve		**3.2**	0.2
Retained earnings		**375.1**	[illegible]
Total shareholders' equity		**662.0**	[illegible]
Minority interests	20	**6.2**	[illegible]
Total equity		**668.2**	541.0

The consolidated financial statements on pages [illegible] to [illegible] 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

The notes on pages [illegible] form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Operating profit		**144.3**	[illegible]
Acquisition related and other charges		**46.9**	44.4
Non-cash items and other		**18.1**	[illegible]
Increase in working capital		**(28.7)**	[illegible]
Cash flow from operating activities	[illegible]	**180.6**	[illegible]
Interest paid net of [illegible]		**(15.0)**	[illegible]
Tax paid		**(40.6)**	[illegible]
Net cash from operating activities		**125.0**	[illegible]
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	[illegible]	**(173.0)**	[illegible]
Deferred consideration paid	[illegible]	**(7.1)**	[illegible]
Proceeds from sale of business (net of cash disposed)		**13.7**	[illegible]
Purchase of property, plant and equipment	[illegible]	**(14.3)**	[illegible]
Purchase of other intangible assets		**(1.1)**	[illegible]
Proceeds from sale of property, plant and equipment		**9.9**	[illegible]
Net cash used in investing activities		**(171.9)**	(448.4)
Cash flow from financing activities			
Proceeds from issue of share capital net of fees		**–**	[illegible]
Dividends paid to shareholders	[illegible]	**(56.2)**	[illegible]
Dividends paid to minority interest	[illegible]	**(0.2)**	[illegible]
Proceeds from minority interests	[illegible]	**–**	[illegible]
Acquisition of minority interests	[illegible]	**(0.3)**	–
Purchase of own shares by Employee Benefit Trust		**–**	
Net [illegible] own shares [illegible]		**(2.8)**	[illegible]
Proceeds from borrowings	[illegible]	**154.8**	[illegible]
Repayment of borrowings	[illegible]	**(20.0)**	[illegible]
Principal elements of lease payments		**(10.9)**	[illegible]
Net cash from financing activities		**64.4**	[illegible]
Net increase/(decrease) in cash and cash equivalents		**17.5**	[illegible]
Cash and cash equivalents at beginning of year		**24.8**	[illegible]
Effect of exchange rates on cash and cash equivalents		**(0.6)**	[illegible]
Cash and cash equivalents at end of year	[illegible]	**41.7**	[illegible]

ALTERNATIVE PERFORMANCE MEASURES[1]

	Note	2022 £m	2021 £m
Free cash flow	[illegible]	**120.4**	[illegible]
Adjusted earnings	[illegible]	**133.9**	[illegible]
Free cash flow conversion %	[illegible]	**90%**	[illegible]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2022

1. General information
Diploma PLC is a public limited 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 Charterhouse Square, London EC1M 6EE. 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 100,000, except where otherwise indicated.

On 31 December 2020, IFRS as 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 constitutes 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 171 to 178. A full list of subsidiary 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 IFRS 8 is the CEO. The financial performance of the Business Sectors is reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

For management reporting purposes, the Group is organised into three main reportable business sectors: Life Sciences, Seals and Controls. These Sectors are the Group's operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures 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 30 to 41. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector as well as those that can be allocated on a reasonable basis.

Sector assets exclude cash, fixed income investments, retirement benefit assets, corporate tax and deferred tax assets and corporate assets that cannot be allocated on a reasonable basis to a business sector. Sector liabilities exclude borrowings, other non-current liabilities, retirement benefit obligations, deferred tax liabilities, acquisition-related liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business Sector. These items are shown collectively in the following analysis as unallocated assets and unallocated 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	[illegible]	294.4	[illegible]	481.9	[illegible]	–		954.3	[illegible]
Revenue – acquisitions	10.6		37.0		10.9		–		58.5	–
Revenue	188.6	[illegible]	331.4	[illegible]	492.8	[illegible]	–		1,012.8	[illegible]
Adjusted operating profit – existing	39.7	[illegible]	57.0	[illegible]	104.0	[illegible]	(18.2)	[illegible]	182.5	[illegible]
Adjusted operating profit – acquisitions	1.3	–	5.6		1.8		–	–	8.7	–
Adjusted operating profit	41.0	[illegible]	62.6	[illegible]	105.8	[illegible]	(18.2)	[illegible]	191.2	[illegible]
Acquisition related and other charges	1.5	[illegible]	(16.6)	[illegible]	(30.5)	[illegible]	(1.3)		(46.9)	[illegible]
Operating profit	42.5	[illegible]	46.0	[illegible]	75.3	[illegible]	(19.5)	[illegible]	144.3	[illegible]
Operating assets	74.0	[illegible]	207.5	[illegible]	211.5	[illegible]	–	–	493.0	[illegible]
Goodwill	106.2	[illegible]	125.2	[illegible]	140.9	[illegible]	–	–	372.3	[illegible]
Acquired intangible assets	74.9	[illegible]	100.2	[illegible]	279.9	[illegible]	–		455.0	[illegible]
	255.1	[illegible]	432.9	[illegible]	632.3	[illegible]	–		1,320.3	[illegible]
Unallocated assets:										
Deferred tax assets							0.2	[illegible]	0.2	[illegible]
Cash and cash equivalents							41.7	[illegible]	41.7	[illegible]
Derivative financial assets							1.8		1.8	
Retirement benefit assets							6.4	–	6.4	
Corporate assets							8.6	[illegible]	8.6	[illegible]
Total assets	255.1	[illegible]	432.9	[illegible]	632.3	[illegible]	58.7	[illegible]	1,379.0	[illegible]
Operating liabilities	(41.7)	[illegible]	(103.3)	[illegible]	(92.6)	[illegible]	–		(237.6)	[illegible]
Unallocated liabilities:										
Deferred tax liabilities							(38.4)	[illegible]	(38.4)	[illegible]
Retirement benefit obligations							–	[illegible]	–	[illegible]
[illegible]							(31.4)	[illegible]	(31.4)	[illegible]
[illegible]							(32.8)	[illegible]	(32.8)	[illegible]
Borrowings							(370.6)	[illegible]	(370.6)	[illegible]
Total liabilities	(41.7)	[illegible]	(103.3)	[illegible]	(92.6)	[illegible]	(473.2)	[illegible]	(710.8)	[illegible]
Net assets	213.4	[illegible]	329.6	[illegible]	539.7	[illegible]	(414.5)	[illegible]	668.2	[illegible]

[illegible]

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
[illegible]	8.0	[illegible]	3.7	[illegible]	2.7	[illegible]	0.9	[illegible]	15.3	[illegible]
[illegible]	2.9	[illegible]	3.5	[illegible]	4.6	[illegible]	0.2	[illegible]	11.2	[illegible]
Revenue recognition										
[illegible]	176.4	[illegible]	315.6	[illegible]	492.8	[illegible]	–	[illegible]	984.8	[illegible]
[illegible]	12.2	[illegible]	15.8	[illegible]	–		–	[illegible]	28.0	[illegible]
	188.6	[illegible]	331.4	[illegible]	492.8	[illegible]	–		1,012.8	[illegible]

[illegible]

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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**	[illegible]	**21.0**	[illegible]	**193.6**	[illegible]	**202.2**	[illegible]	**3.4**	[illegible]
Rest of Europe	**166.7**	[illegible]	**29.3**	[illegible]	**169.1**	[illegible]	**179.8**	[illegible]	**1.7**	[illegible]
North America	**561.0**	[illegible]	**129.5**	[illegible]	**519.2**	[illegible]	**614.2**	[illegible]	**8.9**	[illegible]
Rest of World	**75.4**	[illegible]	**11.4**	[illegible]	**57.1**	[illegible]	**62.3**	[illegible]	**1.3**	[illegible]
	1,012.8	[illegible]	**191.2**	[illegible]	**939.0**	[illegible]	**1,058.5**	[illegible]	**15.3**	[illegible]

[illegible]

4. Group employee costs
Average number of employees

	2022	2021
[illegible]	**423**	[illegible]
[illegible]	**1,174**	[illegible]
[illegible]	**981**	[illegible]
[illegible]	**36**	[illegible]
Number of employees – average	**2,614**	[illegible]
Number of employees – year end	**2,909**	[illegible]

