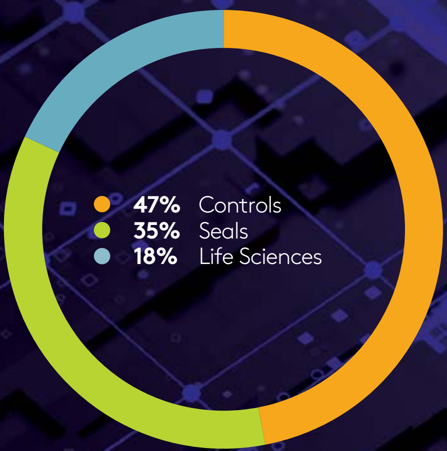
DIPLOMA AT A GLANCE

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)*



CONTROLS

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.

LIFE SCIENCES

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

* Pro forma revenue – assuming acquisitions and disposals concluded in the year had taken place at 1 October 2021.

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

Continuous improvement	Determined to get better every day
Accountability	Striving for high standards
Respect	Doing the right thing

TRACK RECORD OF COMPOUNDING GROWTH

Adjusted EPS (pence)

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 These alternative performance measures are defined in Note 27 to the financial statements.

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.

DIPLOMA 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

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.

ESSENTIAL VALUES
RELATIONSHIPS
INNOVATIVE SOLUTIONS
CUSTOMER SERVICE
CONSISTENTLY
FOR COLLEAGUES
TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT
BRILLIANT LEADERSHIP
FOR STAKEHOLDERS
EMPOWERED TEAMS

DIPLOMA DELIVERS

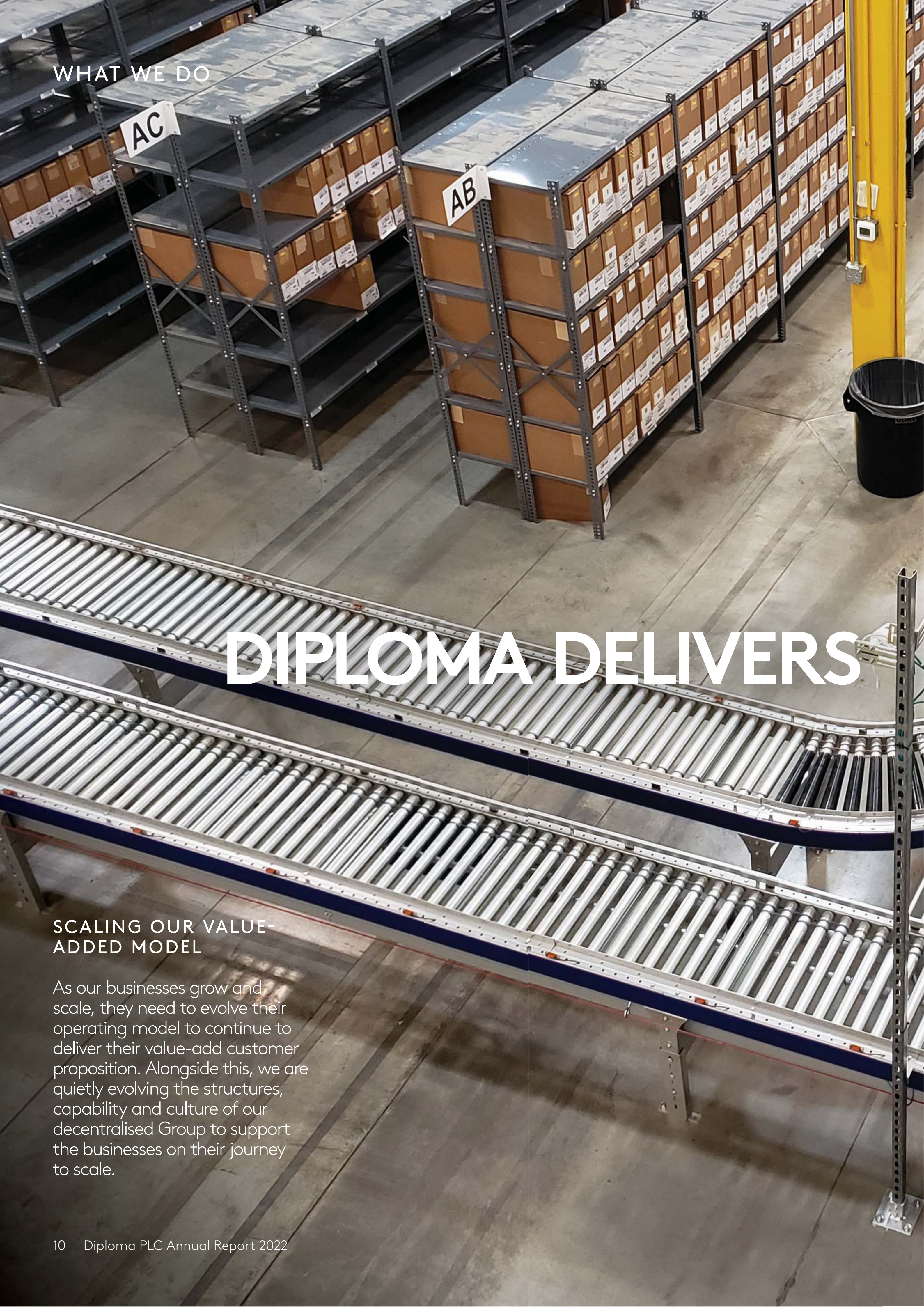
SUSTAINABLE ORGANIC GROWTH STRATEGY

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.

RELATIONSHIPS
BESPOKE SOLUTIONS
CUSTOMER SERVICE
CONSISTENTLY
GREAT SERVICE
TECHNICAL EXPERTISE
VALUE-ADD

ORGANIC GROWTH

SCALE
RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD
ESSENTIAL VALUES
RELATIONSHIPS
BESPOKE SOLUTIONS



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.

BESPOKE SOLUTIONS
CUSTOMER SERVICE
CONSISTENTLY
GREAT SERVICE
TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD
ESSENTIAL VALUES
RELATIONSHIPS
BESPOKE SOLUTIONS
CUSTOMER SERVICE

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, an1hareholders.

CUSTOMER SERVICE
CONSISTENTLY
GREAT SERVICE
TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD
ESSENTIAL VALUES
RELATIONSHIPS
BESPOKE SOLUTIONS
CUSTOMER SERVICE
CONSISTENTLY

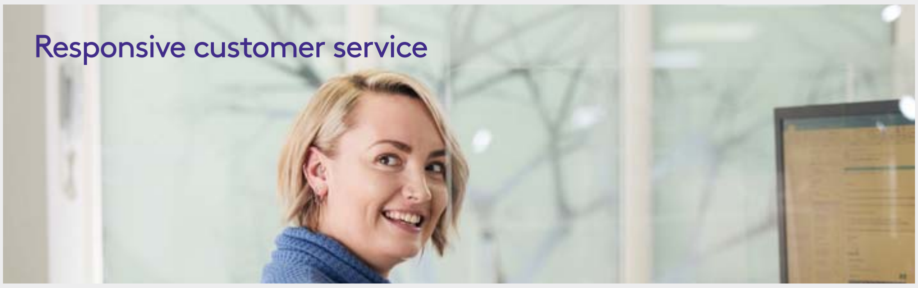
DRIVEN BY OUR PURPOSE

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

OUR VALUE-ADDED BUSINESSES

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

Responsive customer service



Technical expertise

Innovative, value-added solutions

Brilliant leadership, strong culture and empowered teams

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.

Customers & Suppliers

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

Our Colleagues

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

Group colleague Engagement Score of

79%

Our Communities

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

Our Shareholders

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

EPS growth (10-year CAGR)

13%

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

It is a great pleasure to present my first statement as Chair of Diploma. As you will see throughout this report, my first year has covered a period of considerable achievement and strategic progress. When I was appointed, I felt proud to be joining an organisation with exciting opportunities, a differentiated value-added model delivering sustainable growth and great people. During my first year, I have not been disappointed – I have been impressed by the power of our decentralised model and the pride our employees take in their jobs. Our businesses have strong cultures, but share the same inherent values – they are accountable, entrepreneurial and empowered to deliver critical services and products for their customers.

Very strong financial performance, excellent strategic progress

The Group has delivered another very strong financial performance, with double-digit organic revenue growth and consistent strong operating margins translating into 26% growth in adjusted earnings per share (EPS). Our 15% organic growth shows that our strategy and growth frameworks continue to produce results. We are also seeing growth in a number of areas aligned with positive impact, demonstrating that our businesses are embedding Delivering Value Responsibly, our ESG programme, into their commercial strategies. It has been another busy year for acquisitions, with seven high-quality businesses joining the Group; these will accelerate our future organic growth. In particular, I am very pleased to welcome Accuscience and R&G Fluid Power Group, both exciting additions.

Given the challenges of the external operating environment, sustaining our adjusted operating margin at 18.9% is a great achievement and reflects both our differentiated value-added servicing model and the hard work of colleagues across the Group.

Ensuring the sustainability of our growth is paramount, and the team has continued to build scale, investing across our businesses and the Group to ensure we can continue to deliver for customers as we grow. Throughout this, we remain financially disciplined, maintaining high-teens ROATCE of 17.3%, and our strong balance sheet allows us to invest in growth. I would like to thank the management team and all of our businesses for another great year at Diploma.

Colleagues and culture

As a customer-service organisation, our colleagues are critical to our success. Since joining, I have really enjoyed visiting the businesses and meeting colleagues. I have been impressed by their commitment to their customers, and the great sense of loyalty they feel for their businesses. This is underlined by the very positive results of this year's Colleague Engagement Survey. The Board remains committed to ensuring Diploma is a diverse and inclusive organisation and is pleased to have set targets for 2023 that we will continue to evolve and drive forward. I look forward to meeting more of our people in the year ahead.

Our Group Colleague Engagement Survey continues to show excellent levels of engagement. The learnings from this survey will inform future actions and activity to ensure colleagues continue to view Diploma as a great place to work. The results and learnings were also discussed by the Board, helping to shape and inform our views on culture and diversity.

Diploma's culture continues to be critical to accelerating our strategy, aligning decentralised businesses and providing competitive advantage. The Board is very conscious of its role in fostering and monitoring this positive culture. Although, as a decentralised Group, there isn't one, single culture, all of our businesses share core values. Alongside our strong, local cultures, we are steadily building Diploma networks based on best practice and knowledge sharing.

While we have much more to do, we are increasingly leveraging the collective power of the Group whilst maintaining local agility.

Board changes

After nearly nine years on the Board, John Nicholas stepped down from the role of Chair and the Board in January 2022. The Board and I would like to thank John for his support, and I look forward to building on all that he achieved during his tenure.

Barbara Gibbes stepped down from the Board and the role of Chief Financial Officer on 30 September 2022. On behalf of the Board, I would like to thank Barbara for her leadership and dedication. The Nomination Committee led a thorough selection process and, in August 2022, we announced the appointment of Chris Davies as Chief Financial Officer. Chris joined us on 1 November 2022, bringing a wealth of experience and an excellent track record of leadership in decentralised, service-led, multinational organisations.

Two of our independent Non-Executive Directors, Anne Thorburn and Andy Smith, are due to retire from the Board in 2024 at the end of their third and final terms. As per our standing succession planning, we have already commenced the search to ensure successors are appointed in time for an orderly handover. Further information on this and the diversity of the Board can be found in the Nomination Committee Report. It remains our intention that the diversity of the Board will increase over time.

Dividends

The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with growth in adjusted EPS. The combination of very strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a 29% increase in the final dividend to 38.8p (2021: 30.1p) taking the total dividend to 53.8p (2021: 42.6p). This represents dividend cover of 2x. Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 3 February 2023 to shareholders on the register at 20 January 2023 (ex-div 19 January 2023).

Outlook

The Group started the new financial year from a position of strength. While the wider backdrop is one of macroeconomic uncertainty and volatility, the achievements of the last three years mean that our Group is larger, more diverse and therefore more resilient than ever. We have a differentiated, value-added business model, a proven strategy for delivering sustainable growth, and great teams.

On behalf of the Board, I would like to take this opportunity to thank all of our colleagues for their welcome contribution to our success over the last year and, personally, for giving me such a warm welcome.

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

Our execution has been very strong. Organic growth is the Group's number one priority, so I am particularly pleased that we have delivered 15% this year. We have also successfully maintained our adjusted operating margin at 18.9%, with our resilient value-added service model and pricing enabling us to offset inflation. We have invested £187m in seven strategically important acquisitions, which will accelerate future organic growth, and build scale in key business lines.

Growth is only one part of the strategy; our future success also depends on effectively scaling our businesses and the Group to ensure growth is sustainable. For our businesses, we are steadily developing their target operating models and continuously improving the core competencies of our value-added model. At a Group level, we continue to quietly evolve our structures, capability and culture for scale.

One of the most exciting aspects of 2022 has been the way in which our businesses and colleagues have embraced Delivering Value Responsibly (DVR), our ESG programme. Our businesses are executing initiatives aligned with our five DVR focus areas, we have embedded our framework into our commercial strategy and culture, and we are announcing ESG targets to drive continuous improvement in material areas.

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

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

Organic growth

+15%

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

Reported revenue growth was 29%, including a positive contribution from high-quality acquisitions and a 5% benefit from foreign exchange movements.

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

Our H2 cash performance was strong; free cash flow conversion was in-line with our model at 90%. This has resulted in good deleveraging in the second half; year end net debt was 1.4x EBITDA (2021: 1.1x), underpinning our resilience and providing good flexibility to continue to invest in growth. We have good liquidity with undrawn facilities of £204m; 50% of our gross debt is at fixed interest rates (ca. 3%)[1].

Sustainable organic growth strategy: revenue diversification driving growth, building scale and increasing resilience
The Group's strategy is to build high-quality, scalable businesses for organic growth. All of our businesses have fantastic opportunities and our strategy is focused on growing, diversifying and scaling in three ways:

1. Positioning behind high growth end segments: many of which are also linked to our focus on end markets with a positive impact (see pages 48-49).

