DIPLOMA DELIVERS

DIPLOMA PLC

Annual Report 2022

CONTENTS

EVERYTHING WE DO IS
DRIVEN BY OUR PURPOSE

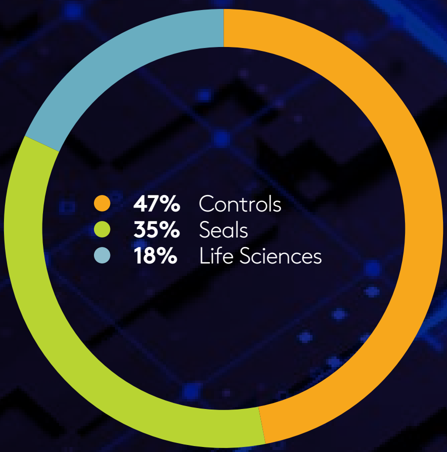
Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers and suppliers, and our communities.

DIPLOMA AT A GLANCE

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

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

OUR SECTORS (REVENUE)*



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

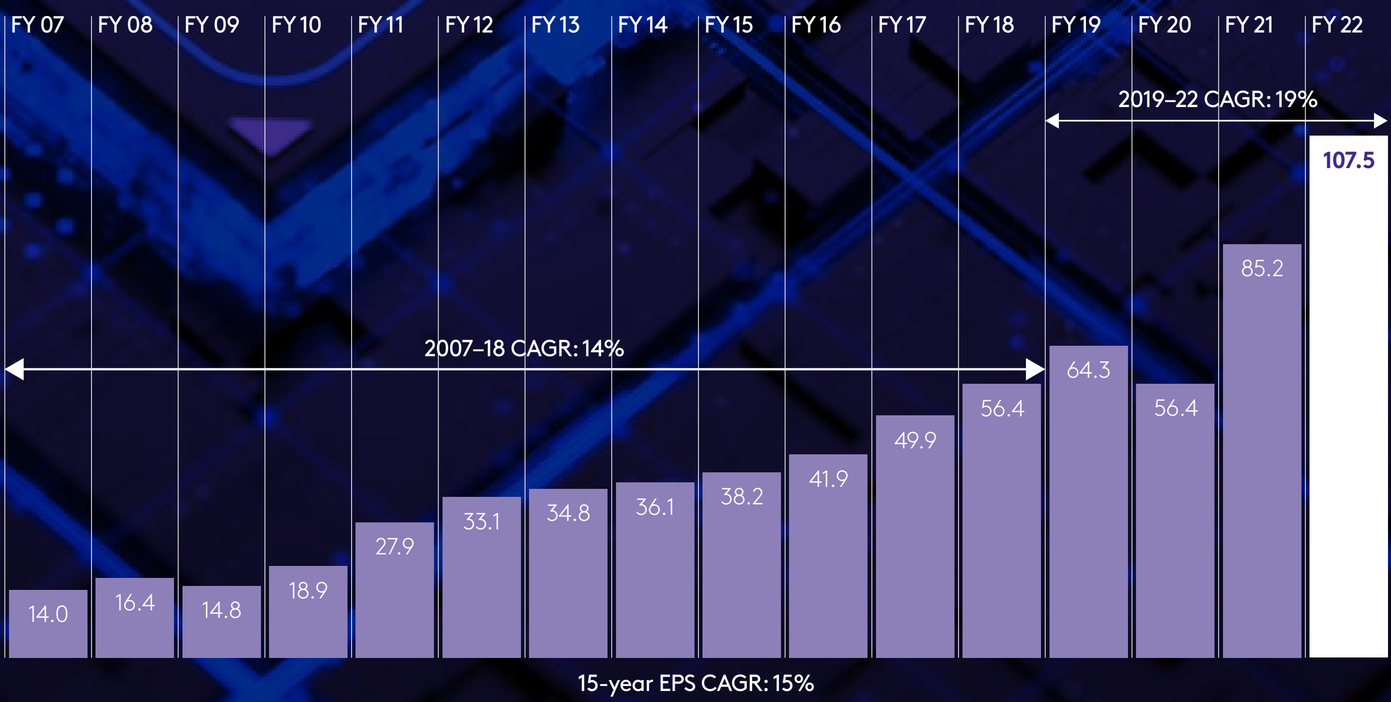
- Technical expertise
- Service-led propositions
- Innovative solutions

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)



Overview
Strategic Report
Corporate Governance
Financial Statements
Other Information