Group employee costs, including key management

	2022 £m	2021 £m
[illegible]	**154.8**	[illegible]
[illegible]	**13.3**	[illegible]
[illegible]	**6.6**	[illegible]
[illegible]	**2.8**	[illegible]
	177.5	[illegible]

Key management short-term remuneration, including Directors

	2022 £m	2021 £m
[illegible]	**5.0**	[illegible]
[illegible]	**0.4**	
[illegible]	**0.2**	[illegible]
[illegible]	**2.4**	[illegible]
	8.0	[illegible]

[illegible]

[illegible]

Directors' short-term remuneration

	2022 £m	2021 £m
[illegible]	**0.5**	[illegible]
[illegible]	**2.6**	[illegible]
	3.1	[illegible]

5. Financial expense, net

	2022 £m	2021 £m
Interest (expense)/income and similar charges		
[illegible]	**(1.0)**	[illegible]
[illegible]	**0.1**	[illegible]
[illegible]	**(7.9)**	[illegible]
[illegible]	**–**	[illegible]
[illegible]	**(0.2)**	[illegible]
[illegible]	**(2.6)**	[illegible]
Net interest expense and similar charges	**(11.6)**	[illegible]
[illegible]	**(3.2)**	[illegible]
Financial expense, net	**(14.8)**	[illegible]

[illegible]

6. Tax expense

	2022 £m	2021 £m
Current tax		
[illegible]		
[illegible]	**10.0**	[illegible]
[illegible]	**30.8**	[illegible]
	40.8	[illegible]
[illegible]		
[illegible]	**(0.2)**	[illegible]
[illegible]	**0.1**	[illegible]
Total current tax	**40.7**	[illegible]
Deferred tax		
[illegible]		
[illegible]	**(3.1)**	[illegible]
[illegible]	**(3.5)**	[illegible]
Total deferred tax	**(6.6)**	[illegible]
Total tax on profit for the year	**34.1**	[illegible]

[illegible]

Factors affecting the tax charge for the year

[illegible]

	2022 £m	2021 £m
Profit before tax	**129.5**	[illegible]
[illegible]	**24.6**	[illegible]
[illegible]		
[illegible]	**6.7**	[illegible]
[illegible]	**(0.1)**	[illegible]
[illegible]	**–**	[illegible]
[illegible]	**2.9**	[illegible]
Total tax on profit for the year	**34.1**	[illegible]

[illegible]

[illegible]

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At 30 September 2022, the Group had outstanding tax liabilities of [illegible] (2021: [illegible]) of which [illegible] (2021: [illegible]) related to UK tax liabilities and [illegible] (2021: [illegible]) 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**	15.6
Final dividend of the prior year paid in February	**30.1**	30.0	**37.5**	37.3
	45.1	42.5	**56.2**	52.9

The Directors have proposed a final dividend in respect of the current year of 38.8p 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 PLC Employee Benefit Trust holds [illegible] (2021: 99,640) shares, which are ineligible for dividends.

8. Earnings per share
Basic and diluted earnings per share
Basic earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,513,060 (2021: 124,468,210), and the profit for the year attributable to shareholders of £94.7m (2021: [illegible]). Basic earnings per share is 76.1p (2021: [illegible]). Diluted earnings per share is [illegible] (2021: [illegible]) and is based on the average number of ordinary shares, which includes any potentially dilutive shares, of 124,844,007 (2021: 124,794,478).

Further description of the Company's share capital is set out in note [illegible] to the Parent Company Financial Statements on page 178.

Adjusted earnings per share
Adjusted EPS, which is defined in note [illegible], is 107.5p (2021: [illegible]).

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			**129.5**	[illegible]
Tax expense			**(34.1)**	[illegible]
Minority interests			**(0.7)**	[illegible]
Earnings for the year attributable to shareholders of the Company	**76.1**	[illegible]	**94.7**	[illegible]
Acquisition related and other charges [illegible] net of tax	**31.4**	[illegible]	**39.2**	[illegible]
Adjusted earnings	**107.5**	[illegible]	**133.9**	[illegible]

9. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 30 September 2020	[illegible]	[illegible]	[illegible]	**159.0**
Acquisitions	[illegible]	[illegible]	[illegible]	**117.6**
Disposals	[illegible]	–	–	**(3.8)**
Reclassification to held for sale	–	[illegible]		**(4.7)**
Exchange adjustments	[illegible]	[illegible]	[illegible]	**(7.4)**
At 30 September 2021	[illegible]	[illegible]	[illegible]	**260.7**
Acquisitions	[illegible]	[illegible]	[illegible]	**81.0**
Exchange adjustments	[illegible]	[illegible]	[illegible]	**30.6**
At 30 September 2022	[illegible]	[illegible]	[illegible]	**372.3**

The Group tests goodwill for impairment at least annually [illegible] the Group's three cash generating units (CGUs) [illegible] Life Sciences, Seals and Controls [illegible] the lowest level within the Group at which goodwill is monitored [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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					
[illegible]	[illegible]	[illegible]	[illegible]	183.2	7.6
[illegible]				–	1.4
[illegible]	[illegible]	[illegible]	[illegible]	306.8	0.2
[illegible]	[illegible]	[illegible]		(3.6)	(0.9)
[illegible]	[illegible]	[illegible]		(6.9)	(0.4)
[illegible]	[illegible]	[illegible]	[illegible]	(16.8)	(0.3)
At 30 September 2021	[illegible]	[illegible]	[illegible]	462.7	7.6
[illegible]	[illegible]			–	1.0
[illegible]	[illegible]		[illegible]	99.9	0.8
[illegible]				–	(1.1)
[illegible]	[illegible]	[illegible]	[illegible]	69.9	1.0
At 30 September 2022	**547.9**	**30.9**	**53.7**	**632.5**	**9.3**
Amortisation					
[illegible]	[illegible]	[illegible]	[illegible]	96.0	4.6
[illegible]	[illegible]	[illegible]	[illegible]	18.7	–
[illegible]	[illegible]	[illegible]		14.4	0.7
[illegible]	[illegible]	[illegible]	[illegible]	(3.6)	(0.7)
[illegible]	[illegible]			(5.4)	(0.1)
[illegible]	[illegible]	[illegible]	[illegible]	(2.3)	(0.3)
[illegible]	[illegible]	[illegible]	[illegible]	117.8	4.2
[illegible]	[illegible]		[illegible]	4.0	–
[illegible]	[illegible]	[illegible]	[illegible]	38.4	0.8
[illegible]				–	(0.4)
[illegible]	[illegible]		[illegible]	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**
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]

[illegible]

	Economic life
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

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[illegible]

[illegible]

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	13.8	[illegible]	[illegible]	[illegible]	**63.3**
Additions	–	[illegible]	[illegible]	[illegible]	**4.9**
Acquisitions of businesses		[illegible]	[illegible]	[illegible]	**21.8**
Disposals	[illegible]	[illegible]	[illegible]	[illegible]	**(7.6)**
[illegible]	(8.0)		[illegible]		**(10.6)**
Exchange adjustments	[illegible]	[illegible]	[illegible]		**(2.4)**
At 30 September 2021	[illegible]	[illegible]	[illegible]	[illegible]	**69.4**
Additions		[illegible]	[illegible]	[illegible]	**14.3**
[illegible]	1.5	[illegible]	[illegible]	–	**6.7**
[illegible]		[illegible]	[illegible]	[illegible]	**(5.0)**
Exchange adjustments	[illegible]	[illegible]	[illegible]	[illegible]	**12.3**
At 30 September 2022	**3.6**	**13.2**	**61.2**	**19.7**	**97.7**
Depreciation					
[illegible]	5.3	[illegible]	[illegible]	[illegible]	**35.4**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**9.2**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**(5.5)**
[illegible]	[illegible]		[illegible]	–	**(4.5)**
[illegible]	[illegible]		[illegible]	[illegible]	**(0.6)**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**34.0**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**10.4**
[illegible]		[illegible]	[illegible]	[illegible]	**(3.7)**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**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**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