- **Technology** investment, including in data centres, digital antenna systems, telecommunications and electrification is creating exciting opportunities, particularly in Controls.
- **Renewable energy and infrastructure investment** in the US and elsewhere is benefiting Seals and Controls.
- **Accelerating diagnostics spending:** ageing populations and rising healthcare spending remain fundamental drivers for Life Sciences; moreover, we are also well-positioned to capitalise on changing healthcare spending priorities post-pandemic, particularly in clinical diagnostics.

2. Geographic penetration of core developed economies: we remain relatively underpenetrated in our core developed markets of North America, Europe and Australia.

- We are already benefiting from accelerated market share gains in **North American Aftermarket** and the potential in previously untapped Western and Midwestern states is hugely exciting.

1 Approximately half fixed post-year end.

- Geographic diversification in the **US and Europe at International Controls**, both organically and through acquisitions, creating a more balanced geographic revenue mix.
- The acquisition of Anti-Corrosion Technology (ACT) in Australia marks further progress in **Australian Seals** where, over the last three years, we have built a much bigger, higher quality business.
- We continue to build scale in **Europe in Life Sciences** with the acquisition of Accuscience.

3. Product range extension to expand addressable markets: we do this incrementally, within the businesses, and at portfolio level.

- The acquisition of **R&G Fluid Power Group (R&G) represents a step change for Seals** in the UK, broadening Seals' fluid power offering.
- Continued development of our **exciting Adhesives business line in Controls:** Techsil, acquired last year, has delivered impressive organic growth, and the tuck-in acquisition of Silicone Solutions further strengthens our position in the UK.
- Across our portfolio, **incremental product adjacency initiatives** formed a key part of growth in the year with future plans including: supplier diversification in International Controls; proprietary product development in US MRO; initiatives across Seals relating to O-rings, cylinders and gaskets; and ongoing Life Sciences product pipeline development in new, innovative technologies, for example leveraging artificial intelligence, and in diagnostics.

Focused portfolio development

Focused portfolio development is key to the sustainability of our organic growth. As the Group grows, we must focus on business lines that best represent our model and for which we are the right owners to grow and scale. This means being disciplined about acquisitions and disposals.

Acquisitions to accelerate organic growth

Acquisitions are a key part of our growth strategy, with a disciplined focus on businesses with strong value-add distribution characteristics and high gross margins, and with organic growth potential and great management teams. During 2022, we acquired seven high-quality businesses for a total of £187m, deploying capital across all three Sectors:

- **LJR Electronics (Controls):** acquired in February for £21m (annualised revenue ca. £16m) to give Interconnect improved access to the large, attractive and growing US interconnect market.
- **R&G (Seals):** a value-added aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products, including seals and gaskets, acquired in April for £101m (annualised revenue ca. £69m). The business has added scale in the UK and broadened the Seals product portfolio to expand addressable markets.
- **Accuscience (Life Sciences):** a market-leading life sciences and med-tech distributor in Ireland, acquired in May for £51m (annualised revenue ca. £28m), adding scale in Ireland, continuing the build out of the European pillar of Life Sciences and giving access to the exciting diagnostics segment.
- **ACT (Seals):** a specialist provider of sustainable materials engineering and corrosion control solutions. Acquired in July for £7m (annualised revenue ca. £4m), highly complementary, and a further step in building a high-quality, scalable Australian platform for growth.
- **Silicone Solutions (Controls):** acquired for £3m in September (annualised revenue ca. £2m), continuing to build out and diversify our new adhesives business line.
- **Two small bolt-ons at R&G (Seals):** R&G continues to consolidate smaller regional players, acquiring two businesses for £4m (annualised revenue ca. £5m).

Our acquisition pipeline is encouraging, albeit given the wider market uncertainties, we will maintain our strict financial discipline. Nonetheless, we continue to invest in value-accretive bolt-ons at very attractive multiples. Since our H1 results, and prior to year end, we invested £14m in four bolt-ons; since year end R&G has completed a further two bolt-on acquisitions for £5m. These businesses were acquired for a 5x blended average multiple.

Portfolio discipline

As part of a disciplined approach to portfolio management, we made two small, non-core disposals in the year. In early May, we disposed of a1-envirosciences, formerly part of the Life Sciences Sector for £11m (annualised revenue ca. £13m). In November last year, we also disposed of Kentek, our Russian filters business, for £10m (annualised revenue ca. £23m).

Scaling our value-added businesses and the Group

Scaling our value-added businesses

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

As part of this, we seek to continuously improve the **Core Competencies** of our model:

- **Supply chain:** development of a more structured and proactive approach, including category management techniques and evaluation of partners on a fuller set of criteria, including location, flexibility, environmental and employment practices, not just quality and cost. While we have much more to do, management of our supply chain has been a differentiator in 2022; in some cases better product availability, particularly at WCW, has enabled market share gains.
- **Commercial discipline (or pricing):** the combination of improving pricing processes and the value we deliver for customers has enabled us to protect our operating margins. We have more to learn and more we can do with better data, through working with our suppliers and greater forward planning with customers to deliver the right pricing outcomes.
- **Operational excellence:** another focus area this year as we improve warehouse processes across the portfolio; as our businesses scale, they are making increasing use of automation. Through our network of best practice, we are also working to standardise processes.

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

- **Talent:** investment in talent remains a key driver for future growth, with a number of important appointments made in the year – these range from 25 functional appointments in Finance, Operations, Supply Chain and Commercial, to a newly created role heading up the Life Sciences European pillar. We remain focused on retention and have made important progress with the training and development available to colleagues and business leaders.
- Our approach to **Technology** is incremental, and success is dependent on having the right people in place to successfully implement change. We have a number of small upgrade projects ongoing at any one time, and many businesses are developing their webstore capabilities.
- Our investments in **Facility** support the growth of our businesses as well as providing opportunities to reduce emissions and to improve colleague working environments. During the year, we opened new facilities in Life Sciences in Australia and Europe; and we are in the planning stages for a further two new facilities over the next 18 months.

We have maintained high-teens margins of

18.9%

Scaling the Group

We continue to quietly evolve the structures, capability and culture of the Group. Over the last three years, we have evolved the Group's organisational structure around core, scalable business lines and developed our strategic and performance frameworks. At Group centre, we retain a lean head office focused on providing a service to the businesses, also selectively investing in upskilling functions such as Finance, Legal, Corporate Development and Internal Audit.

Alongside our powerful decentralised approach and strong local cultures, we continue to develop a complementary shared Diploma culture and identity based on best practice sharing.

Delivering Value Responsibly: embedding into our commercial strategy and culture

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

Key performance highlights of the year include:

- **Excellent and consistent colleague engagement score**: 79% (2021: 79%), and a very high response rate of 86%. This is a brilliant achievement given the challenging operating environment, and I am delighted with how leaders across the Group have worked hard to engage colleagues and leverage last year's engagement survey feedback.
- **Increasing the diversity of our Senior Management Team (SMT)**: female representation at SMT increased to 27% (2021: 24%), driven by external recruitment (40% female) which more than offset the impact of acquisitions (SMT talent additions from acquisitions >90% male).
- **Carbon emissions flat despite 15% organic revenue growth**: due to business initiatives and our investments in facility.

We are also announcing DVR targets aligned to our five focus areas. We are committed to net zero emissions across our value chain by 2050 at the latest, and have set an interim 50% reduction target for Scope 1 & 2 by 2030. We are currently calculating our Scope 3 emissions in order to submit net zero targets to the Science Based Targets initiative (SBTi) in 2023. For further details on our targets, please see the Delivering Value Responsibly section on pages 34-57.

Increasing resilience underpins our outlook

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

We have grown EPS by

26%

sustaining our impressive compounding track record

Diploma has an excellent track record of compounding growth and delivering strong financial returns through the cycle. Our model is resilient, and our strategic activity makes us more so over time as we diversify and scale. Increasing revenue diversification means we are exposed to exciting, structurally growing end segments. Our focus on value-added products and solutions critical to customer needs and predominantly serving opex budgets, together with our service component, fosters sticky customer relationships and pricing power and supports sustainable margins. Our highly cash-generative model and strong balance sheet underpin our resilience.

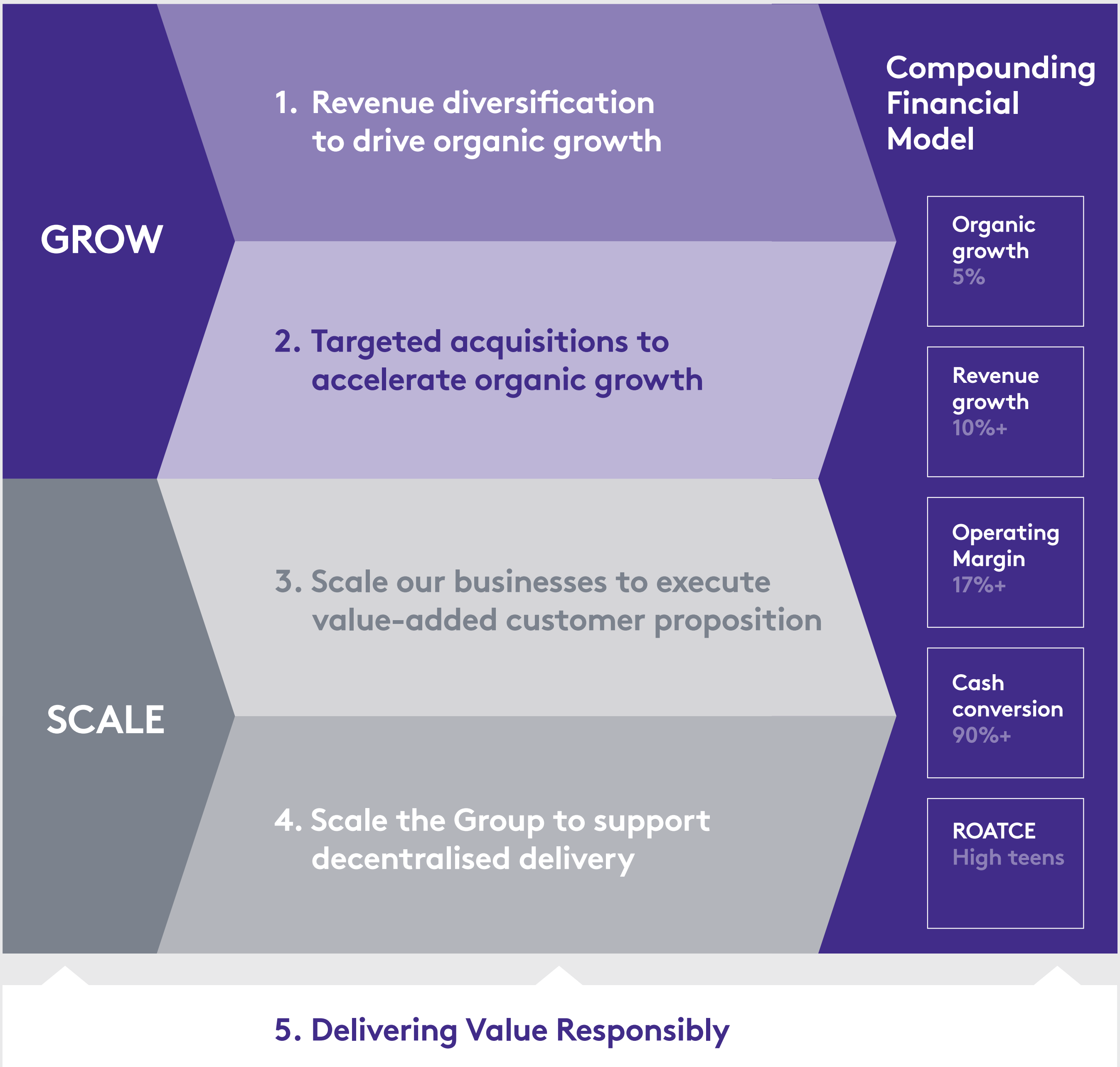
At this stage, FY 2023 is expected to be in line with our long-term model:

- Organic revenue growth: mid-single digit, consistent with our model and likely to be weighted to H1
- Acquisitions announced to date are expected to add ca. 6% to reported revenue growth
- Strong, resilient operating margin, in a range of 18-19%
- At this stage, the foreign exchange benefit from weaker sterling and higher interest costs are expected to be neutral to adjusted EPS

FY 2023 has started well, consistent with our guidance. We remain focused on executing our strategy of building high-quality, scalable businesses for organic growth and are confident in our ability to deliver long-term growth at sustainably high margins.

Johnny Thomson
Chief Executive Officer

Building high-quality, scalable businesses for sustainable organic growth



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

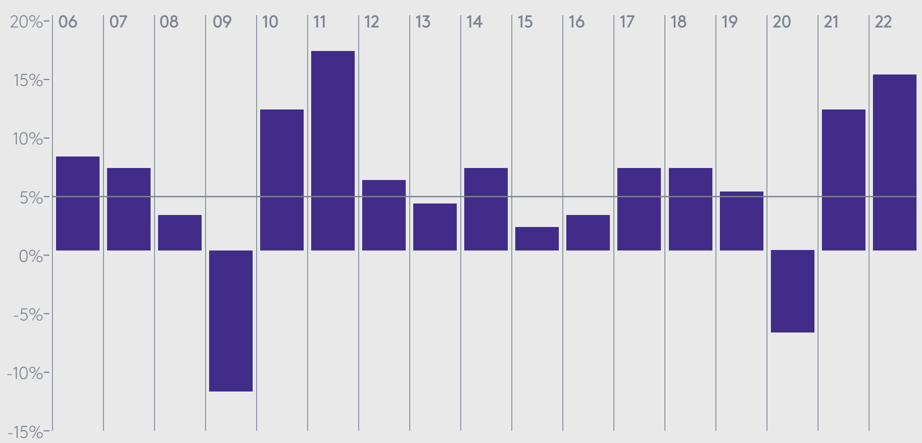
We are relatively underpenetrated in our core developed markets of North America, Europe and Australia where there is significant potential to increase market share.