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

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

KEY ELEMENTS OF OUR LONG-TERM VALUE CREATION STORY

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

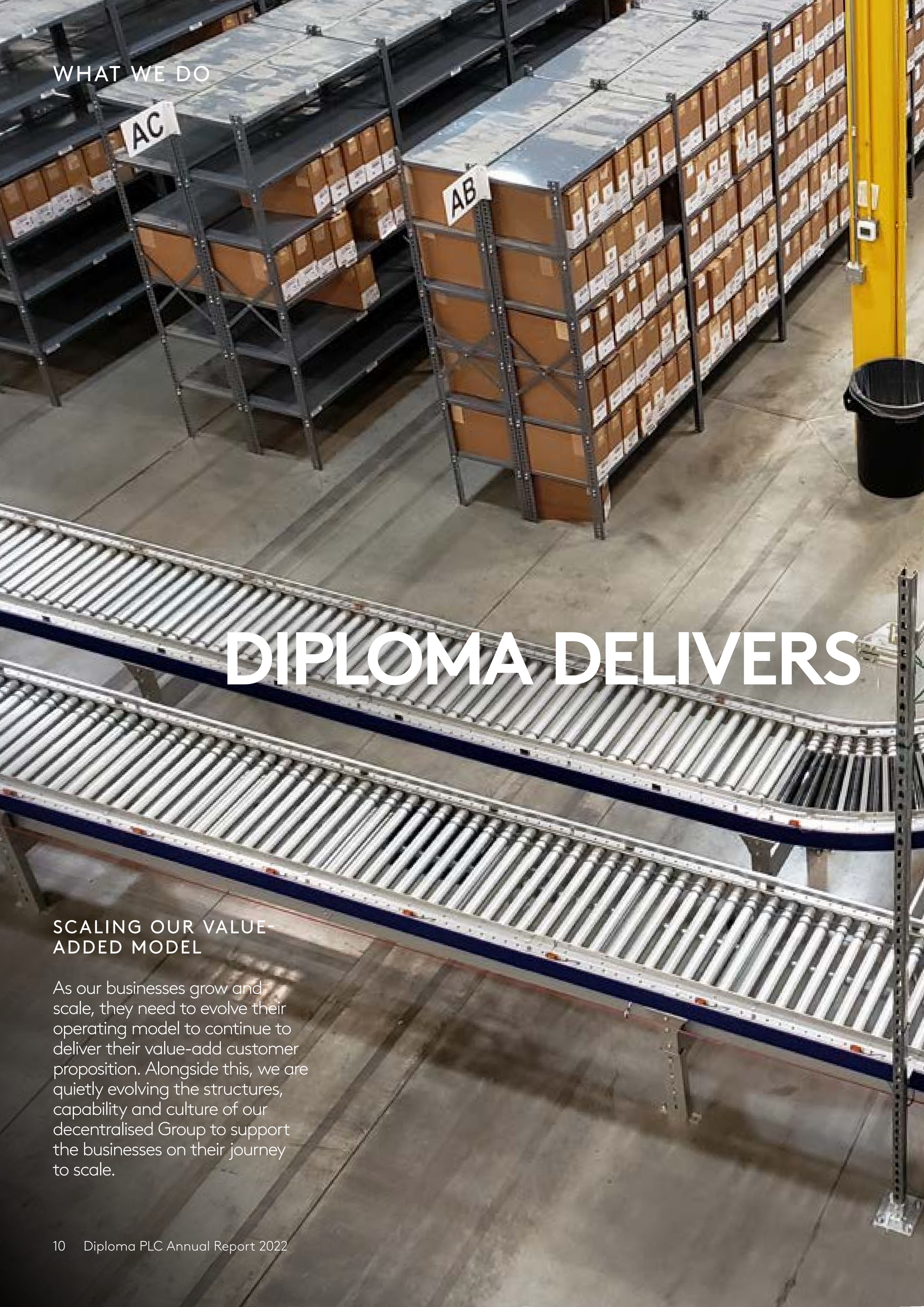
SUSTAINABLE ORGANIC GROWTH STRATEGY

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.