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 2020	34.3	[illegible]	3.3	[illegible]	**38.9**
Additions	[illegible]	[illegible]	[illegible]	[illegible]	**26.9**
Disposals	[illegible]		[illegible]		**(2.6)**
Reclassification to held for sale	[illegible]		[illegible]		**(0.9)**
Exchange adjustments	[illegible]	–	[illegible]	–	**(0.7)**
At 30 September 2021	[illegible]	[illegible]	[illegible]	[illegible]	**61.6**
Additions	[illegible]	[illegible]	[illegible]	[illegible]	**25.4**
Disposals	[illegible]		[illegible]		**(2.0)**
Exchange adjustments	[illegible]	–	[illegible]	[illegible]	**6.9**
At 30 September 2022	**81.1**	**0.8**	**8.3**	**1.7**	**91.9**
Depreciation					
At 1 October 2020	[illegible]	[illegible]	[illegible]	[illegible]	**7.3**
Charge for the year	[illegible]	[illegible]	[illegible]	[illegible]	**10.8**
Disposals	[illegible]		[illegible]	–	**(0.8)**
Reclassification to held for sale	[illegible]		[illegible]	–	**(0.5)**
Exchange adjustments	[illegible]				**(0.1)**
At 30 September 2021	[illegible]	[illegible]	[illegible]	[illegible]	**16.7**
Charge for the year	[illegible]	[illegible]	[illegible]	[illegible]	**12.7**
Disposals	[illegible]		[illegible]	–	**(1.3)**
Exchange adjustments	[illegible]			–	**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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Lease liabilities

	2022 £m	2021 £m
At 1 October	**48.3**	[illegible]
Additions	**26.6**	[illegible]
Disposals	**(0.9)**	[illegible]
Lease repayments	**(13.5)**	[illegible]
Interest on lease liabilities	**2.6**	[illegible]
Reclassification to held for sale	**–**	[illegible]
Exchange movements	**6.0**	[illegible]
At 30 September	**69.1**	[illegible]

Analysed as:	£m	£m
Repayable within one year	**12.7**	[illegible]
Repayable after one year	**56.4**	[illegible]

13. Deferred tax

[illegible]

	2022 £m	2021 £m
At 1 October	(21.9)	[illegible]
Credit for the year [illegible]	6.6	[illegible]
Acquisitions [illegible]	(17.6)	[illegible]
Accounted for in Other Comprehensive Income or directly in Equity	(3.9)	[illegible]
Exchange adjustments	(1.4)	[illegible]
At 30 September	**(38.2)**	[illegible]

[illegible]

	Assets 2022 £m	Assets 2021 £m	Liabilities 2022 £m	Liabilities 2021 £m	Net 2022 £m	Net 2021 £m
Property, plant and equipment	0.1	[illegible]	(5.8)	[illegible]	(5.7)	[illegible]
Goodwill and intangible assets	–		(42.0)	[illegible]	(42.0)	[illegible]
Retirement benefit obligations	–	[illegible]	(1.0)	[illegible]	(1.0)	[illegible]
Inventories	3.1	[illegible]	(0.1)	[illegible]	3.0	[illegible]
Share-based payments	1.4	[illegible]	–	[illegible]	1.4	[illegible]
Trading losses	–		–		–	
Leases	1.2	[illegible]	–		1.2	[illegible]
Other temporary differences	5.1	[illegible]	(0.2)	[illegible]	4.9	[illegible]
	10.9	[illegible]	(49.1)	[illegible]	(38.2)	[illegible]
Deferred tax offset	(10.7)	[illegible]	10.7	[illegible]	–	
	0.2	[illegible]	(38.4)	[illegible]	(38.2)	[illegible]

[illegible]

14. Inventories

	2022 £m	2021 £m
Finished goods	217.4	[illegible]

[illegible]

15. Trade and other receivables and assets held for sale

	2022 £m	2021 £m
Trade receivables	158.9	[illegible]
Less: loss allowance	(7.2)	[illegible]
	151.7	[illegible]
Other receivables	9.8	[illegible]
Prepayments and accrued income	8.4	[illegible]
	169.9	[illegible]

Assets held for sale

[illegible]

[illegible]

	2022 £m	2021 £m
UK sterling	41.3	[illegible]
US dollars	70.1	48.4
Canadian dollars	12.6	[illegible]
Euro	18.0	[illegible]
Other	16.9	[illegible]
	158.9	[illegible]

[illegible]

	2022 £m	2021 £m
Not past due	124.9	[illegible]
Past due	26.8	15.5
Receivables impaired	7.2	3.6
	158.9	[illegible]

[illegible]

	2022 £m	2021 £m
Up to one month past due	20.7	[illegible]
Between one and three months past due	4.5	[illegible]
Between three and four months past due	1.6	[illegible]
Over four months past due	–	–
	26.8	15.5

[illegible]

	2022 £m	2021 £m
At 1 October	3.6	[illegible]
Charged against profit	3.4	[illegible]
[illegible]	0.6	[illegible]
[illegible]	(0.4)	[illegible]
At 30 September	7.2	3.6

[illegible]

16. Trade and other payables

	2022 £m	2021 £m
Trade payables	96.4	74.5
Other payables	25.8	[illegible]
Other taxes and social security	11.0	[illegible]
Accruals and deferred income	56.3	[illegible]
	189.5	[illegible]

[illegible]

	2022 £m	2021 £m
UK sterling	24.1	[illegible]
US dollars	50.2	[illegible]
Canadian dollars	0.8	[illegible]
Euro	14.1	[illegible]
Other	7.2	[illegible]
	96.4	74.5

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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**	[illegible]	[illegible]	[illegible]	5.6	3.8	21.0
Short term deposits	**–**	**0.1**	**1.8**	**–**	**1.0**	**2.9**	–	[illegible]	[illegible]	–	1.6	3.8
	15.2	**7.2**	**4.1**	**7.8**	**7.4**	**41.7**	6.5	3.4	[illegible]	5.6	5.4	24.8

[illegible]

18. Financial instruments

[illegible]

[illegible]

[illegible]

a) Credit risk

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

	Carrying amount 2022 £m	Carrying amount 2021 £m
Trade receivables	**151.7**	108.4
Other receivables	**9.8**	3.6
Cash and cash equivalents	**41.7**	24.8
	203.2	[illegible]

[illegible]

Impairment of financial assets

[illegible]

[illegible]

[illegible]

[illegible]

b) Liquidity risk

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

	2022 £m	2021 £m
[illegible]	–	[illegible]
[illegible]	204.0	[illegible]

[illegible]

	2022 £m	2021 £m
[illegible]	96.4	[illegible]
[illegible]	25.8	[illegible]
[illegible]	35.0	[illegible]
[illegible]	370.6	[illegible]
	527.8	[illegible]
[illegible]		
[illegible]	171.7	[illegible]
[illegible]	48.7	[illegible]
[illegible]	307.4	[illegible]
	527.8	[illegible]

[illegible]

c) Currency risk

[illegible]

[illegible]

[illegible]

Management considers that the most significant foreign exchange risk relates to the US dollar, Canadian dollar and Euro. The Group's sensitivity to a 10% strengthening in UK 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**	[illegible]
Canadian dollar/UK sterling	**2.6**	2.4
Euro/UK sterling	**1.7**	[illegible]
Decrease in total equity at spot rates		
US dollar/UK sterling	**12.6**	[illegible]
Canadian dollar/UK sterling	**12.9**	[illegible]
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 classified 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). [illegible]

[illegible]

[illegible]

e) Fair values

[illegible]

Derivatives

[illegible]

[illegible]

[illegible]

[illegible]

Trade and other receivables/payables

[illegible]

Borrowings

[illegible]

Other liabilities

[illegible]

f) Capital management risk

[illegible]

[illegible]

19. Other liabilities

	2022 £m	2021 £m
[illegible]	**7.4**	[illegible]
[illegible]	**24.0**	[illegible]
	31.4	[illegible]
[illegible]		
[illegible]	**19.0**	[illegible]
[illegible]	**12.4**	[illegible]

[illegible]

	2022 £m	2021 £m
[illegible]	**5.2**	[illegible]
[illegible]	**1.9**	[illegible]
[illegible]	**(1.2)**	
[illegible]	**0.1**	–
[illegible]	**1.4**	[illegible]
[illegible]	**7.4**	[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