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

Our acquisition strategy is focused on acquiring high-quality, value-add businesses that will accelerate organic growth. Fragmented markets offer many opportunities and our strong balance sheet gives us flexibility to reinvest.

We aim to add 5% to revenue growth from M&A on average.

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

Steve Sargeant,
Corporate Development Director

02
A disciplined approach

Our acquisition approach is highly disciplined – investments must offer a strong strategic fit; financial discipline is key to our compounding model.

Occasionally, our disciplined approach will result in selective disposals to maintain our focus.

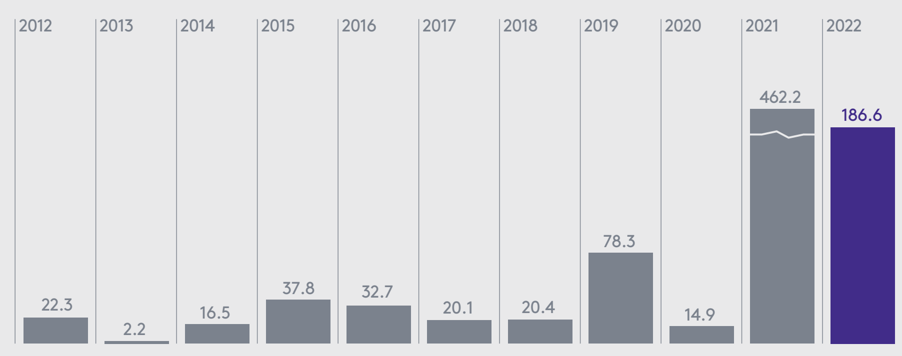
03
Success factors

Target attributes
- Value-add servicing, high gross margins
- Organic growth and scale potential
- Capable, established management teams

How we add value
- Investment in underlying growth
- Careful cross-selling
- Management expertise, sharing best practice
- Some scale/integration benefits

Strategically & financially disciplined
- Portfolio focus on scalable businesses
- Structured origination
- Strong focus on financial returns (ROATCE)

Historic M&A spend (£m)



CASE STUDY

Windy City Wire: accelerating organic growth for the Group

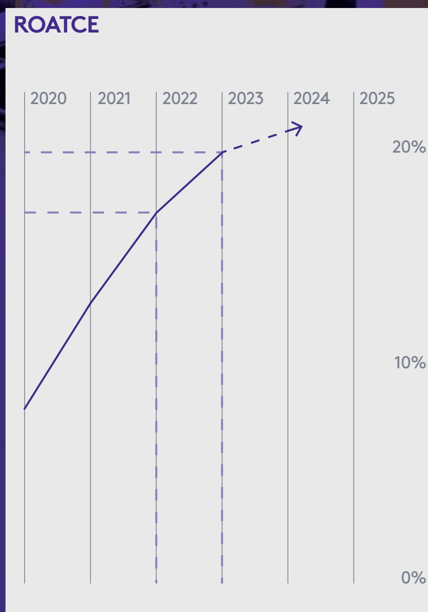
Windy City Wire is a leading value-added distributor of premium quality low voltage wire and cable.

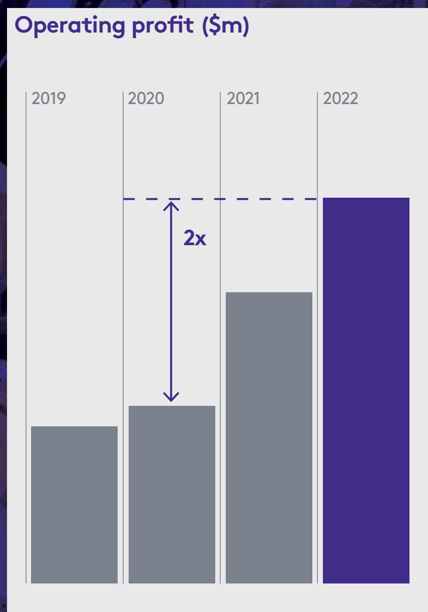
Acquired in October 2020 for £348m, the business represented a material strategic step forward, accelerating organic growth for the Group as a whole. Importantly, Windy City Wire diversified Controls into the large, attractive US industrials market and significantly increased the Group's exposure to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

In early May we completed the acquisition of Accuscience in the Life Sciences Sector for ca. £51m. Accuscience has a diverse, high-quality supplier portfolio which includes several tier one manufacturers. The business also has a proven ability to identify, attract, develop and grow best in class suppliers.

This has translated into a strong track record on growth and excellent scale across the island of Ireland.

Characteristics:
- Market-leading life sciences and medtech distributor
- Scaled across the island of Ireland

Value drivers:
- Exciting prospects for continued organic growth
- Access to fast-growing clinical diagnostics segment
- Strong product pipeline

Portfolio fit:
- European pillar for the Life Sciences Sector
- Adds scale in the attractive Irish market
- Product diversification
- Access to new segments

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

We acquired LJR Electronics, a value-added distributor of electrical interconnect products (industrial connectors, contacts and protective sleeving), in January for £21m. A US business, LJR forms part of our Interconnect business within the Controls Sector and has expanded our presence into the large, attractive and growing US interconnect market.

Characteristics:
- US value-add distributor
- Electrical interconnect products
- Based in Ohio, US

Value drivers:
- Organic growth
- Synergies with existing US business
- Introduce more value-add processes

Portfolio fit:
- US scale for Interconnect
- Continues to diversify International Controls in the US

CASE STUDY

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

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

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

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

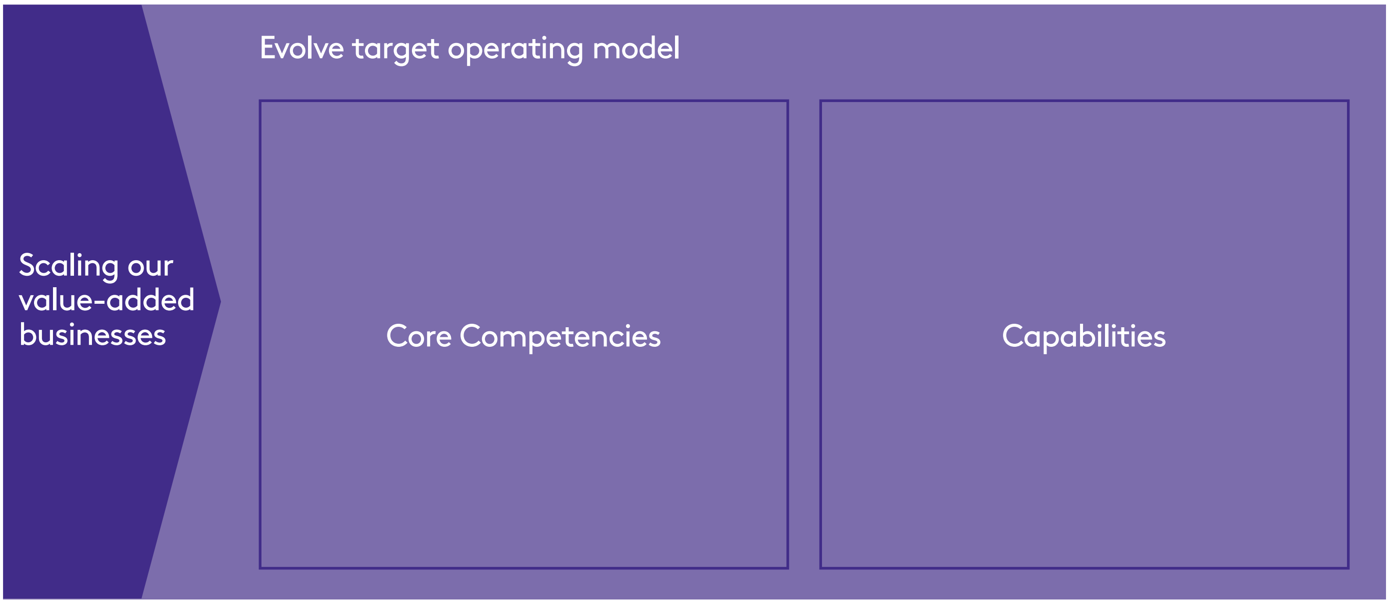
Value drivers:
- Excellent organic growth track record and significant potential through developing the aftermarket ecommerce channel, continued regional expansion in the UK, and further product cross-selling and diversification
- Continued 'buy & build': active pipeline with an opportunity to further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

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

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

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

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



Core Competencies

We seek to continuously improve the Core Competencies that underpin our model.

Supply Chain Management

A resilient supply chain to deliver growth plans responsibly. A structured and more proactive approach to Supply Chain Management.

Operational Excellence

End-to-end customer fulfilment solutions that deliver growth.

Value-Add

Distributing value-add products and solutions based upon our strengths of technical expertise, service-led propositions and innovative solutions.

Commercial Discipline

Pricing for profitable growth. The combination of improving pricing processes and the value we deliver for customers.

Route to Market

Strong customer proposition and sales management to realise growth plans.

4. Evolve the Group to support decentralised delivery

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

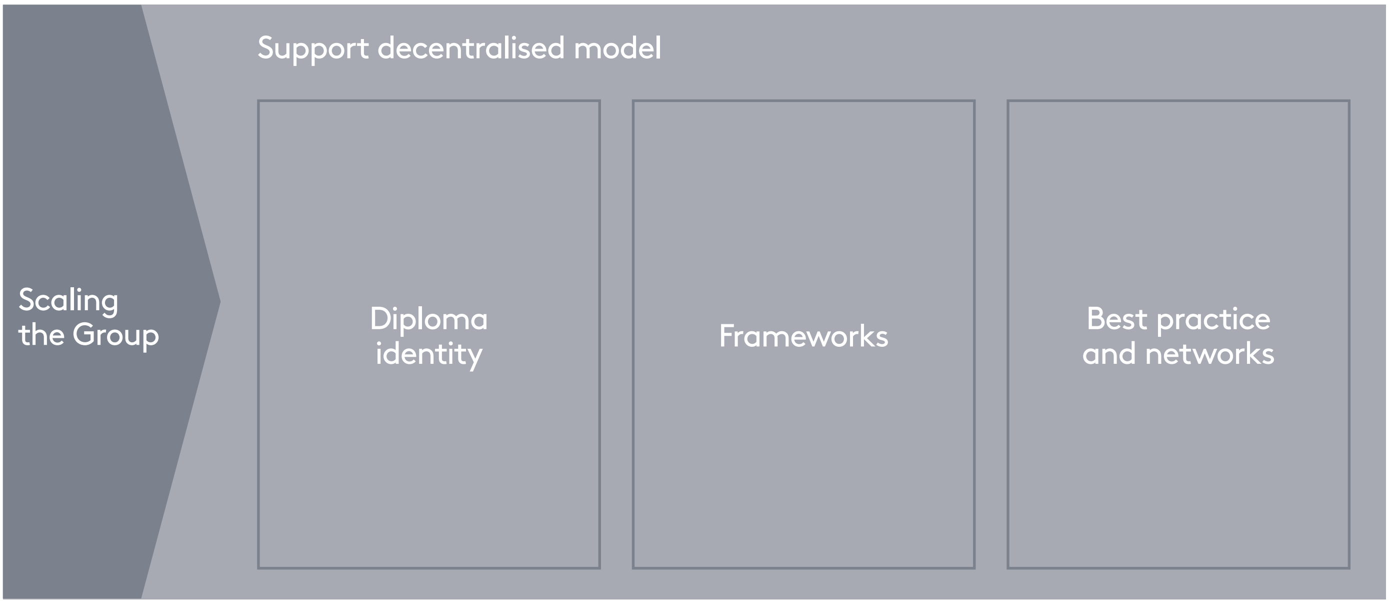
We continue to quietly evolve the structures, capability and culture of the Group to deliver for the long term.

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

As a customer-led organisation, the decentralised approach remains central to our success. Alongside this, we continue to develop a complementary Diploma culture and identity.

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

Through creating leadership networks, we provide our leaders with the opportunity to share experiences as they grow and scale their businesses.



Key capabilities

We support the development of these Core Competencies through reinvesting in capability.

Talent

Talent investment is a key driver of future growth. The right organisation design, retaining and developing talent.

Technology

Our approach to Technology is incremental and success is dependent on having the right people in place to successfully implement change.

Facility

Our investments in Facility support the growth of our business as well as providing opportunities to reduce emissions and to improve colleague working environments.

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

Australian Life Sciences: building a scalable platform for growth

In early 2022, we successfully completed the project to consolidate operations for our Australian Life Sciences businesses, Abacus dx and Big Green Surgical, into a single facility in Brisbane. Alongside this, supporting sales and services were also consolidated into a single new office in Victoria.

Building a new facility with capacity for future growth and expansion was only one reason for the project. By combining four stock locations and two operations teams, the combined facility has created an opportunity to improve supply chain management and operational excellence through harmonising and optimising workflows, processes and systems. For colleagues, it is a more modern working environment with better local amenities, excellent public transport and more career opportunities. The better layout will support progress with Health & Safety. Moreover, from an environmental perspective, the new facility is more energy efficient and closer to the airport.

There is more too – the project has opened up future opportunities to drive continuous improvement through implementing further technology and process improvements, all of which will benefit customers and suppliers.

Chicago June 2022: sharing best practice and building leadership networks

Our second ever in-person Senior Leadership Team (SLT) meeting was held in Chicago in June.

As we scale our value-added businesses and the Group, we want to retain our decentralised management approach and strong local cultures. However, there is huge opportunity for our leaders to learn from one another. One of the key roles of the Group is to foster best practice sharing and create leadership networks.

Our event in Chicago was both a celebration of success and an opportunity for our leaders to build their internal networks and share experiences which they can leverage in their own businesses.

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

Our people are our success. It is our priority to engage our colleagues and retain talent in our businesses. We also have a duty to keep our colleagues safe, champion diversity, and create an inclusive and equitable working environment where all of our colleagues are able to fulfil their potential.

Delivering for the Environment

Our role as a distributor gives us the opportunity to have a meaningful impact. We must leverage our relationships with key suppliers to tackle waste, packaging and emissions. This will improve operational efficiency and deliver value for our customers, suppliers and colleagues.