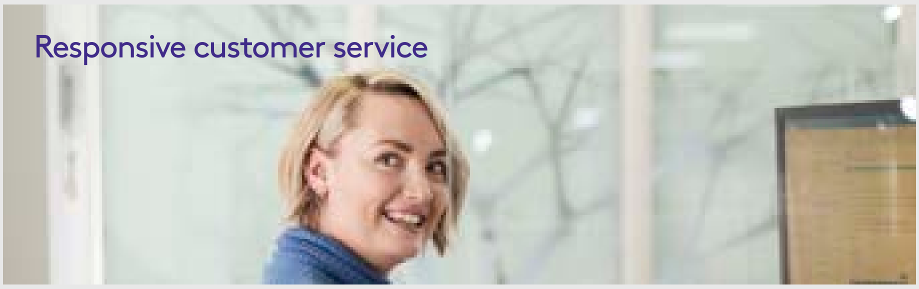
CUSTOMER SERVICE
CONSISTENTLY
GREAT SERVICE
TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD
ESSENTIAL VALUES
RELATIONSHIPS
BESPOKE SOLUTIONS
CUSTOMER SERVICE
CONSISTENTLY

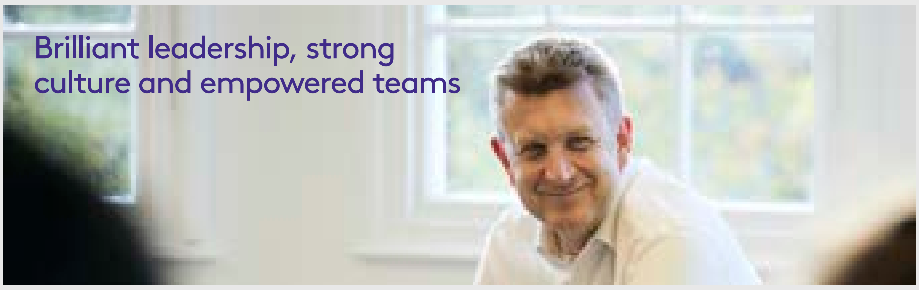
DRIVEN BY OUR PURPOSE

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.





THE GROUP

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

WE DELIVER FOR OUR STAKEHOLDERS

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.

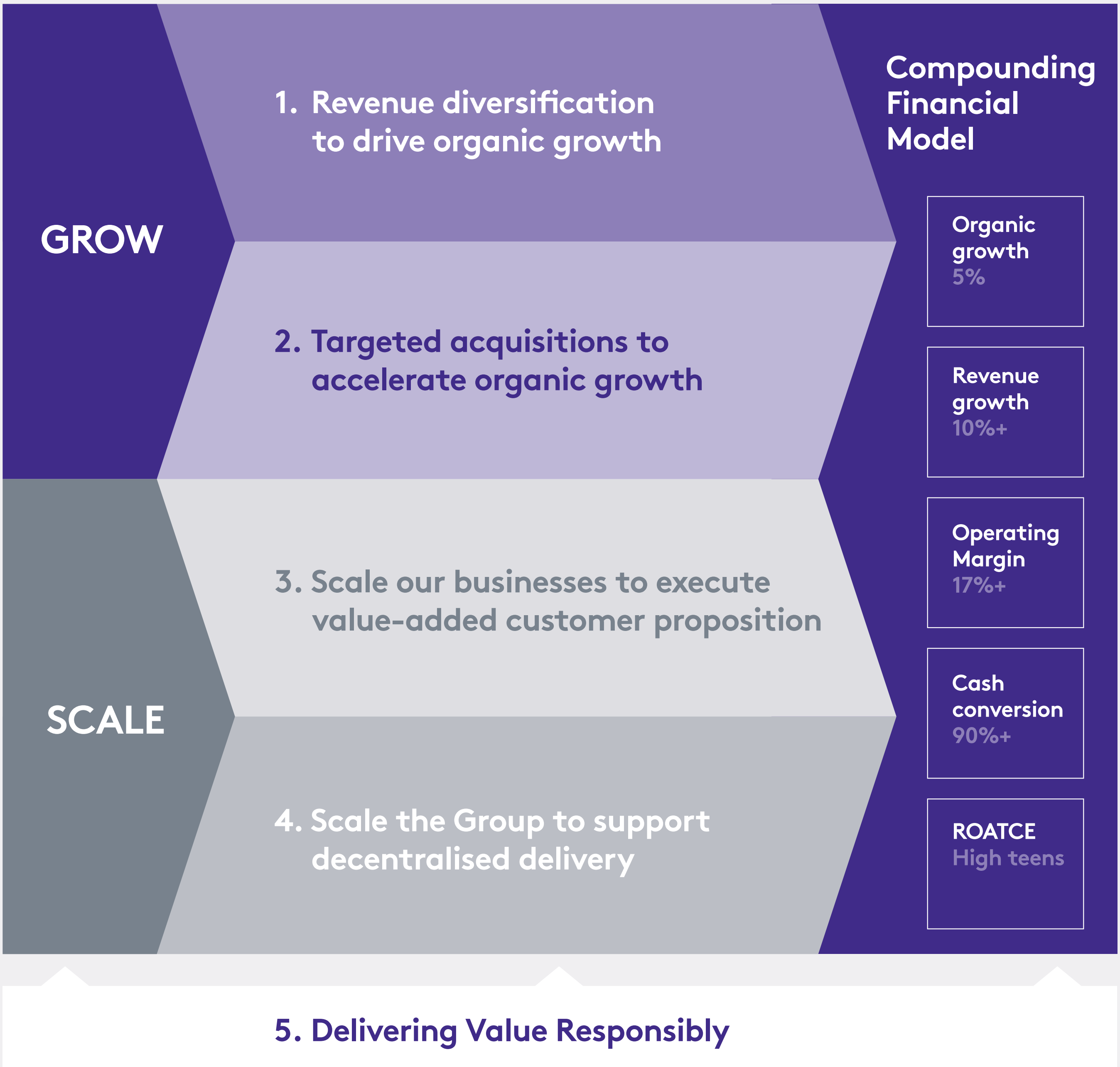
At this stage, FY 2023 is expected to be in line with our long-term model:

- 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

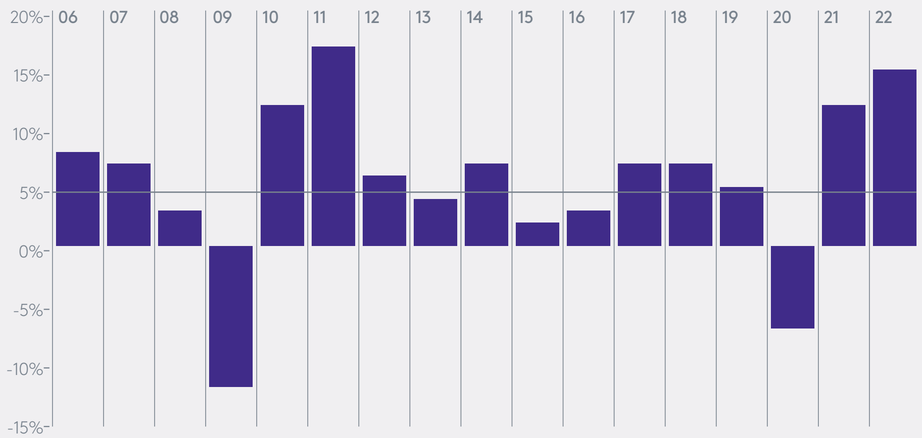
We are relatively underpenetrated in our core developed markets of North America, Europe and Australia where there is significant potential to increase market share.

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.

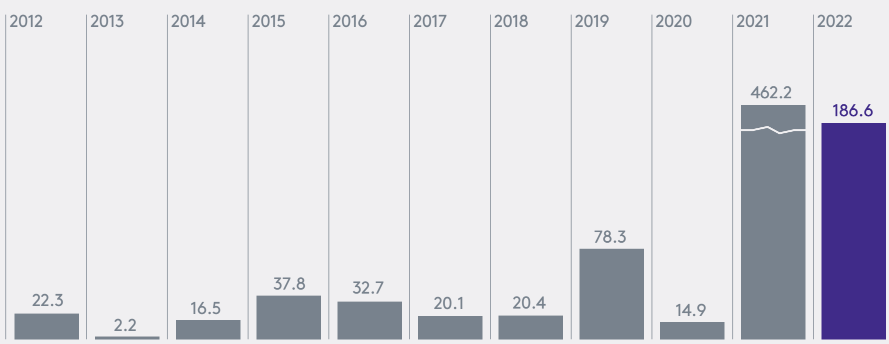
03
Success factors

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

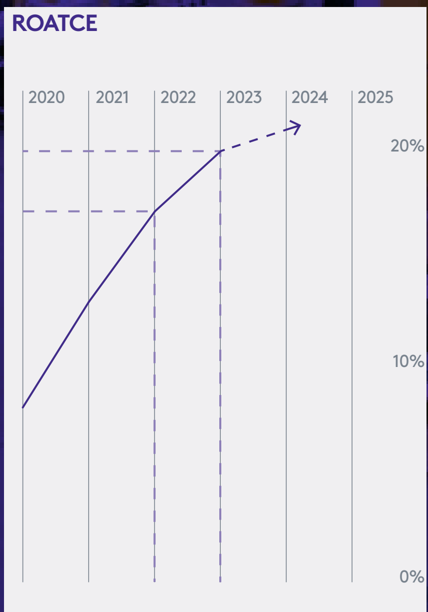
Windy City Wire is a leading value-added distributor of premium quality low voltage wire and cable.