	1 Oct 2021 £m	Additions £m	Discount unwind £m	Revaluation £m	Payments £m	Foreign Exchange £m	30 Sep 2022 £m
[illegible]	[illegible]		–	–	[illegible]		**–**
[illegible]	[illegible]	–	–		[illegible]	–	**–**
[illegible]	[illegible]	–	–	[illegible]	[illegible]	–	**–**
[illegible]	[illegible]				[illegible]		**–**
[illegible]	[illegible]			[illegible]	[illegible]	–	**–**
[illegible]	[illegible]			–	[illegible]		**0.3**
[illegible]	[illegible]		[illegible]	–	–	[illegible]	**5.4**
[illegible]	[illegible]	–	[illegible]		–	–	**1.2**
[illegible]	[illegible]		[illegible]			[illegible]	**4.9**
RKG		[illegible]		–	[illegible]		**8.6**
AMG Sealing	–	[illegible]	–				**0.5**
Hydroproducts	–	[illegible]	–				**0.5**
[illegible]		[illegible]			–	–	**2.3**
Silicone Solutions		[illegible]			–	–	**0.3**
	18.5	**12.3**	**0.4**	**(0.6)**	**(7.1)**	**0.5**	**24.0**

[illegible]

20. Minority interests

	£m
At 1 October 2020	[illegible]
Acquisition of business	[illegible]
Minority interest issued	0.7
Share of profit	[illegible]
Dividends paid	[illegible]
Exchange adjustments	(0.2)
At 30 September 2021	[illegible]
Acquisition of business	[illegible]
Minority interest acquired	(0.3)
Disposal of business	[illegible]
Share of profit	0.7
Dividends paid	(0.2)
Exchange adjustments	[illegible]
At 30 September 2022	**6.2**

[illegible]

[illegible]

21. Acquisitions and disposals of businesses

Acquisition of R&G Fluid Power Group Limited

[illegible]

[illegible]

[illegible]

[illegible]

Acquisition of Accuscience

[illegible]

[illegible]

[illegible]

Other acquisitions

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

	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**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**–**	**98.2**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**(0.7)**	**(18.5)**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**6.7**	**6.7**
Inventories	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**28.2**	**26.1**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**22.7**	**22.3**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**(28.9)**	**(29.7)**
Net assets acquired	**14.6**	**49.1**	**3.0**	**31.0**	**10.4**	**25.0**	**28.0**	**105.1**
[illegible]		[illegible]	–	[illegible]		[illegible]	**–**	**80.6**
[illegible]		[illegible]				–	**–**	**(2.5)**
[illegible]		[illegible]		[illegible]		[illegible]		**178.3**
[illegible]		[illegible]		[illegible]		[illegible]		**(6.1)**
		[illegible]		[illegible]		[illegible]		**172.2**
[illegible]		4				[illegible]		**11.0**
Total investment		**99.1[2]**		**49.9**		**34.2**		**183.2**

[illegible]

Acquisitions revenue and adjusted operating profit

[illegible]

	Acquisition date	Revenue £m	Adj. £m	Pro forma revenue £m	Operating profit £m	Adj. £m	Pro forma operating profit £m
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		58.5	**65.8**	**124.3**	**8.7**	**10.9**	**19.6**

[illegible]

Disposals

[illegible]

[illegible]

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22. Reconciliation of operating profit to cash flow from operating activities

	2022 £m	2022 £m	2021 £m	2021 £m
Operating profit		**144.3**		[illegible]
Acquisition related and other charges (note 2)		**46.9**		[illegible]
Adjusted operating profit		**191.2**		[illegible]
Depreciation or amortisation of tangible, other intangible assets and leases - right-of-use assets	**23.9**		[illegible]	
Share-based payment expense (note 4)	**2.8**		[illegible]	
Defined benefit pension scheme payment in excess of interest	**(0.6)**		[illegible]	
Profit on disposal of assets	**(1.6)**		[illegible]	
Acquisition and disposal expenses paid	**(6.5)**		[illegible]	
Other non-cash movements	**0.1**		[illegible]	
Non-cash items and other		**18.1**		[illegible]
Operating cash flow before changes in working capital		**209.3**		[illegible]
Increase in inventories	**(35.6)**		[illegible]	
Increase in trade and other receivables	**(10.6)**		[illegible]	
Increase in trade and other payables	**17.5**		[illegible]	
Increase in working capital		**(28.7)**		[illegible]
Cash flow from operating activities		**180.6**		[illegible]

23. (Net debt)/cash funds

[illegible]

	1 Oct 2021 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2022 £m
[illegible]	[illegible]	[illegible]	[illegible]		**41.7**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**(370.6)**
Net debt	[illegible]	[illegible]	[illegible]	[illegible]	**(328.9)**

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2021 £m
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Cash funds/(net debt)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

24. Retirement benefit asset and obligations

[illegible]

[illegible]

[illegible]

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	(6.4)	[illegible]
Kubo Pension Scheme	–	[illegible]
Pension scheme net (asset) / deficit	**(6.4)**	[illegible]

[illegible]

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	–	[illegible]
Kubo Pension Scheme	(0.5)	[illegible]
Amounts charged to the Consolidated Income Statement	(0.5)	[illegible]

[illegible]

Diploma Holdings PLC UK Pension Scheme

[illegible]

[illegible]

[illegible]

[illegible]

- **Investment risk.** [illegible]
- **Interest rate risk.** [illegible]
- **Inflation risk.** [illegible]
- **Mortality risk.** [illegible]

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
Gilts	**3.9**	5.7
Buy-in policy	**7.3**	10.5
Cash	**–**	0.2
	31.9	38.3
Present value of Scheme liabilities	**(25.5)**	(41.0)
Pension scheme net asset / (deficit)	**6.4**	(2.7)

[illegible]
2. The Buy-in policy [illegible]

In addition to the Buy-in policy, the pension scheme net asset includes [illegible] 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)**	[illegible]
Interest on assets	**0.8**	[illegible]
Charged to finance expense – net (note [illegible])	**–**	[illegible]
Amounts charged to the Consolidated Income Statement	**–**	[illegible]

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)**	[illegible]
Effect of changes in financial assumptions on Scheme liabilities	**15.4**	[illegible]
Effect of changes in demographic assumptions on Scheme liabilities	**0.3**	[illegible]
Experience adjustments on Scheme liabilities	**(0.7)**	
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	**8.5**	[illegible]

[illegible]

d) Analysis of movement in the pension (asset) / deficit

	2022 £m	2021 £m
Deficit as at 1 October	**2.7**	[illegible]
Amounts charged to the Consolidated Income Statement	**–**	[illegible]
Contributions paid by employer	**(0.6)**	[illegible]
Net effect of remeasurements of Scheme assets and liabilities	**(8.5)**	[illegible]
(Asset) / deficit as at 30 September	**(6.4)**	[illegible]

e) Analysis of movements in the present value of the Scheme liabilities

	2022 £m	2021 £m
At 1 October	**41.0**	[illegible]
Experience adjustments on Scheme liabilities	**0.7**	–
Interest cost on liabilities	**0.8**	[illegible]
Impact from changes in actuarial assumptions	**(15.7)**	[illegible]
Benefits paid	**(1.3)**	[illegible]
At 30 September	**25.5**	[illegible]

f) Analysis of movements in the present value of the Scheme assets

	2022 £m	2021 £m
[illegible]	**38.3**	[illegible]
Interest on assets	**0.8**	[illegible]
Return on scheme assets	**(6.5)**	[illegible]
Contributions by employer	**0.6**	[illegible]
Benefits paid	**(1.3)**	[illegible]
At 30 September	**31.9**	[illegible]

[illegible]

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management [illegible] at 30 September 2022 the [illegible]

	2022 %	2021 %
North American equities	**28**	[illegible]
UK equities	**12**	[illegible]
[illegible]	**11**	[illegible]
[illegible] and Emerging Markets equities	**12**	[illegible]
[illegible]	**14**	[illegible]
[illegible]	**23**	[illegible]

Principal actuarial assumptions for the Scheme at balance sheet dates

		2022 %	2021 %	2020 %	2019 %
[illegible]	[illegible]	**3.6**	[illegible]	[illegible]	[illegible]
	[illegible]	**3.2**	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	**3.2**	[illegible]	[illegible]	[illegible]
[illegible]		**5.3**	[illegible]	[illegible]	[illegible]

[illegible]

Demographic assumptions

[illegible]	S3PA
[illegible]	CMI 2021
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	

Sensitivities

[illegible]

Factor	Assumption	Impact on pension liabilities: Estimated increase %	Impact on pension liabilities: Estimated increase £m
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Risk mitigation strategies

[illegible]

[illegible]

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 [illegible] in cash to the Scheme annually, increasing at 2% per year. The current year contribution was [illegible]. No one-off contributions were made in the year (2021: one-off contribution of [illegible]).