Delivering a Positive Impact

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

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: 22.8%), reflecting a restructure in Australian Healthcare and International Seals, increased automation at our Louisville facility, and a challenging talent market.

Our Colleague Engagement Survey is key to understanding how engaged our workforce is and helps us to identify themes and areas of 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. They 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

We've also started to roll out our learning management system across the Group. This provides a central hub for Group internal communications, policies and documents, and offers courses and information to support best practice and DVR.

Our engagement score remains high at 79% and we were able to increase the response rate across the Group. Importantly, engagement scores are consistent across the Group, ranging from 75%–85%.

75%+

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

90%

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

88%

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

We scored very strongly against themes relating to our colleagues' roles and management: 90% of respondents find their work meaningful, 89% of colleagues are proud to work for their business, and 88% believe that their manager empowers them and gives them the authority to do their job.

Following the FY21 engagement survey, we identified three areas of focus: leadership style, learning and development and wellbeing. All of these areas have shown an improvement in the last year and reflect the initiatives in place at many of our businesses.

Leadership style

75% +2%

2022	**75**
2021	73

Learning and development

70% +4%

2022	**70**
2021	66

Wellbeing

79% +1%

2022	**79**
2021	78

Learning and development and wellbeing continue to be ongoing areas of focus across the Group. We provide resources and guidance to businesses on development planning and performance feedback. We will continue to actively support businesses and colleagues on stress management, resilience and wellbeing.

CASE STUDY

M Seals UK Employee Working Group

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

The Employee Working Group is still going strong and meets quarterly. It includes colleagues from across the business and from every management level, department and site.

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

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

Ensuring Health & Safety

Our vision is that no one is harmed at work

2022 Highlights
- Continuing to build a proactive Health & Safety culture
- More robust reporting
- Reduced severity rate
- Improvement in potential hazard reporting
- Improved governance at business and Sector level

10.6
LTI rate

44%
reduction in severity rate

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

FY23 Target
5% year-on-year reduction in LTI rate

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

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

In line with our decentralised model, our Managing Directors are accountable for Health & Safety in their businesses. Each business works to build a strong Health & Safety culture, driven by the Managing Director and upheld by all colleagues.

Our Group CEO holds ultimate responsibility for Health & Safety across the Group, including ensuring good governance and provision of a safe working environment for all colleagues.

Businesses are responsible for developing and implementing procedures and frameworks to suit their specific circumstances and risk level. However, we expect all businesses to comply with the standards and requirements of our Group policy.

We have outlined a vision that no one should be harmed at work. In order to achieve this, we will focus on risk mitigation and a proactive Health & Safety culture. We see potential hazard reporting and awareness as good indicators of that culture.

To further support our long-term vision, we have set an LTI reduction target of 5% year-on-year to support us in reducing incidents.

Action during 2022
For the first time, our businesses reported monthly Health & Safety data for a full financial year. This allowed us to identify and act upon Group themes and risks quickly and share knowledge across the Group.

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

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

86%
of colleagues feel that Health & Safety is taken seriously in their business, according to our Colleague Engagement Survey

Ahead of the Policy update, we held Health & Safety workshops with colleagues who are responsible for Health & Safety at their business or facility. The purpose of these sessions was to support our businesses in embedding the Policy updates, ensure alignment with our targets and focus areas for FY23, and share best practice between Health & Safety managers.

We are also pleased that we have started to develop a wider network of Health & Safety colleagues. This network has brought Health & Safety managers together to share best practice and ideas on Health & Safety culture, as well as sharing experience and learnings on external certification, such as ISO qualification, for businesses preparing for review.

Group performance stats

LTI rate

2022	**10.6**
2021	10.1
2020	8.2

Severity rate

2022	**4.3**
2021	7.7
2020	5.2

Potential hazards

2022	**572**
2021	420
2020	111

During the year, our LTI rate increased to 10.6 (2021: 10.1) – an increase on the prior year of two incidents. However, we feel this reflects more robust reporting across the Group and were pleased that LTIs were less severe than in 2021, with the severity rate dropping from 7.7 to 4.3.

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

During the year, our North American Seals businesses created a Health & Safety network to share best practice and resources on Health & Safety.

In FY22, their injury days were 59% lower than the prior year and their number of LTIs decreased by 66%.

Promoting Diversity, Equity & Inclusion

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

2022 Highlights
- New Group Diversity, Equity & Inclusion Policy
- Unconscious bias workshops
- Training for Senior Leadership Team on inclusive leadership
- Ethnicity reporting

27%

of the Senior Management Team are women

KPI
% of women on the Senior Management Team

FY30 Target
Women represent 40%+ of Senior Management Team

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

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

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

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

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

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

40%

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

% of women on SMT

Gender diversity (as at 30 September)

	Male	Female	Total
Board	4	**3**	7
Executive team	6	**2**	8
SMT	95	**36**	131
All employees	1,998	**910**	2,909

We have set an FY30 target for the Senior Management Team (SMT) to be at least 40% women. We have made some progress towards that during the year with 40% of external recruitment into the SMT being women. However, the influence of acquisitions remains a challenge, with just 9% female representation amongst those that joined the SMT through acquisitions during FY22.

We also remain focused on improving the gender diversity of those joining the SMT through internal recruitment by building a gender-balanced pipeline of talent. Beyond the SMT, our ambition is to achieve gender balance across our workforce.

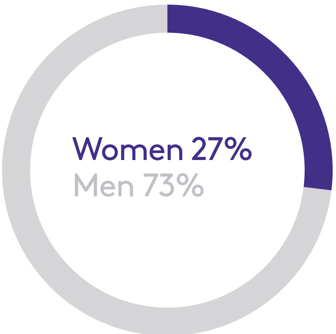
Ethnic diversity (as at 30 September)

	Non-minority	Ethnic minority	Prefer not to say	Total
Board	7	**0**	0	7
SMT	98	**13**	20	131

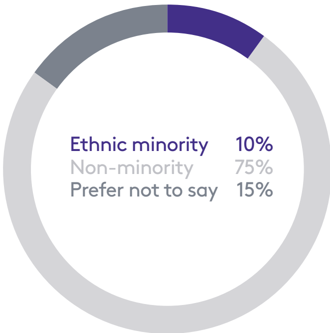
We have also started to measure ethnicity for the SMT. We have found that the percentage of the SMT that identify as belonging to an ethnic minority has increased slightly on the prior year (FY21: 7%). As with gender, this is largely due to external hires into the SMT during the year.

Diversity of our Senior Management Team

Gender diversity

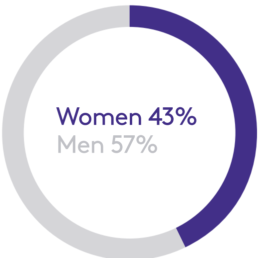


Ethnic diversity

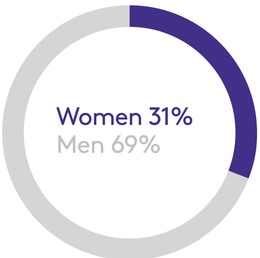


Gender diversity across the Group

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

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

During the year, our businesses have identified their key suppliers. These are categorised by the businesses but must account in aggregate for at least 50% of annual supplier spend. In addition, key suppliers may also include any high-volume supplier, critical component supplier, or non-substitutional supplier.

The standards of our Supplier Code ask our key supplier to commit to conducting their business according to high ethical, professional and legal standards including those relating to human rights, labour laws, anti-bribery and corruption and international trade laws and sanctions. We also ask that our suppliers work with us to reduce waste and emissions within our value chain.

In the first year of reporting against this metric, a total of 578 key suppliers were identified across the Group. Not all of the identified suppliers have been engaged on the Supplier Code – engagement is underway and so far, 59% of key suppliers have been engaged and are aligned with the Supplier Code. We will continue to engage the remaining identified key suppliers and assess new key suppliers on an ongoing basis.

We have also held workshops with supply chain roles across our businesses to help develop connections, share best practice and build understanding of the impact of our supply chain management on our emissions.

We will continue to build out this network and develop their knowledge of Scope 3 emissions, as this function and supply chain management will play a key role in our net zero strategy. We look forward to partnering with them on reducing emissions across our value chain.

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.

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

We have worked with EcoAct, an Atos company (EcoAct), to review our Scope 1 & 2 emissions and set an FY22 base year for our SBTi-aligned target to reduce Scopes 1 & 2 by 50% by 2030.

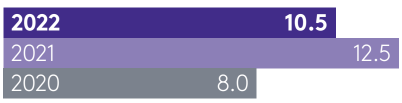
This target puts us on track to achieve net zero emissions across our operations by 2040.

The majority of our emissions are from heating, cooling and lighting our facilities, with Scope 2 representing 74% of our operational emissions. We intend to achieve our target by focusing on energy efficiency initiatives and on-site renewable power generation, as well as the purchase of renewable electricity.

		FY22	FY21	FY20
Greenhouse Gas Emissions (tonnes CO_2e)	Scope 1 emissions	**3,256**	2,554	773
	Scope 2 emissions	**7,359**	7,271	3,558
	Gross emissions	**10,615**	9,825	4,331

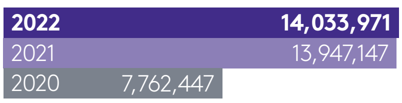
Tonnes CO_2e per £1m revenue

10.5



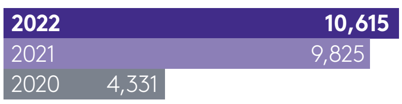
Purchased electricity kWh

14,033,971



Gross emissions

10,615



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

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

During FY22, which is our baseline year, we used actual emissions data from the majority of our businesses (90% of Group revenue) and estimated the emissions of the remaining businesses. Metrics are reported quarterly by the businesses. For estimated emissions, stationary combustion is estimated on a percentage of revenue basis, mobile combustion is estimated by applying the average vehicle GGEs to 'out of scope' vehicles, and purchased electricity is estimated on a percentage of revenue basis. Calculations are location-based.

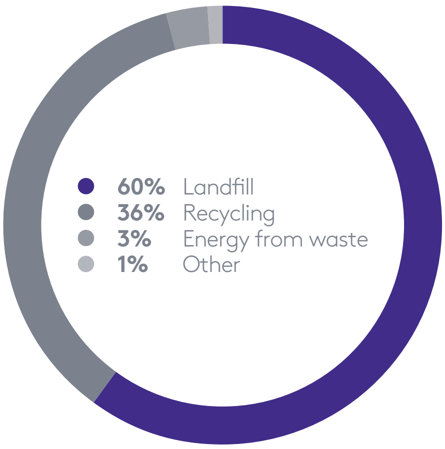
Gross emissions for existing businesses have remained relatively flat at 150 tonnes CO_2e less than FY21. Our Group emissions ratio (tonnes CO_2e per £1m revenue) has decreased from 12.5 to 10.5, largely driven by increased revenue. Total gross emissions for the Group were 10,615 tonnes CO_2e, of which 18% (1,915 tonnes CO_2e) was attributable to the UK.

Consolidating and upgrading facilities has been particularly effective and we have seen a 30% reduction in Scope 2 emissions at our Hercules Aftermarket business in the US due to moving operations to the more energy efficient Louisville facility. We have also seen some benefit from energy efficiency measures, such as upgrading to LED lighting.

Consumption of purchased electricity for the Group was 13,947,147kWh, of which 14% (1,885,178kWh) was consumed in the UK.

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

Waste by destination



Waste per £m revenue	3.5
Total waste	3,336 metric tonnes

Our businesses (excluding acquisitions) report their total waste and waste by destination every quarter, an exercise that has significantly improved our understanding of waste across our businesses. There have been challenges to collecting this data, due to the capacity of local waste haulers to measure waste, recycling infrastructure in some regions and variance of units that weight is measured in.

The businesses reported a total of 3,336 metric tonnes of waste, of which 60% goes to landfill.

CASE STUDY
Packaging

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

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

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

CASE STUDY

Facility upgrades

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

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.

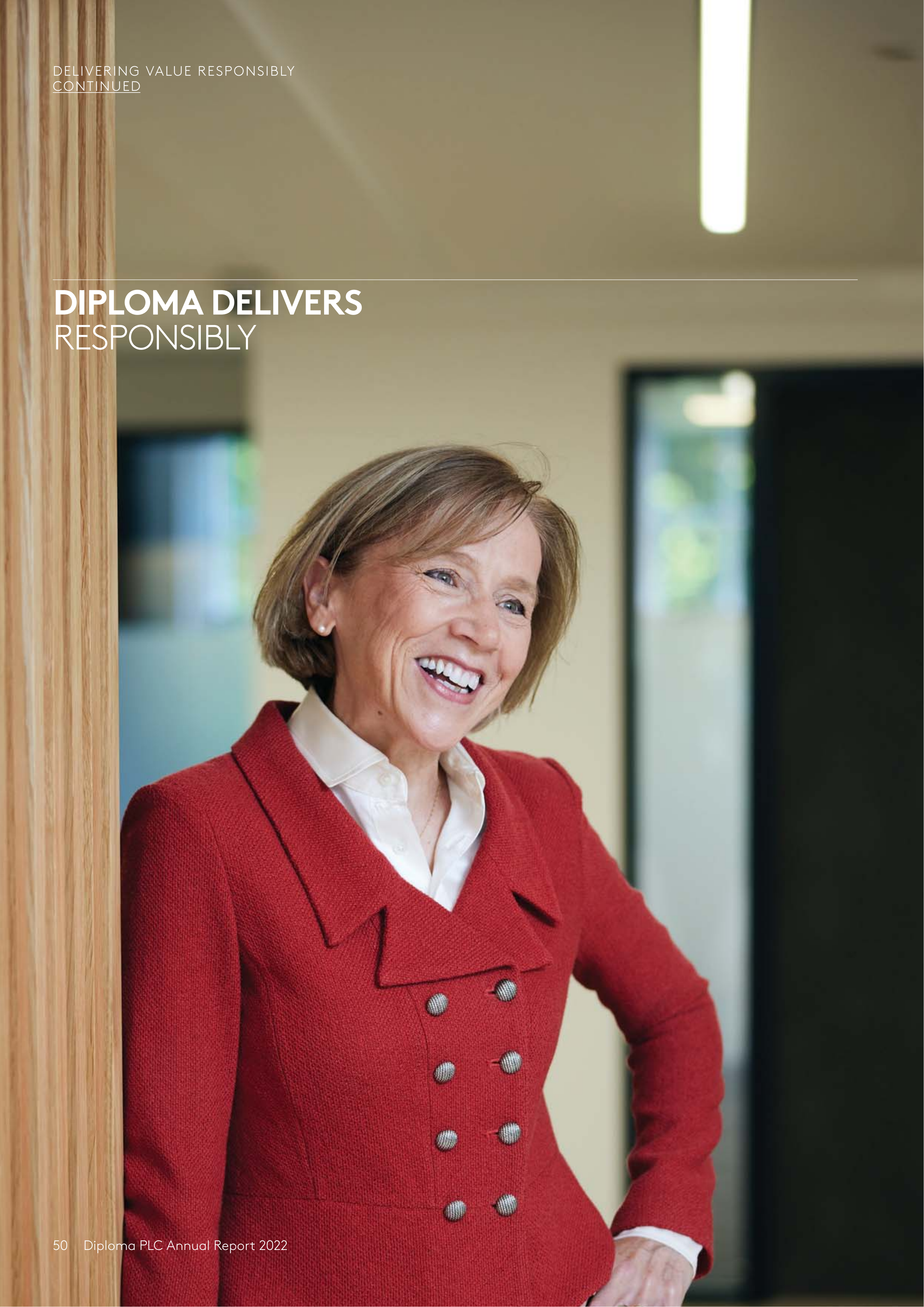
Our Life Sciences businesses offer diagnostic solutions that make it quicker and easier to identify life-threatening diseases, including cutting-edge technology that allows for early detection of diseases in newborns, and home-testing kits for remote communities.

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
Executive team	Sector & Group performance against targets Sector & business governance and reporting Identification & management of Group & Sector climate-related risks
Business MDs & DVR Committees	DVR performance and initiatives Identification and management of climate-related risks

Our metrics and targets

FY22 is our first year of reporting against all of our DVR metrics and KPIs. We have set targets against each of our KPIs.

Focus Area	KPI	Target	Target date	FY22	Our long-term vision
Colleague Engagement	Engagement index	Maintain 70%+	FY30	79%	All of our colleagues are highly engaged
Health & Safety	LTI rate (Lost time incidents per 1,000 employees)	5% reduction year-on-year	FY30	10.6	No one is harmed at work
Diversity, Equity and Inclusion	% of women on the Senior Management Team	Women represent 40%+ of Senior Management Team	FY30	27%	A diverse and gender balanced workforce
Supply Chain	% of identified key suppliers aligned with the standards of the Diploma Supplier Code	80% suppliers are aligned with the Supplier Code	FY30	59%[1]	All key suppliers are compliant with the Supplier Code
Emissions	% reduction of Scope 1 and 2 emissions against FY22 baseline.	50% reduction	FY30	Baseline year: 10,615 tonnes CO_2e	To be net zero across our operations by 2040 and net zero across our value chain by 2050 at the latest
Waste	% of total waste to landfill	Less than 15% waste to landfill	FY30	60%	To be a zero-to-landfill business

1 Key suppliers are required to cover in aggregate at least 50% of supplier spend. In the first year of reporting against this metric, 578 key suppliers were identified across the Group. Engagement on the Supplier Code is underway and 59% have been engaged and aligned with the standards of the Supplier Code.

Responsible business

We recognise our obligation to undertake all business dealings in an ethical and responsible fashion, including interactions with employees, customers, suppliers, shareholders and advisors.

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

Charitable donations

Our businesses operate across multiple communities. It is important that our colleagues can support and donate to the communities that they belong to. During the year, charitable donations across the Group totalled £122,733 (2021: £70,374) this included a donation to support those affected by the war in Ukraine. No political donations were made.

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 spread businesses with lean management structures. Our approach to climate impact reporting has focused initially on developing a sound understanding of our own emissions (Scope 1 and 2) in order to set credible and sensible reduction targets (published on page 53 of this report). With many thousands of supply chain partners, we are on a journey to understand our Scope 3 emissions and, as a consequence, our ability to create credible climate change scenario 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), (b) and (c)

For strategy disclosures (b) and (c), further work is underway to understand the impact of climate-related risks and opportunities and we are planning to undertake scenario analysis during FY23. Our understanding of these risks will be further informed by scenario analysis during FY23 in order to comply with metrics and targets disclosures (a), (b) and (c). We have disclosed our Scope 1 and 2 emissions and targets in this report as well as some of the related risks. We are not currently fully consistent with metrics and targets disclosures (b) and (c) as we have not disclosed our Scope 3 emissions or targets. However, we have engaged EcoAct to review and advise on our methodology for calculating our Scope 1 and 2 emissions, calculate our Scope 3 footprint and support us in submitting 'near-term targets' to the SBTi in FY23 that consider long-term target alignment in achieving net zero no later than 2050.

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

GOVERNANCE

Disclose the organisation's governance around climate-related risks and opportunities

Board Oversight

The Board is accountable for Diploma's response to climate change and has ultimate oversight of climate-related risks and opportunities as well as our DVR strategy. In order to remain well-informed and improve decision-making, the Directors received regular reports and updates during the year, including:

- Reports on macroeconomic trends, including the risks of climate change, that allow the Board to review the Group's principal, new and emerging risks together with mitigating actions
- Quarterly risk updates
- Training on TCFD reporting and trends from PwC
- Annual ESG updates

The Board is responsible for overseeing the integration of climate-related risks into the Group's overall risk management framework. Where specific expertise is required, the Board engages external experts to support. A key example of this is the engagement of EcoAct to review and advise on our methodology for calculating our Scope 1 and 2 emissions, review and calculate our Scope 3 footprint, and support us in setting net zero targets and submitting them to the SBTi in FY23.

DVR governance structure: page 52

Internal control and risk Management: pages 80-88

Governance: pages 90-141

Nomination Committee Report: pages 108-113

Management's role

Management plays a key role in assessing and managing climate-related risks and opportunities. The Group CEO chairs the DVR Steering Group, which is responsible for the Group's DVR strategy and progress, including setting emissions targets and reviewing performance. Sector CEOs are responsible for identifying and assessing climate-related risks and opportunities at Sector level. Our Group MDs are responsible for identifying and managing climate-related risks and opportunities in their business.

Our DVR governance structure applies to the governance of climate-related risks and opportunities.

STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Internal control and risk management: pages 80-88

We expect to see increased physical risks due to extreme weather events in the mid to long term – largely in our US facilities – with the potential to impact operations and increase costs due to damage to Diploma property and assets as well as supply chain disruption.

For the purposes of assessing climate-related risk, we have adopted the following timelines: short term: 0-3 years (consistent with the time period for the Group's viability assessment); mid term: 3-10 years; and long term: 10+ years (both of which are considered to be appropriate time horizons to assess mid-to-long-term climate-risks to the Group).

In the mid term, we plan to take advantage of facility-related opportunities to build resilience to extreme weather events, such as the selection of more climate resilient locations, improved drainage systems, on-site energy generation and more efficient cooling, heating and insulation. We have started to integrate environmental requirements when negotiating or renewing facility contracts or leases, including on-site renewable energy generation and improved energy efficiency.

In the short term, we do not expect significant increases in extreme weather events beyond the current experience of the businesses. This risk is expected to increase in the medium to long term as the regularity and severity of weather events may increase. These are largely mitigated by the continued diversification of the supplier base to reduce dependencies, continuous diversification of the customer base with low end market dependencies, and actions taken to invest in site resilience.

In the mid to long term we would also anticipate an increase in risks associated with the transition to a low-carbon economy. This includes the potential decline in certain end markets in which the Group operates, changing user preferences or a demand for lower-carbon products. However, our diversified supply chain and end markets means that we are not heavily dependent on one particular end market or product line. The agility of our decentralised distribution model allows us to pivot quickly. Proactive positive impact revenue initiatives, which are in place at every business, are driving our businesses to pursue opportunities in new and emerging low-carbon end markets.

We do not expect a significant impact from the risk of changing markets or consumer preferences in the short to mid term as we do not expect any of the industries that we serve to decline rapidly or cease to be in existence due to climate change. We do anticipate that our end markets may evolve but equally believe that our decentralised model is agile enough to evolve with them. Our low dependency on any specific industry mitigates our exposure. We also expect to identify climate-related opportunities, including the opportunity to improve our operational efficiency, deliver value to our customers and suppliers by aligning with them on their net zero ambitions, and supply specialised products and solutions to high-growth, low-carbon end markets.

During the year, the Board considered potential risks, threats and opportunities and identified climate change and its impacts as an emerging risk. However, we strongly believe that climate-related risks and opportunities will require further analysis. During FY23 we have committed to undertake scenario analysis in order to assess the impact of climate-related risks and opportunities on our businesses, strategy and financial planning. Scenario analysis will offer us a better understanding of the climate-related risks and opportunities that are most relevant to our Group, the impact of those risks and opportunities, as well as our resilience to identified risks. This will also inform the associated mitigation, action plans and financial impacts.

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 macro 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 biannual DVR governance process, these risks are reviewed by the DVR Steering Committee and Sector 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. They are informed of the outcomes of risk reviews ahead of reviewing and approving principal risks. The Audit Committee ensures the effectiveness of the internal control environment for the Group and that the Group's risk management, governance and internal control are operating effectively.

METRICS AND TARGETS

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

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 opportunity to partake in global efforts to tackle climate change as well as our exposure to some transitional risks by making active efforts to reduce our emissions.

Emissions metrics: page 53

Governance: pages 90-141

Audit Committee Report: 102-107

We measure and manage our businesses on their actual Scope 1 and 2 emissions as well as a combined emissions ratio for Scope 1 and 2. These are reported quarterly by our businesses alongside qualitative reporting on initiatives and progress. These metrics and our performance against these metrics can be found on pages 36-47.

During the year, we have worked with EcoAct to review our Scope 1 and 2 reporting metrics and calculation methodology and are currently working with them to analyse and calculate our Scope 3 emissions.

We have announced a 50% reduction target for Scopes 1 and 2 by FY30 against an FY22 baseline. This target aligns with the analysis of our value-chain emissions and Scope 3 calculations currently being undertaken ahead of submitting net zero targets to the SBTi in line with the <1.5 degree pathway. Our target for Scope 1 and 2 will reduce our own contribution to the increase in physical climate impacts and help us to focus on improving the energy efficiency of our facilities. Alongside the calculation of our Scope 3 footprint and net zero targets, it will reduce our exposure to some transitional risks.

Our Scope 3 calculation will also help us to better understand the carbon impact of our business as it relates to both physical and transitional 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 continued and effective compliance in our businesses around the world. We provide online training to all of our businesses through our Learning Management System, including senior management and employees in customer and supplier management roles.
Code of Conduct	Our Code of Conduct sets out the expected standards of conduct and behaviour of all employees across Diploma as they relate to our people, governance and the law, social 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 (DEI) Policy applies to all our businesses and every aspect of how we work, and we believe our business leaders play a key role in creating an inclusive, diverse and equitable workplace. We believe that an effective DEI strategy will add value to our business, contribute to employee wellbeing and satisfaction, and allow us to recruit and retain a wider pool of exceptional talent.
Equal Opportunity	We are an equal opportunities employer with zero tolerance of any form of discrimination due to ethnicity, background, religion, sexual orientation, gender identity, pregnancy and maternity, citizenship, nationality, marital status or any other protected characteristic. We comply with all applicable DEI and inclusion laws, regulations and standards and apply responsible standards where legislation is inadequate. We encourage all members of Diploma to call out discrimination, or discriminatory behaviour, either through their line manager or through our whistleblowing hotline.
Environmental Policy	Our Environment Policy applies to all businesses and asks that they comply with the standards and requirements set out. These include complying with, or exceeding, all applicable environmental laws, understanding the risks and opportunities related to the environment and climate change and how they might impact the business. All businesses are required to submit data on their emissions and waste.
Health & Safety Policy	Our objective is to ensure the Health & Safety of our colleagues, visitors and partners through a proactive culture, clear standards, good governance, and rigorous reporting of incidents. Group performance and protocols are reviewed regularly to ensure that suitable standards are maintained and the Board reviews Health & Safety protocols and performance annually. The Group CEO has ultimate responsibility for Health & Safety across the Group, including ensuring provision of a safe working environment. Operating businesses are responsible for developing procedures and frameworks to suit their specific risk level.
Human Rights and Labour Conditions	The Group's activities are principally carried out in countries with strong human rights legislation, which the Group complies with in the countries in which it operates. Our businesses carry out due diligence on their supply chain and our key suppliers are asked to comply with our Supplier Code, which has standards and requirements related to human rights and labour conditions. Our own colleagues are provided with a safe, secure 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 in all its forms, including human trafficking, forced labour and child labour. Each business undertakes an annual risk assessment of modern slavery within the business and its principal suppliers. Group businesses also monitor and carry out due diligence of suppliers. Based on these assessments and the initiatives implemented by the businesses to counter slavery, the Board has been assured that slavery is not taking place within the Group. Our Modern Slavery Statement is available on the Diploma PLC website.
Whistleblowing Policy	We have a Group-wide Whistleblowing Policy that applies to all employees and businesses and is monitored by the Audit Committee. The Policy is displayed on noticeboards at all businesses. Employees are encouraged to raise concerns via the confidential, multilingual hotline, which is independently managed by an external company and is available 24/7, 365 days a year. All reports are reviewed by the Group Company Secretary to ensure appropriate investigation with the support of internal audit and external resources, if required.