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 finances its Swiss pension benefits through the ASGA Pensionskasse, a multi-employer plan of non-associated companies which pools risk 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[1]	**13.5**	[illegible]
Actuarial liabilities of the Kubo Scheme	**(13.5)**	[illegible]
Pension scheme net deficit	**–**	[illegible]

1 [illegible]

b) Amounts charged to the Consolidated Income Statement

	2022 £m	2021 £m
Service cost	**(0.5)**	[illegible]
Amount charged to operating profit in the Consolidated Income Statement	**(0.5)**	[illegible]

c) Analysis of movement in the pension deficit

	2022 £m	2021 £m
At 1 October	**2.2**	[illegible]
Amounts charged to the Consolidated Income Statement	**0.5**	[illegible]
Contributions paid by employer	**(0.5)**	[illegible]
Net effect of remeasurements of Kubo Scheme assets and liabilities	**(2.1)**	[illegible]
Exchange adjustments	**(0.1)**	[illegible]
At 30 September	**–**	[illegible]

d) Amounts recognised in the Consolidated Statement of Comprehensive Income
The actuarial gain recognised in the Consolidated Statement of Comprehensive Income is [illegible] (2021: [illegible] gain).

	2022 £m	2021 £m
Investment gain/(loss) on Scheme assets in excess of interest	**(1.3)**	[illegible]
Effect of changes in financial assumptions on Scheme liabilities	**4.2**	
Effect of changes in demographic assumptions on Scheme liabilities	**–**	[illegible]
Experience adjustments on Scheme liabilities	**(0.4)**	[illegible]
Adjustment in respect of IFRIC 14	**(0.4)**	–
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	**2.1**	[illegible]

Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2022	2021
Expected rate of salary increases	**0%**	[illegible]
Expected rate of pension increases	**1.0%**	[illegible]
Discount rate	**2.3%**	[illegible]
Interest credit rate	**1.0%**	[illegible]
Mortality	**BVG2020**	[illegible]

Sensitivities
[illegible]

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	[illegible]	[illegible]	[illegible]
Life expectancy	[illegible]	[illegible]	[illegible]

Effect of the Kubo Scheme on the Group's future cash flows

	£m
Best estimate of employee contribution in 2022	[illegible]
Best estimate of employee contribution in 2023	[illegible]

[illegible]

25. Auditors' remuneration

[illegible]

	2022 £m	2021 £m
Fees payable to the auditors for the audit of:		
the Company's Annual Report & Accounts	1.1	[illegible]
the Company's subsidiaries	0.4	[illegible]
Audit fees	1.5	[illegible]

[illegible]

26. Exchange rates

[illegible]

	Average		Closing	
	2022	2021	2022	2021
US dollar (US$)	1.27	[illegible]	1.12	[illegible]
Canadian dollar (C$)	1.63	[illegible]	1.53	[illegible]
Euro (€)	1.18	[illegible]	1.14	[illegible]
Swiss franc (CHF)	1.20	[illegible]	1.10	[illegible]
Australian dollar (AUD)	1.79	[illegible]	1.74	[illegible]

27. Alternative performance measures

[illegible]

27.1 Adjusted operating profit and adjusted operating margin

[illegible]

	Note	2022 £m	2021 £m
Revenue		1,012.8	[illegible]
Operating profit		144.3	[illegible]
Add: [illegible]		46.9	44.4
Adjusted operating profit	[illegible]	191.2	[illegible]
Adjusted operating margin	[illegible]	18.9%	[illegible]

27.2 Adjusted profit before tax

[illegible]

	Note	2022 £m	2021 £m
Adjusted operating profit	[illegible]	191.2	[illegible]
[illegible]	[illegible]	(11.6)	[illegible]
Adjusted profit before tax		179.6	[illegible]

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 (loss) attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 124,533,050 (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**	96.6
Tax expense			**(34.1)**	(26.9)
Minority interests			**(0.7)**	0.1
Earnings for the year attributable to shareholders of the Company	**76.1**	56.1	**94.7**	69.8
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**	85.2	**133.9**	106.1

27.4 Free cash flow and free cash flow conversion

Free cash flow is 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 any pre-acquisition debt-like items such as pensions or tax settled post acquisition) and proceeds from business disposals, borrowings received [illegible] and dividends paid to both minority shareholders and the Company shareholders. [illegible] 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 (decrease)/increase in cash and cash equivalents			**17.5**	[illegible]
Add:	Dividends paid to shareholders	[illegible]	**56.2**	[illegible]
	Dividends paid to minority interests	20	**0.2**	[illegible]
	Acquisition of minority interests	[illegible]	**0.3**	
	Proceeds from minority interests	[illegible]	**–**	[illegible]
	Acquisition of businesses and investments (including [illegible] net of cash acquired)		**177.6**	451.4
	Acquisition and disposal expenses paid	[illegible]	**6.5**	[illegible]
	Proceeds from sale of businesses (net of expenses)	[illegible]	**(13.7)**	[illegible]
	Proceeds from issue of share capital (net of fees)		**–**	[illegible]
	Deferred consideration paid	[illegible]	**7.1**	[illegible]
	Proceeds from/repayment of [illegible]	[illegible]	**(131.3)**	[illegible]
Free cash flow			**120.4**	[illegible]
Adjusted earnings			**133.9**	106.1
Free cash flow conversion			**90%**	103%

27.5 Trading capital employed and ROATCE

[illegible]

	2022 £m	2021 £m
Net assets	**668.2**	[illegible]
[illegible]		
[illegible]	**38.2**	[illegible]
[illegible]	**(6.4)**	[illegible]
[illegible]	**29.6**	[illegible]
[illegible]	**328.9**	[illegible]
Reported trading capital employed	**1,058.5**	[illegible]
[illegible]	**99.6**	[illegible]
Adjusted trading capital employed	**1,158.1**	[illegible]
[illegible]	**191.2**	[illegible]
[illegible]	**9.7**	[illegible]
Pro forma adjusted operating profit	**200.9**	[illegible]
ROATCE	**17.3%**	[illegible]

[illegible]

27.6 Net debt to EBITDA

[illegible]

	Note	2022 £m	2021 £m
[illegible]	[illegible]	**41.7**	[illegible]
[illegible]	[illegible]	**(370.6)**	[illegible]
[illegible]		**23.1**	[illegible]
Net debt (average exchange rates)		**(305.8)**	[illegible]
[illegible]	[illegible]	**191.2**	[illegible]
[illegible]	[illegible]	**11.2**	[illegible]
[illegible]		**1.2**	[illegible]
[illegible]		**(1.1)**	[illegible]
[illegible]		**10.2**	[illegible]
EBITDA		**212.7**	[illegible]
Net debt to EBITDA		**1.4x**	[illegible]

[illegible]

27.7 Dividend cover

[illegible]

	Note	2022	2021
[illegible]	[illegible]	**107.5**	[illegible]
[illegible]		**53.8**	[illegible]
Dividend cover		**2.0**	[illegible]

GROUP ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 SEPTEMBER 2022

1.1 Basis of preparation
The [illegible] financial statements have been prepared on [illegible] consistent basis to prior year and also under 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 UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Dignity PLC transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes 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 [illegible] are set out in the Strategic Report on pages 2 to 89. The [illegible] of the Group, its cash flows, liquidity position and [illegible] are described in the Financial Review on pages [illegible] to 79. In addition, pages 156 to 159 of the Annual Report & Accounts include the Group's objectives, policies and processes for [illegible]; its financial risk management objectives; [illegible] instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group [illegible] to operate against a backdrop of [illegible] disruption, including widespread global inflation [illegible] and the continued uncertainty of the Covid-19 pandemic [illegible]. Accordingly, the Directors have again considered a more comprehensive going concern view than in previous years. The Group has [illegible] financial resources, together with a broad [illegible] and suppliers across different geographic areas [illegible] secured with longer-term agreements. As a [illegible], the Directors believe that the Group is well placed to manage its [illegible], as described further on pages [illegible] to 86.

Liquidity and financing position
The Group's [illegible] funding arrangements are described [illegible] 22 to the consolidated financial statements. On [illegible] October 2020 the Group entered into a debt facility agreement (SFA) [illegible] comprised a three-year term loan for an aggregate principal amount of £[illegible] and a committed multi-currency revolving facility (RCF) for an aggregate principal amount [illegible] £85.0m [illegible] during the previous financial year.

[illegible] 30 September 2022 the SFA [illegible] revolving facility (RCF) for an aggregate principal amount of £[illegible] term loan for an aggregate principal amount of £174.2m [illegible] bullet term loan [illegible] principal amount of £[illegible] aggregate principal amount of £[illegible]. The SFA is due to expire in December 2024 [illegible] 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 [illegible] of debt. The effect [illegible] fixed rate debt was 24% 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 £110.0m of debt.

At 30 September 2022, the Group's Net Debt:EBITDA ratio is [illegible] as illustrated in note 27.

As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173.3m ([illegible]) 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 include £[illegible] (2021: £0.4m) of accrued interest and the carrying amount of capitalised debt fees is £4.7m (2021: £2.6m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £[illegible] ([illegible]) and drawings of £[illegible] under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £[illegible].

Total net debt is £[illegible] (2021: £[illegible]), comprising net cash funds of £41.7m (2021: £34.[illegible]), borrowings of £[illegible] (2021: £[illegible]) and lease obligations of £[illegible] (2021: £48.[illegible]). Bank covenants are tested against net debt [illegible].

Financial modelling
The Group [illegible] assessment of going concern [illegible] detailed budget [illegible] considers both the [illegible] impact performance [illegible] that business [illegible] revenues [illegible] unfavourable [illegible].

The [illegible] that the Group [illegible] covenants [illegible] liquidity and covenant [illegible] continue [illegible] foreseeable future.

Going concern basis
Accordingly, and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis [illegible] the Annual Report & Accounts.

1.2 Basis of consolidation
The consolidated financial statements [illegible] statements of the Company [illegible] Company [illegible] Control exists when the Company [illegible] variable returns from [illegible] ability to affect those returns [illegible] assets [illegible] during the year are included [illegible] Statement from the effective date [illegible] disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those described herein to ensure that the Group financial statements are prepared on a consistent basis. All intra-Group transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

Non-controlling interests, defined as minority interests in the net assets of consolidated subsidiaries, are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

1.2.a. New accounting standards adopted

There have been no new accounting standards adopted during the year that have a material impact over the consolidated financial statements.

1.3 Acquisitions

Acquisitions are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill on the acquisition date represents the cost of the business combination, excluding acquisition-related costs which are expensed as incurred, plus the amount of any non-controlling interest in the acquiree in excess of the fair value of the identifiable tangible and intangible assets, liabilities and contingent liabilities acquired.

Minority interests may be initially measured at fair value or alternatively at the minority interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made for each business combination separately.

1.4 Divestments

The results and cash flows of divested businesses that have been divested are classified as discontinued businesses. There were no discontinued operations in [illegible] the current or prior year.

1.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable [illegible] customers after deducting sales allowances [illegible] taxes. Revenue receivable for services [illegible] customers [illegible] less than [illegible]% of Group revenue. Under IFRS 15 each customer contract is assessed to identify the performance obligation. An assessment of the timing of revenue recognition is made for each performance obligation. Revenue is recognised at a point in time for most standard revenue [illegible] when control of the goods provided is transferred to the customer. Revenue is also recognised at a point in time for contracts that contain multiple elements (service contracts) when the [illegible] the customer, unless there are specific [illegible] obligations to deliver other services over time. The [illegible] such service contracts is not material in the context of the Group's total revenue.

The transaction price [illegible] performance obligation based on the relative stand-alone selling prices of the goods or services provided. [illegible] the Group will estimate the [illegible] to the price that would be charged [illegible] separately. There are no [illegible].

[illegible] are provided. There [illegible] the Group.

1.6 Employee benefits

The Group operates a number of pension plans, both of the defined contribution and defined benefit type.

a. Defined contribution pension plans: Contributions to the Group's defined contribution schemes are recognised as an employee benefit expense when they fall due.

b. Defined benefit pension plan: The deficit asset recognised in the balance sheet in the Group's defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation asset is calculated by independent actuaries using the projected unit cost method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds. The pension expense for the Group's defined benefit plan is recognised as follows:
   - Within the Consolidated Income Statement:
   - Service cost of current members of the [illegible] Scheme
   - Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised in operating profit
   - Any interest cost on the net deficit of the plan – calculated by applying the discount rate to the net defined benefit liability at the start of the annual reporting period

   ii) Within the Consolidated Statement of Comprehensive Income – 'Other Comprehensive Income':
   Actuarial gains and losses arising in the assets and liabilities of the plan related to actual experience and any changes in assumptions at the end of the year.

c. Share-based payments: Equity-settled transactions [illegible] where the Executive Directors and certain senior employees receive a part of their remuneration in the form of shares in the Company, or rights over shares, are measured at fair value at the date of grant. The fair value determined at the grant date uses the Monte Carlo method and takes account of the effect of market-based measures such as Total Shareholder Return (TSR) targets upon which vesting is conditional of the award [illegible] and is expensed to the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding credit to equity. The cumulative expense recognised is adjusted to take account of shares forfeited by executives who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely that shares will vest. For the market-based measure the Directors have used a Monte Carlo model to determine fair value of the shares at the date of grant.

The Group operates an EBT for the granting of shares to Executives. The cost of shares in the Company purchased by the EBT are shown as a deduction from equity.

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 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 rates at the date the fair value was determined. Where a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity. Conversely, where a gain or loss on a non-monetary item is recognised in the Consolidated Income Statement, any exchange component of that gain or loss is also recognised in the Consolidated Income Statement.

b) Translation from functional currency to presentation currency
When the functional currency of a Group entity is different from the Group's presentation currency (sterling), its results and financial position are translated into the presentation currency as follows:
i) Assets and liabilities are translated using exchange rates prevailing at the balance sheet date.
ii) Income and expense items are translated at the average exchange rates for the year, except where the use of such average rates does not approximate the exchange rates at the dates of the transactions, in which case the actual rates at the date of the transaction are used.
iii) All resulting exchange differences are recognised in Other Comprehensive Income, and the cumulative exchange differences are recognised in the Consolidated Income Statement in the period in which the foreign operation is disposed of.

c) Net investment in a foreign operation
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 separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the consolidated financial statements, such exchange differences are initially recognised in Other Comprehensive Income as a separate component of equity and subsequently recognised in the Consolidated Income Statement on disposal of the net investment.

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 taxation as reported in the Consolidated Income Statement. Taxable profit excludes items of income and expense that are taxable (or deductible) in other years and also 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 balance sheet 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 of the deficit on the Group's defined benefit pension scheme, the difference between accumulated tax allowances and depreciation and for short-term timing differences where a provision for doubtful receivables or inventory is not deductible for taxation purposes. However, deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as the Group controls the dividend policies of its subsidiaries.

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 charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with 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 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

1.9 Property, plant and equipment

[illegible]

[illegible]

Freehold property	– between 20 and 50 years
Leasehold property	– term of the lease
Plant and equipment	– plant and machinery between 3 and 7 years
	– IT hardware between 3 and 5 years
	– fixtures and fittings between 5 and 15 years
[illegible] equipment	– 5 years

[illegible]

1.10 Intangible assets

[illegible]

a) Research and development costs

[illegible]

b) Computer software costs

[illegible]

c) Acquired intangible assets – business combinations

[illegible]

[illegible]

d) Goodwill – business combinations

[illegible]

1.11 Impairment of tangible and intangible assets

[illegible]

[illegible]

a) Impairment of goodwill

[illegible]

[illegible]

b) Impairment of other tangible and intangible assets

[illegible]

1.12 Inventories

[illegible]

[illegible]

1.13 Financial instruments

[illegible]

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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 losses are recognised in the Consolidated Income Statement, calculated under IFRS 9 (see note 1.2(a)).