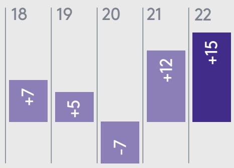
MEASURING OUR PROGRESS

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

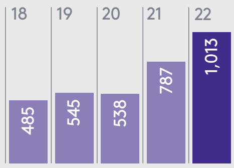
Organic revenue growth
Organic revenue growth is the Group's number one priority. We focus on products and solutions which are critical to customers' needs, giving resilience to revenues. We target mid-single digit organic growth.

6%
Five-year average



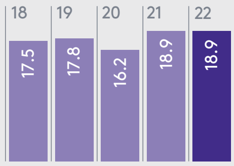
Reported revenue growth
We aim to deliver sustainable double-digit growth through a combination of organic growth and high-quality, value-enhancing acquisitions which accelerate our organic growth.

18%
Five-year compound



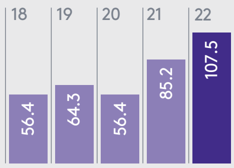
Adjusted operating margin
Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins. We target a margin of 17%+.

17.9%
Five-year average



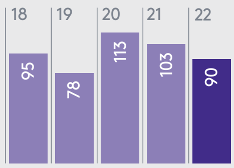
Adjusted EPS
EPS growth is a measure of how successful we have been in growing organically and through acquisition, including capital allocation and tax considerations. We target double-digit EPS growth.

17%
Five-year compound



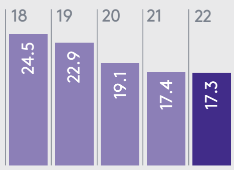
Free cash flow conversion
A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends. We target free cash flow conversion of 90%+.

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

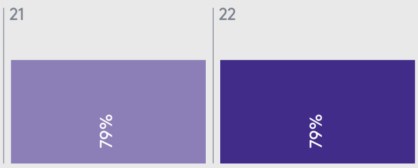


NON-FINANCIAL KPIs

OUR COLLEAGUES

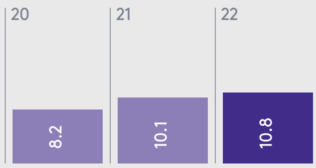
Engagement index
An externally benchmarked score from our annual engagement survey

TARGET
maintain 70%+



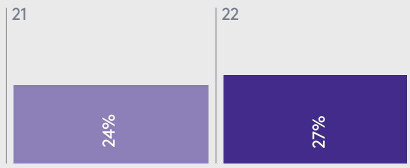
Lost time incident (LTI) rate
Number of LTIs per 1,000 employees

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. Engagement on the Supplier Code is underway and 59% have been engaged and aligned with the 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.

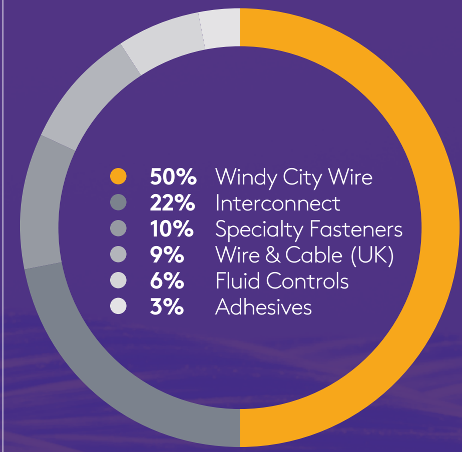
Interconnect: 22%
Harness components and specialist connectors used in technically demanding applications across multiple industries in Europe and the US. Our businesses supply a range of products and value-add services and products including protective sleeving, cut-to-length tubing, kitting, connector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

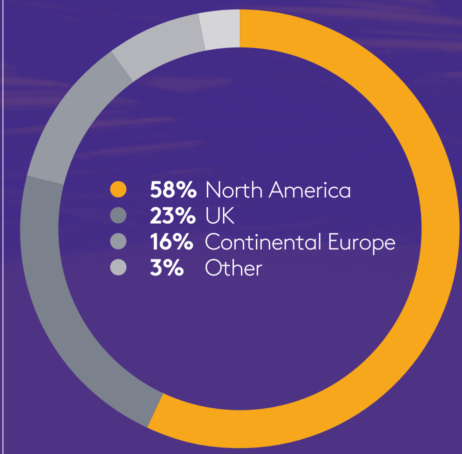
Fluid Controls: 6%
Fluid controllers, compressors, valves, temperature and pressure measurement devices, and specialised liquid dispensing components primarily for customers in the UK Food & Beverage sector.

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

Revenue by segment[1]

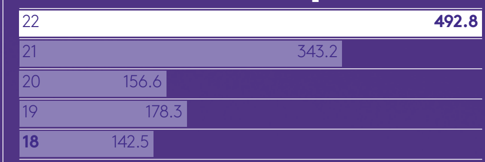


Revenue by geography[1]



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

+30% p.a.



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

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

David Goode
Sector CEO, Controls

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

Rich Galgano
CEO, Windy City Wire

FINANCIAL HIGHLIGHTS

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

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

Sector financial performance

The Controls Sector delivered a very strong full year performance, with reported revenues materially higher, up 44% to £492.8m (2021: £343.3m). This consisted of organic growth of 24%, an 11% contribution from acquisitions and a 9% foreign exchange tailwind.

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

International Controls (50% of Sector revenue[1]) enjoyed a successful year as a result of organic revenue initiatives and market share gains in buoyant end markets, particularly civil aerospace. This translated into organic growth of 18%, with sustained momentum throughout the year and double-digit growth across all business lines. Positive pricing contributed, but volume growth was the primary driver of organic growth. The overall International Controls margin increased slightly, with positive operating leverage on volume growth partially diluted by investment in growth and mix effects, including acquisitions.

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

The International Controls **Wire & Cable** business, Shoal Group, performed very well against a strong comparator. This reflects supportive end markets and revenue initiatives to drive growth in new products, through ecommerce and in new markets including electric vehicles, distribution centres, data centres and renewables. The addition of SWA last year has also improved access to the electrical wholesale market and creates cross-selling opportunities.

Double-digit organic growth at **Interconnect** reflects strength across the board, particularly our German energy activities where organic growth was over 30%, helped by upgrades to the transmission and distribution network. Other key growth segments include motorsport, aerospace and medical. Interconnect's recent US acquisition, LJR, has also made an excellent start delivering double-digit organic revenue growth, with its superior service levels and customer proximity underpinning market share gains. The business is investing in sales resource to sustain this momentum. The only area of weakness was Gremtek, a more automotive-focused French business whose customer base has been impacted by semi-conductor chip shortages.

Specialty Fasteners delivered very strong growth, taking share in recovering aerospace end markets and benefiting from diversification into new and exciting end segments. AHW, the US business acquired 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.

In **Adhesives**, Techsil continued to perform extremely well, with broad-based growth in key automotive end markets where adhesives have many applications. The business has particularly benefited from the diversity of its customer footprint and is winning new projects with customers supplying into the EV and telecommunications markets. In September, we completed a small adhesives bolt-on, acquiring the trade and assets of Silicone Solutions (£3m) to add scale and diversify end markets.

Windy City Wire (50% of Sector revenue[1]) (WCW) had another excellent year, building on its strong track record. Organic growth was 32%, with double-digit volume growth against strong comparators, as well as the pass through of higher year-on-year copper prices. The impact of copper moderated through the middle of the year as we started to lap stronger comparators. The business has benefited from its exposure to high growth end markets in areas related to building automation, security access, data centres and digital antenna systems. Over and above this, WCW has taken market share as a result of its compelling customer proposition and superior product availability, underpinned by a secure and stable supply chain.

Volume growth combined with a well invested platform has translated into very strong operating leverage and operating margins above the Group average. Over the last two years, WCW has doubled its operating profit and significantly outperformed its acquisition case, generating high-teens ROATCE in year two, well ahead of expectations.

Strategic progress
Delivering on our growth strategy:
- Our Controls businesses are benefiting from initiatives to capture growth in structurally growing end segments – from data centres and digital antenna systems at WCW to electric vehicles and energy in International Controls which is also pushing into emerging markets such as space and unmanned aerial vehicles.
- Continued geographic diversification of International Controls, building scale outside the UK – our German energy business has delivered excellent growth; Fasteners is winning share in Asia and Europe; and acquisitions in Fasteners and Interconnect are now delivering strong organic growth in the US.
- Product adjacencies remain an incremental component of our businesses' growth including through supplier diversification and cross-selling.
- M&A to accelerate organic growth:
  - Strategic acquisition of LJR Electronics in February for £21m to build scale in the world's largest developed interconnect market, also giving our existing operation in Indianapolis the ability to leverage LJR's supply chain.
  - Continued build out of our new adhesives business line with the acquisition of Silicone Solutions for £3m, further diversifying end markets.

Building scale in our value-added businesses:
- Acquired last year, we have fully integrated AHW into our existing US Fasteners operation, merging our facilities at Long Beach and Huntingdon Beach. The US business is now a single, combined entity under one management team and on a single ERP system.
- Continued progress with the project to move our UK cable businesses towards a single management structure and ERP.
- Ongoing investment in talent, including sales hires to drive growth and supply chain and operations directors to support the execution of our core competencies.
- Incremental investment in technology and facility, including barcoding in Interconnect in the UK and a number o1aller ERP projects.

We have made good strategic progress in Controls as we diversify end segments to increase resilience, and broaden our geographic and product addressable markets. The Sector has good momentum, and we are positive about its future prospects.

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

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.

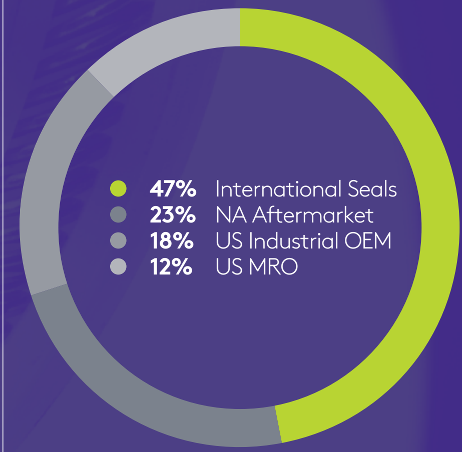
International Seals: 47%
Our Seals businesses in Europe and Australia supply seals, gaskets, pumps and related accessories, custom-moulded and machined parts, hydraulic cylinder components, and a diverse range of fluid power products to Aftermarket, OEM and MRO customers.

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.

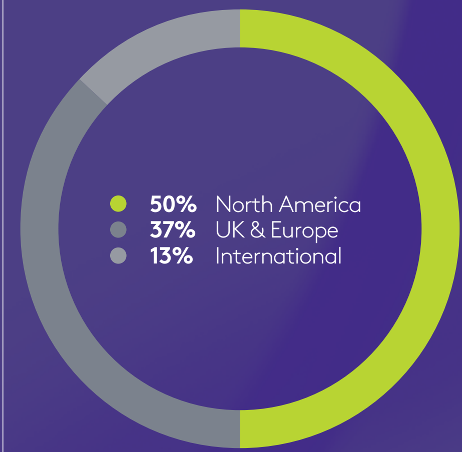
US Industrial OEM: 18%
Supplies seals, gaskets, O-rings and custom-moulded and machined parts. The business works closely with customers to specify the most appropriate seal design, material and manufacturer for the application; provides technical support during product development; and delivers the 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]

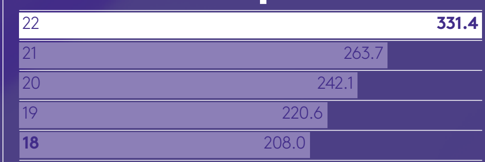


Revenue by geography[1]



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

Reported revenues increased 26% to £331.4m (2021: £263.7m), reflecting 14% organic growth, a 6% contribution from acquisitions and a 6% benefit from foreign exchange translation.

Adjusted operating profit outperformed revenue growth, increasing 35% to £62.6m (2021: £46.5m) with the adjusted operating margin 130bps higher year-on-year at 18.9% (2021: 17.6%). This was primarily due to a step up in the North American margin which benefited from the end of dual-running costs and improved efficiency at Louisville, as well as gains in MRO. The Sector margin has also benefited from positive operating leverage on higher volumes and the disposal of the lower margin Kentek business, partially offset by the acquisition of R&G.

North American Seals (53% of Sector revenue[1]) delivered organic growth of 16%, reflecting very strong growth in our MRO and Aftermarket businesses. **North American Aftermarket** had a highly successful year, with Louisville's better location, extended service hours and expanded next day delivery footprint enabling accelerated market share gains in previously untapped Midwestern and Western states. This has been coupled with commercial initiatives, including investment in sales and marketing, to build brand recognition in newer locations. Organic growth in the US was over 26%; growth in some Western states was higher still. The International Aftermarket businesses also had a good year, with double-digit organic growth, as they continue to diversify into new markets, especially industrial and non-hydraulic repair.

Organic growth was very strong for **MRO**, driven by revenue diversification initiatives and positive end market demand. Investment in broadening the business's value-add capabilities and new proprietary products is translating into new customer wins and market share capture. The end market backdrop was positive, with sustained momentum in industrial markets and a tailwind from strong growth in the later cycle transportation market.

US Industrial OEM had a solid year, and remains focused on driving organic growth through customer and market diversification. The business saw some softening of demand in housing and consumer-related end markets towards the end of the year, but most industrial end segments remain robust. The business has effectively deployed its sales team to diversify its opportunity pipeline; investments in technology and talent in supply chain and operations have enhanced

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

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

International Seals (47% of Sector revenue[1]) had another strong year, with organic growth of 11%, building on a track record of resilience and consistency that reflects the business's diverse profile.

In the UK, **FPE** delivered double-digit organic growth against a strong comparator; excellent service and better stock availability has enabled the business to capitalise on demand in construction and the recovering oil & gas segment. The acquisition of **R&G** in April has been transformational, materially increasing scale in the UK. Following a successful onboarding, R&G's organic growth performance has been strong. This is a result of excellent customer service, a strong product portfolio and exploiting cross-selling opportunities within the business to drive value from bolt-on M&A. Its roll-up M&A programme has continued, with a further four bolt-on acquisitions since April, with two completing post year end.

Elsewhere, **Kubo** had another solid year, with high single-digit organic growth against a strong comparator. Having successfully captured the growth in medical in FY 2021, the Swiss business successfully pivoted to industrial; better product availability versus competitors also underpinned market share gains. Double-digit growth in Austria reflects recovering end markets as well as geographic penetration gains in Germany.

Similarly, high single-digit organic growth at **M Seals** reflected strength in Sweden and the UK, offsetting slower Danish and Chinese demand. Growth in Sweden was driven by sales activity to develop key accounts as well as the resumption of projects put on hold during the pandemic. The business is investing in organic growth in Germany, while the newly combined UK operation is now capitalising on the benefits of co-ordinated commercial activity to drive growth. M Seals has recently invested in ecommerce and new machining capabilities to drive growth in Scandinavian markets.

Following a slower start to the year due to extended Covid lockdowns and supply chain bottlenecks, our **Australian Seals** businesses had a strong second half, converting backlogs and capitalising on buoyant mining, water treatment and infrastructure end markets.

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 co-ordinated commercial activity to drive growth.
- Integration of TotalSeal 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 impetus from 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

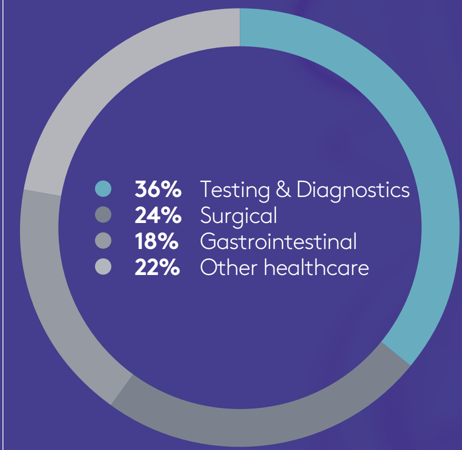
The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the Healthcare industry.

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.

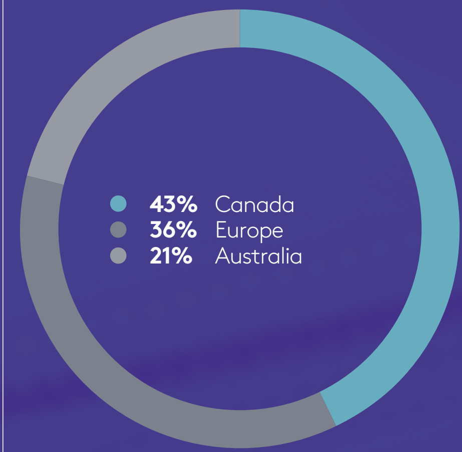
Australasia: 21%
A leading supplier of instrumentation and consumables to the pathology, scientific research and medical segments. Operating in Australia and New Zealand, the businesses also supply specialist surgical equipment and consumables used in hospital operating rooms.

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]

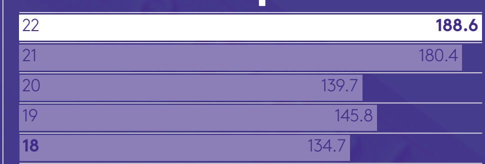


Revenue by geography[1]



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

+8% p.a.



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

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

Dan Brown
Sector CEO, Life Sciences

FINANCIAL HIGHLIGHTS

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

- Organic revenue growth was 2% excluding last year's Covid-related revenues and was moderated by hospital staffing shortages; returned to organic growth in Q4 as expected
- Strong diagnostics and endoscopy performance
- Sector well-positioned for growth: exposed to rising diagnostics spend and significant elective surgical backlogs
- Strategic acquisition of Accuscience: increases exposure to high growth testing, diagnostics and medical segments; continues the build out of our European footprint
- Disciplined portfolio management: disposal of a1-envirosciences

Sector financial performance

In FY 2022, Life Sciences Sector revenues increased 5% to £188.6m (2021: £180.4m), with organic revenues 4% lower year-on-year. Acquisitions net of disposals added 7%, with the contribution from Accuscience and last year's Scandinavian acquisitions more than offsetting the disposals of a1-envirosciences in May and a1-CBISS last year. Foreign exchange movements increased reported revenues by 2%.

Excluding last year's non-recurring Covid-related ventilator sales, the Sector delivered 2% organic revenue growth. Growth was also somewhat moderated by lockdowns and hospital staffing shortages in our key Canadian and Australian surgical markets.

Adjusted operating profit was 5% lower year-on-year at £41.0m (2021: £43.2m). The adjusted operating margin fell 220bps to 21.7% against an untypically strong comparator (2021: 23.9%). This reflects operating leverage on lower volumes, mix effects including the impact of acquisitions, and a controlled return of variable costs.

Underlying momentum was very positive in **testing and diagnostics**, with businesses such as TPD in Ireland and Abacus in Australia delivering high single-digit organic growth against strong FY 2021 comparators. While COVID-related testing volumes have eased, our businesses have successfully captured growth elsewhere as laboratories shift their focus to clearing backlogs, and as our teams have regained access to customers. Accuscience, acquired in May, is settling into the Group well with exciting prospects in high growth segments such as molecular diagnostics.

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

In **critical care** – primarily Simonsen & Weel in Denmark – while organic revenue growth was negative, this reflects the non-recurring ventilator sales mentioned above. Our other medical businesses focused on GI endoscopy (Vantage in Canada and Kungshusen in Sweden) had a very good year with some exciting new product introductions. Outpatients have also been much less impacted by COVID, with sales of capital and consumables driving double-digit organic growth.

Strategic progress

Delivering on our growth strategy:

- Exciting organic growth potential: while FY 2022 has been a more challenging year, this largely reflects short-term factors. The Sector's prospects remain as positive as ever, underpinned by elective surgical backlog recovery: rising diagnostics spending and our product pipeline. Across the Sector, businesses have been investing in their portfolios, seeking out new suppliers developing innovative products which will enable us to capitalise on the post-pandemic shifts in healthcare spending
- M&A to accelerate organic growth: Strategic acquisition of Accuscience in Ireland for £51m: a market-leading IVD, life sciences and med-tech distributor. The acquisition increases our exposure to the high growth diagnostics segment, including molecular diagnostics. The business also adds scale to Life Sciences in Ireland, and continues to build out the Sector's European pillar.

Building scale in our value-added businesses:

- Completion of a multi-year project to create a scalable Australian platform on a single distribution site in Brisbane. The consolidation of operations and relocation of our Australian businesses to new, modern facilities will create efficiencies and reduce our environmental footprint as well as enable future growth.
- Investing in capability and talent in key functional areas, including Finance and Operations.
- Developing regional leadership structures, including appointment of new heads for Europe and Australia.
- New Simonsen & Weel facility in Denmark to support growth, improve energy and waste efficiency and provide colleagues with a better working environment.

Disciplined portfolio management:

- Disposal of a1-envirosciences in May.

We have made great strategic progress in Life Sciences, and the Sector itself provides balance, and therefore resilience, to our portfolio. We are carrying improving momentum into the new year and the medium-term outlook is exciting, with the likely unwinding of elective surgical backlogs as well as increasing diagnostics investment.

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/

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 vital 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. Decisions will be consistent with Diploma's purpose and ultimately 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 is adopted within our businesses. Directors consider the views and interests of a wide set of stakeholders and are conscious that expectations around our performance and contribution to society – from local to global – are both diverse and continuously evolving.

Stakeholder interactions take place at all levels of the Group and an essential component of our strategy is that we recognise the value of autonomy and ensure that decisions are made at the appropriate level. The Board will sometimes engage directly with stakeholders on certain issues where appropriate to do so, but the decentralised nature of our Group and resultant distribution of our stakeholders mean that some stakeholder engagement is more appropriate at an operational level. Our governance framework delegates authority for local decision-making to the appropriate level within a defined set of parameters. This allows Sectors and businesses to take account of the needs of their own specific key stakeholders in their decision-making. Our strong management teams make decisions with a long-term view 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 key risks, and legal and regulatory compliance. All Group and subsidiary Board papers 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 enable the Directors to comply with their legal duties under s172 of the Companies Act 2006 and therefore improve decision-making. Please see pages 93 to 101 for details on how the Board operates and the way in which the Board and its Committees reach decisions, including the matters we discussed during the year.

How stakeholder interests have influenced decision-making

Decisions taken by the Board and its Committees consider the interests of our key stakeholders, the impacts of these decisions and 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
Diploma's success depends on its ability to attract and retain qualified and experienced employees.

How we engage
- Group Colleague Engagement Survey, listening groups and engagement plans
- Regular business visits
- Consistent talent and performance management approach
- Internal communications through Purple Pages, our Group-wide internal newsletter, regular CEO videos and internal memos
- Consistent learning and templates for talent and development, DVR governance and training via the Purple Portal, our learning management system
- Workshops delivered on DVR topics, including Diversity, Equity & Inclusion, Health & Safety and the Environment

How the Board engages
As part of their role, the Board must consider the needs of our colleagues. They engage with them through:
- Regular updates from the Group CEO, Group HR Director and Sector CEOs
- Results and feedback from the Group Colleague Engagement Survey
- Bi-annual facility visits

Outcomes/action taken
As a result of the engagement survey and key engagement activities, both the Group and Board are aware of areas of improvement related to mental health and wellbeing, Diversity, Equity & Inclusion and the cost-of-living crisis and as a result, the following actions were taken:
- Colleague champion nominations, recognising employees who go above and beyond
- Training on mental wellbeing via the Purple Portal, and working closely with the businesses to roll this out
- Inclusive leadership sessions, DEI training modules and publication of our DEI policy
- One-off payments were made to vulnerable employees, as well as support via EAP schemes and compensation package reviews

For more information on how we engage with our colleagues, please see pages 36 to 37.

OUR BUSINESSES

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

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

How the Board engages
As part of their role, the Board must consider the needs of our businesses. They engage with them through:
- CEO updates
- Regular updates from Sector CEOs
- Business visits
- Review of proposed acquisitions

OUR CUSTOMERS

Why we engage
Diploma is focused on customer satisfaction and delivering a value-add service that goes above and beyond. It's important for us to remain engaged with our customer base, to receive feedback for continuous improvement and to build long-lasting relationships.

How we engage
- Providing value-add services
- Decentralised model: individual businesses have close customer relationships and are responsive to their needs
- Conferences and trade events
- Long-term relationships

How the Board engages
As part of their role, the Board must consider the needs of our customers. They remain well-informed on key matters through:
- CEO reports
- Updates from Sector CEOs
- Risk management

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 Supply Chain Policy
- Clear payment practices

How the Board engages
As part of their role, the Board must consider the needs of our supply chain. They remain well-informed on key matters through:
- Updates from Group CEO and Sector 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 undertaken by CEO, CFO and Head of Investor Relations throughout the year, including results roadshows
- Annual General Meeting
- Trading updates, regulatory news items and website updates
- Shareholder information on website
- ESG rating schemes
- Responses to general investor enquiries

How the Board engages
As part of their role, the Board must consider the needs of our investors. They engage with them through:
- Attendance and engagement at the Annual General Meeting
- CEO and CFO feedback following results
- Engagement with the Chair and Committee Chairs as appropriate; including consultation with shareholders on remuneration and the new remuneration policy
- Shareholder briefings and investor relations update by the Head of Investor Relations
- Approval of trading updates, half year and full year results and RNSs
- Reviews of analysts' research

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 fund-matching. We appreciate the importance of conducting business sustainably and are committed to significantly reducing our carbon footprint and creating long-term benefits and value for stakeholders.

How we engage
- Charitable donations and fundraising initiatives, both at Group and business level
- Group Environmental Policy
- More frequent greenhouse gas emissions reporting
- Integrated waste reporting
- Positive impact revenue reporting
- DVR governance and workshops
- Training key roles to achieve net zero targets

How the Board engages
As part of their role, the Board remains informed on key issues concerning the environment and communities through:
- CEO reports
- Updates from biannual DVR Committees
- Training on climate-related issues and trends

Outcomes/action taken
As a result of the aforementioned engagement activities, the following actions were taken:
- Adopting a consistent ISO methodology across the Group, following issues with multiple varying calculations.
- Business relocations to more energy efficient facilities.
- Continuing to transition to renewable energy by partnering with electric companies and investing in technological advancements.

For more information on how we engage with our communities and environment, please see pages 34 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

A1 award

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

Silver EcoVadis award at VSP Technologies

96%

customer satisfaction at M Seals

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

Filcon Electronics awarded best 2021 European Distributor by a major supplier

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

Chris Davies
CFO

Q
What attracted you to Diploma?

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

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

Q
What do you bring to the role?

A
First of all, lots of energy and enthusiasm to partner Johnny to continue to grow and scale this business. Over my career I have accumulated a range of skills and experience which will stand me in good stead.

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

I've worked in many sectors across multiple geographies, including in customer-service organisations. Importantly, I've also really enjoyed the time I've spent working in decentralised organisations, and I know how powerful this can be.

Q
What are your priorities for the year ahead?

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

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

Clearly things are working well here, but as we grow, there is a natural need for us to evolve, mature and scale our approach across the Finance function to ensure that the Group continues to capitalise on the opportunities ahead of it whilst maintaining robust financial control.

What I have inherited is very strong, but there will be plenty for me to do to help support the growth of the Group.

FINANCIAL REVIEW

Diploma has delivered a very strong set of results, demonstrating the strength of our financial model.

Financial highlights (See table 1)

- Organic growth 15%, more than half of which was volume growth
- Reported revenue growth 29%: very positive 9% net contribution from acquisitions and disposals, and a 5% foreign exchange benefit
- Consistent, high margin: 18.9% operating margin, unchanged on the prior year, with our resilient value-added service model enabling us to continue to navigate supply chain challenges and offset inflation
- Full year free cash flow conversion 90%, including targeted investment in inventory to support growth
- 26% growth in adjusted EPS

Double-digit organic growth

Reported revenues increased by 29% to £1,012.8m (2021: £787.4m), consisting of organic growth of 15%, a 9% net contribution from acquisitions and disposals, and a 5% benefit from foreign exchange translation. During the year, the Group disposed of Kentek (November), and a1-envirosciences (May), which together contributed £9.9m to Group revenues in FY 2022.