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 repayable 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 subsidiaries 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 [illegible] 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 holds derivative financial instruments in the form of [illegible] foreign exchange [illegible] contracts to hedge its foreign currency exposure and interest rate swaps to reduce its exposure to market interest rates. These derivatives are designated as cash flow hedges. The Group has elected to continue to apply the hedge accounting requirements of IAS 39 as allowed under IFRS 9.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequent changes 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 reclassified to profit [illegible] maturity of the derivatives. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in accordance with [illegible] are recognised [illegible] in the Consolidated Income Statement.

[illegible]

[illegible]

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 IFRS 9 is 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, being the initial amount of the lease liability [illegible] commencement date.

[illegible]

[illegible]

[illegible]

[illegible]

1.16 Other liabilities

[illegible]

1.17 Dividends

[illegible] until approved at the AGM. Interim [illegible] they are paid.

1.18 Share capital and reserves

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

1.19 Related parties

[illegible]

1.20 Accounting standards, interpretations and amendments to published standards not yet effective

[illegible]

[illegible]

[illegible]

1.21 Significant accounting estimates and critical judgements

[illegible]

1.21.1 Acquisition accounting (estimate)

[illegible]

[illegible]

[illegible]

[illegible]

	R&G	Accuscience
Discount rate – [illegible] intangibles	[illegible]	[illegible]
Revenue growth rate – [illegible] intangibles	[illegible]	[illegible]
Customer attrition rate – [illegible] customer relationships	[illegible]	[illegible]

[illegible]

1.21.2 Goodwill impairment (estimate)

[illegible]

1.21.3 Inventory provisions (estimate)

[illegible]

[illegible]

1.21.4 Defined benefit pension (estimate)

[illegible]

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	[illegible]	**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		**–**	(34.7)
Net assets		**333.0**	262.5
Capital and reserves			
Called up share capital	[illegible]	**6.3**	6.3
Share premium		**188.6**	188.6
Profit and loss account		**138.1**	67.6
Total shareholders' equity		**333.0**	262.5

[illegible]

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	188.6	50.4	**245.3**
Total Comprehensive Income	[illegible]	–	–	69.6	**69.6**
Dividends paid	[illegible]	–		(52.9)	**(52.9)**
Settlement of LTIP awards	[illegible]	–		0.5	**0.5**
At 30 September 2021		6.3	188.6	67.6	**262.5**
Total Comprehensive Income	[illegible]	–		125.5	**125.5**
Dividends paid	[illegible]			(56.2)	**(56.2)**
Settlement of LTIP 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 on a going concern basis 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 have been prepared on an historical cost basis and presented in UK sterling and all values are rounded to the nearest [illegible] except when otherwise indicated.

Diploma PLC is a public company limited by shares incorporated in the United Kingdom and registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10-11 Charterhouse Square, London EC1M 6EE. The financial statements were authorised by the Directors for publication on [illegible] November 2022.

The following disclosures have not been provided as permitted by FRS 101:

- a cash flow statement and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS;
- disclosures in respect of the compensation of key management personnel.

The Company has also taken the exemption under FRS 101 [illegible] paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment' in respect of group settled share-based payments as the consolidated financial statements of the Company include the equivalent disclosures within the Remuneration Committee Report.

a.2) Total Comprehensive Income
Total Comprehensive Income comprises dividends received from subsidiaries [illegible] and that are payable [illegible].

a.3) Dividend income
Dividend income is recognised when [illegible] in the Company's Financial Statements in the year in which the dividends are approved by the Company's [illegible].

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 are accounted for as a deduction from shareholders' equity in accordance with IAS 32 as applied by FRS 101. Shares that are held by the Trust are not eligible for dividends until such time as the awards have vested and options have been exercised by the participants.

a.5) Auditors' remuneration
Fees payable to the auditors for the audit of the Company's financial statements of [illegible] (2021: [illegible]) were borne by another Group undertaking.

b) Directors' and employees' remuneration
No remuneration is paid directly by the Company. Information on the Directors' remuneration [illegible] and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 114 to 135 and note 4 to the Consolidated Financial Statements on page 149. The Company has no employees (2021: none).

c) Company profit and loss account
As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. There were no gains or losses [illegible] in Other Comprehensive Income. The Company's profit for the year was £125.5m (2021: profit of £69.6m) before settlement of LTIP awards.

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 [illegible] to [illegible]. 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**	[illegible]	**6.3**	6.3

During the year, 72,262 ordinary shares in the Company (2021: 21,914) were transferred from the Trust to participants [illegible] income tax [illegible] in connection with the exercise of options in respect of awards which had vested under the [illegible] Long Term Incentive Plan as set out in the Remuneration Committee Report.

At 30 September 2022, the Trust held 11,033 (2021: 91,640) ordinary shares in the Company, representing [illegible] of the called up share capital. The market value of the shares at 30 September 2022 was [illegible] (2021: [illegible]).

f) Dividends
Details in respect of dividends [illegible] paid during the year by the Company [illegible] statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

[illegible]

[illegible]

[illegible]

Basis for opinion

[illegible]

Independence

[illegible]

[illegible]

[illegible]

Our audit approach

Overview

Audit scope

[illegible] Group revenue.

Key audit matters

[illegible] (Group)

[illegible] (parent)

Materiality

- Overall Group materiality: [illegible] based on approximately 5% of profit before tax.
- Overall Parent Company materiality: [illegible] based on 1% of total assets.
- Performance materiality: [illegible] (Group) and £2.5m (2021: £2.2m) (Parent Company).

The scope of our audit

[illegible]

Key audit matters

[illegible]

[illegible]

[illegible]

Key audit matter	How our audit addressed the key audit matter
Valuation of the intangibles for the R&G and Accuscience acquisitions (Group) [illegible]	[illegible]
Carrying value of investments in subsidiaries (Parent Company) [illegible]	[illegible]

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How we tailored the audit scope

We tailored the scope of our audit to ensure that we [illegible] to give an opinion on the financial statements as a whole, taking into account the structure of the [illegible] Company, the accounting processes and controls, and the industry in which they operate.

The Group is focused on three core Sectors [illegible] with operations primarily geographically located in Australia, Canada, the USA, the UK and Continental Europe. [illegible] management reporting entities which are consolidated by Group management. [illegible] representing the operating businesses within these three core Sectors. [illegible] determined by considering the significance of each component's contribution to profit before tax [illegible] items, with specific consideration to obtaining sufficient coverage over significant [illegible]. 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 clearance meetings via video conference or in person, met with management from certain UK, USA and Canada businesses and [illegible] component teams. [illegible]

[illegible]

Materiality

[illegible]

[illegible]

	Financial statements – Group	Financial statements – Parent Company
Overall materiality	[illegible]	[illegible]
How we determined it	[illegible]	[illegible]
Rationale for benchmark applied	[illegible]	[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Conclusions relating to going concern

Reporting on other information

Strategic Report and Directors' Report

Directors' Remuneration

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC
CONTINUED

Corporate governance statement

[illegible]

[illegible]

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]

[illegible]

[illegible]

- [illegible]
- [illegible]

[illegible]

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

[illegible]

[illegible]

Auditors' responsibilities for the audit of the financial statements

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Use of this report

[illegible]

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 financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions 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 years ended 30 September 2018 to 30 September 2022.

C Burns

Christopher Burns (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 November 2022

SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*
Seals	
HB Sealing Products, Inc	[illegible]
HKX Inc [illegible]	E
RTD Seals Corp	[illegible]
VSP Technologies Inc	[illegible]
HB Sealing Products Limited	[illegible]
M Seals A/S	M
M Seals AB	N
M Seals UK Limited	A
[illegible] Seal and Supply Limited	A
Diploma (Tianjin) Trading Co Limited	[illegible]
Diploma CCA Limited	A
FPE Seals Limited	A
DMR Seals (Holdings) Limited	A
DMR Gaskets Limited	A
DMR Seals Limited	A
A B Seals Limited	A
Swift Seals (Aberdeen) Limited	A
FPE Seals BV	[illegible]
Kubo Tech AG	[illegible]
Kubo Tech GmbH	[illegible]
[illegible] Australia Pty Limited	[illegible]
[illegible] Group Australia Pty Limited	[illegible]
[illegible]	[illegible]
[illegible] Management Pty Limited	AB
[illegible] Pty Limited	AB
[illegible] Trading Pty Limited	AB
[illegible] Limited	A
[illegible] Investments Limited	[illegible]
[illegible] Fluid Power Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hose & Hydraulics Limited	A
[illegible] Hydraulics Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Hydraulic Services Limited	A
[illegible] Pneumatic Services Limited	A
[illegible] Limited	A
[illegible] Machinery Limited	A
[illegible] Limited	A
[illegible] Group Limited	A
[illegible] Limited	A
[illegible] Fittings Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Industrial [illegible] Limited	A
[illegible] Limited	A
[illegible]	A

	Registered office address*
[illegible] & Hydraulic [illegible] Limited	A
[illegible] Hydraulic Services Limited	A
Pneumatic Services Limited	A
[illegible] Limited	A
[illegible] Limited	A
Fluid Power Products Limited	A
[illegible] & Pipe Fittings Limited	A
[illegible] Engineering [illegible] Limited	A
[illegible] Technology Pty Limited	A[illegible]

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SUBSIDIARIES OF DIPLOMA PLC
CONTINUED

Controls	Registered office address*
IS-Rayfast Limited	A
IS-Motorsport, Inc	C
Amfast Limited	A
Clarendon Specialty Fasteners Limited	A
Clarendon Specialty Fasteners (Asia) Limited	X
Clarendon Specialty Fasteners Inc	B
Clarendon Engineering Supplies Limited	A
Clarendon Specialty Fasteners GmbH	Y
Cabletec Interconnect Component Systems Limited	A
Sommer GmbH	G
Filcon Electronic GmbH	H
[illegible] SAS	C
Gremtek SAS	C
Gremtek UK Limited	A
Gremtek GmbH	[illegible]
[illegible] SARL	C
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Inc	C
[illegible] Limited	A
[illegible] Group Europe Limited	A
[illegible] Fasteners Limited	A
Specialty Fasteners & Components Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Group Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] Limited	A
[illegible] LLC	Z
[illegible] Holdings LLC	[illegible]
[illegible] LLC	Z
[illegible] LLC	AG
[illegible] LLC	AG

Life Sciences	Registered office address*
Somagen Diagnostics Inc	F
AMT Electrosurgery Inc	F
Vantage Endoscopy Inc	F
Big Green Surgical Company Pty Limited	R
Diagnostic Solutions Pty Limited	R
Sphere Surgical Pty Limited	R
Aspire Surgical Pty Limited	R
Big Green Surgical NZ Limited	[illegible]
Techno-Path Distribution Limited	W
Abacus dx Pty Limited	R
Abacus dx Limited	[illegible]
Simonsen and Weel A/S	AC
Simonsen and Weel AB	AA
Kungshusen Medicinska AB	AD
Accu Science Ireland Limited	AE
Medlink Services [illegible]	AF

	Registered office address*
Intermediate holding companies	
Diploma Holdings PLC	A
Diploma Holdings Inc.	C
Price Limited	A
Diploma Australia Holdings Limited	A
Diploma [illegible] Holdings Limited	A
Diploma Overseas Limited	A
Napier Group Limited	A
[illegible] Limited	A
Diploma One Limited	A
Diploma Two Limited	A
[illegible] Limited	A
Diploma Holding Company GmbH	G
Diploma Canada Healthcare Inc	F
Diploma Australia Healthcare Pty Limited	R
Diploma Australia Seals Pty Limited	R
[illegible] Holdings Limited	A
[illegible] Holdings Limited	A
R&G Fluid Power Holdings Limited	A
R&G Fluid Power Group Limited	A

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

Q1 Trading Update released	16 January 2023
Annual General Meeting 2022	[illegible] January 2023
Half Year Results announced	1[illegible] May 2023
Q3 Trading Update released	20 July 2023
Preliminary Results announced	2[illegible] November 2023
Annual Report posted to shareholders	8 December 2023
Annual General Meeting 2023	[illegible] January 2024

Dividends (provisional dates)

Interim announced	15 May 2023
Paid	[illegible] June 2023
Final announced	2[illegible] November 2023
Paid if approved	[illegible] February 2024

Annual Report & Accounts

Copies can be obtained from the Group Company Secretary at the address shown opposite.

Share Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: [illegible]

Its website for shareholders [illegible]
www.investorcentre.co.uk

Shareholders' enquiries

If you have any enquiry about the Company's 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 shown 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 3899848

Website

Diploma's website is: www.diplomaplc.com

ADVISORS

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London EC2V 7BF

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Independent Auditor
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors
Simmons & Simmons LLP
CityPoint
One Ropemaker Street
London EC2Y 9SS

Bankers
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1 Churchill Place
London E14 5HP

HSBC Bank plc
City Corporate Banking Centre
60 Queen Victoria Street
London EC4N 4TR

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FIVE YEAR RECORD

Year ended 30 September	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	**1,012.8**	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted operating profit	**191.2**	148.7	[illegible]	[illegible]	[illegible]
Net interest and similar charges	**(11.6)**	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted profit before tax	**179.6**	[illegible]	84.4	[illegible]	84.8
Acquisition related and other charges	**(46.9)**	[illegible]	[illegible]	[illegible]	[illegible]
Fair value remeasurements	**(3.2)**	[illegible]	[illegible]	[illegible]	[illegible]
Profit before tax	**129.5**	[illegible]	[illegible]	83.5	72.7
Tax expense	**(34.1)**	(26.9)	(16.9)	[illegible]	[illegible]
Profit for the year	**95.4**	[illegible]	49.8	62.4	54.4
Capital structure					
Equity shareholders' funds	**662.0**	[illegible]	[illegible]	321.5	291.2
Minority interest	**6.2**	[illegible]	[illegible]	3.5	3.1
Add/(deduct): cash and cash equivalents	**(41.7)**	[illegible]	[illegible]	[illegible]	[illegible]
borrowings	**370.6**	[illegible]		[illegible]	
retirement benefit (assets)/obligations	**(6.4)**	[illegible]	[illegible]	[illegible]	10.5
net acquisition related liabilities	**29.6**	[illegible]	[illegible]	[illegible]	[illegible]
deferred tax, net	**38.2**	[illegible]	[illegible]	[illegible]	8.4
Reported trading capital employed	**1,058.5**	[illegible]	[illegible]	[illegible]	[illegible]
Add historic goodwill and acquisition related charges, net of deferred tax and currency movements	**99.6**	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted trading capital employed	**1,158.1**	[illegible]	[illegible]	[illegible]	[illegible]
Net (decrease)/increase in net (debt)/funds	**(113.8)**	[illegible]	[illegible]	[illegible]	[illegible]
Add dividends paid	**56.4**	[illegible]	[illegible]	[illegible]	[illegible]
acquisition of businesses (including minority interests), net of disposals	**177.8**	[illegible]	[illegible]	[illegible]	[illegible]
proceeds from issue of share capital, net of fees	**–**	[illegible]	[illegible]		
Free cash flow	**120.4**	[illegible]	[illegible]	[illegible]	[illegible]
Per ordinary share (p)					
Basic earnings	**76.1**	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted earnings	**107.5**	[illegible]	[illegible]	[illegible]	[illegible]
Free cash flow	**96.7**	[illegible]	[illegible]	[illegible]	[illegible]
Dividends	**53.8**	[illegible]	[illegible]	[illegible]	[illegible]
Total shareholders' equity	**532**	[illegible]	[illegible]	264	[illegible]
Dividend cover	**2.0**	[illegible]	[illegible]	[illegible]	[illegible]
Ratios	**%**				
Return on adjusted trading capital employed (ROATCE)	**17.3**	[illegible]	[illegible]	[illegible]	[illegible]
Working capital to revenue	**15.6**	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted operating margin	**18.9**	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

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