Attractive, high teens margins
(See table 2)

Adjusted operating profit increased 29% to £191.2m (2021: £148.7m), with the operating margin unchanged on the prior year at 18.9%. This reflects margin expansion at both Controls and Seals, offset by a lower margin in Life Sciences, which was principally due to the benefit from one-off Covid-related revenues in the prior year and mix effects from acquisitions. The increase in central costs primarily relates to talent as part of our investment in scaling the Group.

Higher financing costs

The interest expense increased to £11.6m (2021: £6.8m), principally due to increased borrowings to finance acquisitions and the impact of higher interest rates, and in particular in the second half of the year.

Profit before tax

Adjusted profit before tax increased by 27% to £179.6m (2021: £141.9m). Statutory profit before tax was £129.5m (2021: £96.6m) and is stated after charging acquisition related costs of £46.9m (2021: £44.4m), principally comprising the amortisation of acquisition related intangible assets of £42.4m (2021: £33.1m) and £10.5m of acquisition related costs (2021: £9.7m) in respect of the seven acquisitions completed during the year and partly offset by a net gain of £7.3m (2021: charge of £1.6m) from two disposals in the year.

Table 1: Financial highlights

		Reported results			Adjusted results		
		FY 2022	FY 2021	% change	**FY 2022**	FY 2021	% change
Revenue	£m	**1,012.8**	787.4	+29%			
Operating profit	£m	**144.3**	104.3	+38%	**191.2**	148.7	+29%
Free cash flow conversion	%				**90**	103	
Earnings per share	pence	**76.1**	56.1	+36%	**107.5**	85.2	+26%
Total dividend per share	pence	**53.8**	42.6	+26%			

Table 2: Adjusted operating profit

	Adjusted operating profit			Adjusted operating margin		
	2022 £m	2021 £m	% change	**2022 %**	2021 %	bps change
Controls	**105.8**	72.4	+46%	**21.5**	21.1	+40
Seals	**62.6**	46.5	+35%	**18.9**	17.6	+130
Life Sciences	**41.0**	43.2	(5)%	**21.7**	23.9	(220)
Central costs	**(18.2)**	(13.4)	+36%			
Group	**191.2**	148.7		**18.9**	18.9	–

Effective tax rate broadly unchanged

The Group's effective tax charge on adjusted profit was 25.0% (2021: 25.4%) broadly in line with prior year.

We are committed to being a responsible taxpayer and our approach is to comply with tax laws in the countries in which we operate and to pay our fair share of tax. We recognise the impact tax has on wider society and we always factor the Group's reputation and corporate and social responsibilities into tax considerations. Tax legislation is not always prescriptive and the impact of a transaction or item can give rise to more than one interpretation of the law. The Group assesses all such exposures and, where it is considered probable that further tax will be payable, an uncertain tax provision is recognised. The provision is estimated based on the expected value method. The Group's tax strategy was approved by the Board and is published on our website.

26% growth in adjusted EPS and total dividend

Adjusted EPS increased by 26% to 107.5p (2021: 85.2p). The adjusted EPS growth is marginally lower than the adjusted operating profit growth due to increased interest charges.

For FY 2022, the Board has recommended a final dividend of 38.8p per share, making the proposed full year dividend 53.8p (2021: 42.6p). This represents a 26% increase in the total dividend with dividend cover at 2.0x EPS, continuing the Group's progressive dividend track record.

The Board has a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long-term growth strategy and the target level of dividend cover. The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified below that could adversely impact the performance of the Group.

Free cash flow conversion 90%
Free cash flow represents cash available to invest in growth through value-enhancing acquisitions or to return to shareholders. Free cash flow increased 11% in the year to £120.4m (2021: £108.8m). 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 by £16.4m to £40.6m (2021: £24.2m). On an underlying basis, cash tax payments increased to 22% (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 last year both 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 field 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 spend to scale up efficiently for growth (£5.9m), and improvements or replacements of legacy IT systems plus investments into newly acquired businesses (£2.7m).

The Group spent £186.6m (2021: £462.2m) on acquisitions and £56.4m (2021: £53.2m) on paying dividends to both Company and minority shareholders.

Acquisitions to accelerate our growth
Acquisition spend of £186.6m, which includes fees, mainly comprises the initial spend for R&G (£91.7m) and Accuscience (£49.9m), as well as an additional £31.4m principally relating to five smaller businesses. The total spend also includes £6.5m of acquisition fees and deferred consideration of £7.1m. We remain highly disciplined in our approach with all of these high-quality, value-add acquisitions offering our Sectors opportunities to accelerate their organic growth and create value.

Goodwill at 30 September 2022 was £372.3m (2021: £260.7m). Goodwill is assessed each year to determine whether there has been any impairment in the carrying value. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value at the year end.

Disciplined portfolio management
The Group completed two disposals in the year – the disposal of a1-envirosciences in May 2022 for proceeds of £11.4m, and the sale of its 90% interest in Kentek in November 2021 for proceeds of £10.0m. a1-envirosciences and Kentek generated revenues of £7.0m and £2.9m in the year respectively. The proceeds are not included in free cash flow and the net profit on disposal of £7.3m is not included in adjusted operating profit.

Liabilities to shareholders of acquired businesses
The Group's liability to shareholders of acquired businesses at 30 September 2022 increased by £7.7m to £31.4m (2021: £23.7m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior year.

The liability to acquire minority shareholdings outstanding at 30 September 2022 relates to a 10% interest held in M Seals, 5% interest in Techsil and a 2% interest in R&G. These options are valued at £7.4m (2021: £5.2m), based on the Directors' latest estimate of the earnings before interest and tax (EBIT) of these businesses when these options crystallise.

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

ROATCE: strong returns
ROATCE is a key metric used to measure our success in creating value for shareholders. As at 30 September 2022, the Group's ROATCE was 17.3% (2021: 17.4%), in-line with our high-teens target. The full year outcome reflects a number of moving parts with the temporary dilution from recent acquisitions and targeted inventory investment partially offset by WCW continuing to outperform its acquisition case. Subject to future acquisition activity, we expect ROATCE to increase in FY 2023.

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

Strong balance sheet
Strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2022, the Group's Net Debt (excluding IFRS 16 lease liabilities) stood at £328.9m. The Group continues to maintain a robust balance sheet with net bank debt comprised of borrowings of £370.6m, less cash funds of £41.7m.

On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m ($127.5m), a bullet term loan for an aggregate principal amount of £59.1m ($66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on $100m (£89.6m) of debt. The effective fixed rate debt was 24% as a proportion of total debt. Subsequent to the year end, the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100m of debt.

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

Employee pension obligations

Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in FY 2022 of £6.6m (2021: £5.5m).

The Group maintains a legacy closed defined benefit pension scheme in the UK. The Group is currently funding this scheme with cash contributions of £0.6m (2021: £5.8m) which increases annually on 1 October by 2%.

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

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (revised). At 30 September 2022, the aggregate accounting pension surplus/deficit in these two schemes moved from a deficit of £4.9m to a surplus of £6.4m, reflecting the sharp increase in bond yields as at 30 September 2022, which in turn reduced the value of the schemes' liabilities. The next formal triennial funding valuation of the UK scheme is due as at 30 September 2022, with completion expected in the second half of FY 2023. Further information on these schemes is included in note 24 to the consolidated financial statements.

FX tailwind and interest headwind largely offsetting

Whilst there cannot be any certainty over future interest rates and exchange rates, looking ahead to 2023, it is likely that exchange rates, especially Sterling-Dollar will provide a boost to reported earnings whilst increasing interest rates will increase costs. With around 50% of the Group's debt floating, should USD-GBP rates remain at current levels, we would expect these effects to largely offset each other.

Organic revenue growth
15%

Reported revenue growth
29%

Adjusted operating margin
18.9%

Free cash flow conversion
90%

Net debt/EBITDA
1.4x

Table 3: Composition of net debt

Type	Currency	Amount	GBP equivalent	Interest rate exposure
Term loan	USD	$193.5m	£173.3m	Fixed at ca.3%[1]
RCF	USD	$8.0m	£7.2m	
RCF	GBP		£122.2m	Floating
RCF	EUR	€81.6m	£71.6m	Floating
Capitalised debt fees net of accrued interest			£(3.7)m	
Gross debt drawn at year end			**£370.6m**	
Cash & equivalents at year end			£(41.7)m	
Net debt at year end			**£328.9m**	

1 Approximately half fixed post-year end.

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 threats 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 assistance, 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 broaden 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, thinking and culture while embedding the necessary capabilities to assess, monitor and mitigate risks as appropriate.

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

The Board recognises that continuing to deliver resilient returns for shareholders and other stakeholders is dependent upon accepting a level of risk. Our risk appetite sets out how we balance risk and opportunity in pursuit of our strategic objectives. The acceptable level of risk is assessed on an annual basis by the Board, which defines its risk appetite against certain key indicators, including potential impact of risk, likelihood of risk and ability to reduce risk through mitigation. This ensures alignment between acceptable risk exposure and the strategic priorities of the Group.

Identifying and monitoring material risks

Each of our Diploma businesses identifies risks and opportunities as part of their regular business reviews, evaluating how risks and opportunities are controlled, whether mitigations are appropriate and whether any further actions are required. Material risks are identified through a detailed analysis of business processes and procedures and a consideration of the strategy and operating environment of the Group.

The businesses use a quantitative framework to determine a score for each risk, which is based on both the likelihood and consequence of each risk occurring, and its impact on the business. Each risk is evaluated on the hypothetical basis that there are no mitigating actions or controls to provide a score and then reconsidered to establish the net score (after mitigation). This identifies which risks require internal mitigating controls, and which require further treatment. A similar exercise is then performed at Sector and Group level to develop an overall `bottom up' picture of operational risk for the Group. This process is both robust and challenging; it ensures that risks are identified and monitored and that management controls are embedded in the businesses' operations.

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

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

Risk management relies on internal control activities to ensure accurate accounting and to help mitigate the principal risks of the Group. The governance process within the framework ensures that the completeness of identified risks and adequacy of mitigating actions are appropriately reviewed by the Executive team and are reported to the Board on a regular basis.

Emerging risk

The Board also considers potential risks, threats and opportunities that could impact our Group in the future. These emerging risks have no track record or previous experience by which the potential impact, likelihood or costs can be understood but could nevertheless significantly influence the performance of the Group.

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

The following emerging risks have been identified as potential future principal risks and will be monitored on a regular basis.

Emerging risk	Description
Technology evolution	The risk that Diploma does not manage its response to evolving technologies effectively.
Climate change	The risk that Diploma fails to anticipate the impact of climate change, including the increase in frequency and severity of natural disasters and impact on its end markets and products.
Digitalisation	The risk that Diploma fails to implement digital services, reducing its value-added service proposition.

Principal risks and uncertainties

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

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

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

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

There have been some changes to the Groups 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 disruptors have been amalgamated into Supply Chain, which will also include the risk of supplier disintermediation.
- Loss of key personnel has evolved to Talent & Diversity and will also cover the risk of having wrong talent or lack of/poor diversity, failure to attract/retain staff and inadequate development.
- Tax Compliance has evolved into Non-compliance with Laws and Regulations, which also covers non-compliance with environmental regulation and the increasing international compliance alignment burden.

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.

Increase | No change
Decrease | 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	Risk description and assessment	Mitigation
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.	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.	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.

Increase | No change
Decrease | New risk

Principal risk	Risk description and assessment	Mitigation
Health & Safety **Risk category** Operational risk **Board risk appetite** Averse **Change in risk** Decrease 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** No change 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.

Increase | No change | Decrease | New risk

Principal risk	Risk description and assessment	Mitigation
Non-compliance with laws **Risk category** Operational risk **Board risk appetite** Averse **Change in risk** Increase 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.	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.	The board of each business is accountable for identifying and monitoring what laws are relevant to their business, including any emerging or changing legislation, and for ensuring commercial legal risks are appropriately managed. The Head of Legal advises on legislative and regulatory changes relevant to the Group as a listed company and has oversight of all material transactions including acquisitions.

VIABILITY STATEMENT – DIPLOMA PLC

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

A period of three years has been chosen for this assessment, having considered the speed and degree of change possible in key assumptions influencing the Group, as well as the speed of evolution of the footprint of the Group, which collectively limits the Director's ability to predict beyond the period chosen reliably. Given the pace of change in the primary end markets in which the Group operates, the Directors believe that three years represents the most appropriate timescale over which to assess the Group's viability. This timescale is consistent with the Board's strategy review during which the prospects of each business are discussed. As part of this, assumptions are made regarding entering into new markets and geographies; future growth rates of the existing businesses; and the acceptable performance of existing businesses.

The Directors confirm that this robust assessment also considers the principal risks facing the Group, as described on pages 82 to 88, and the potential impacts these risks would have on the Group's business model, future performance, solvency or liquidity over the assessment period. The Board considers that the diverse nature of the Sectors and geographies in which the Group operates acts significantly to mitigate the impact any of these risks might have on the Group.

The viability assessment considers severe but plausible scenarios aligned to the principal risks facing the Group where the realisation of these risks is considered remote, and considering the effectiveness of the Group's risk management and controls and current risk appetite.

A robust financial model of the Group is built on a business-by-business basis and the metrics for the Group's key performance indicators (KPIs) are reviewed for the assessment period. The Group's KPIs have been subjected to sensitivity analysis that includes flexing a number of the main assumptions, namely future revenue growth (incorporating adverse trading impacts on the Group arising from a downturn in the major end markets in which the businesses operate), operating margins and unfavourable working capital movements (driven by further supplier chain disruption). The degree of severity applied in this sensitised scenario was based on management's experience and knowledge of the Sectors in which the Group operates.

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

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to September 2025. The Directors' assessment has been made with reference to the resilience of the Group as evidenced by its robust performance during the past 24 months during the Covid-19 pandemic, its strong financial position and cash generation, the Group's current strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as described in the Strategic Report.