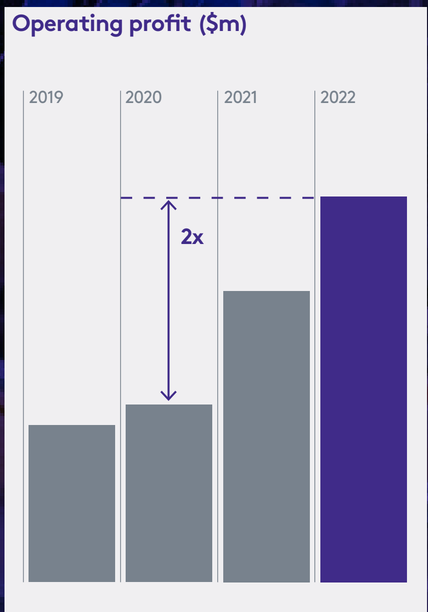
Acquired in October 2020 for £348m, the business represented a material strategic step forward, accelerating organic growth for the Group as a whole. Importantly, Windy City Wire diversified Controls into the large, attractive US industrials market and significantly increased the Group's exposure to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

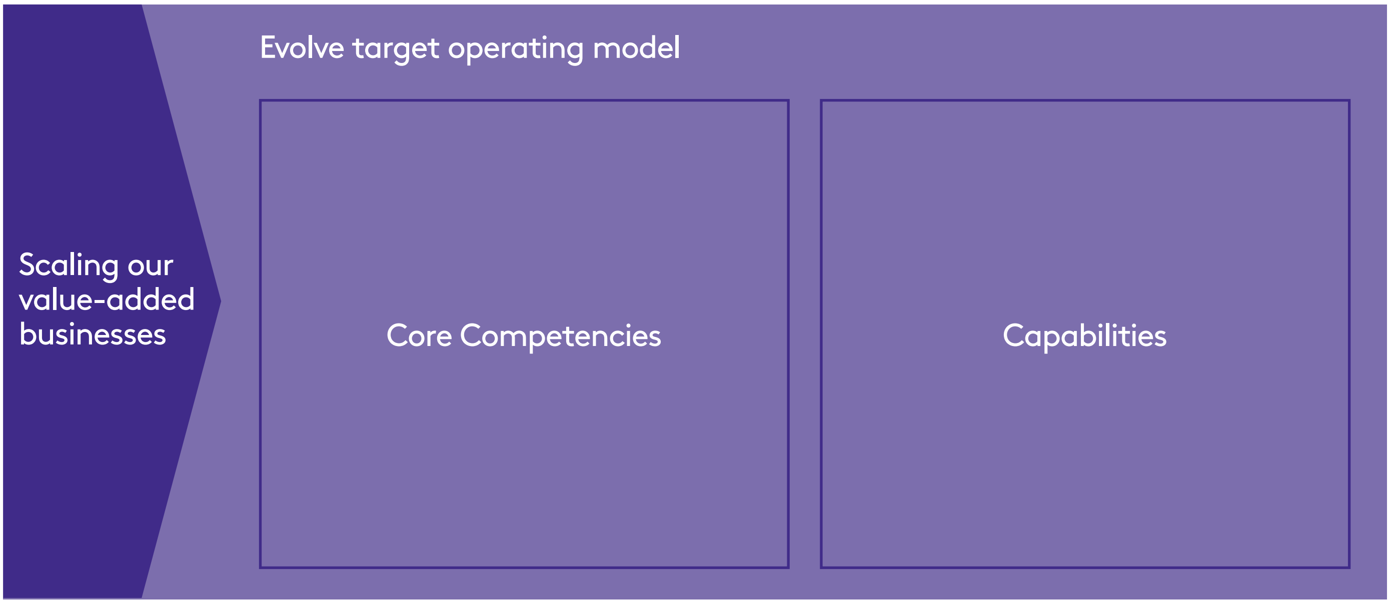
Value drivers:
- Excellent organic growth track record and significant potential through developing the aftermarket ecommerce channel, continued regional expansion in the UK, and further product cross-selling and diversification
- Continued 'buy & build': active pipeline with an opportunity to further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

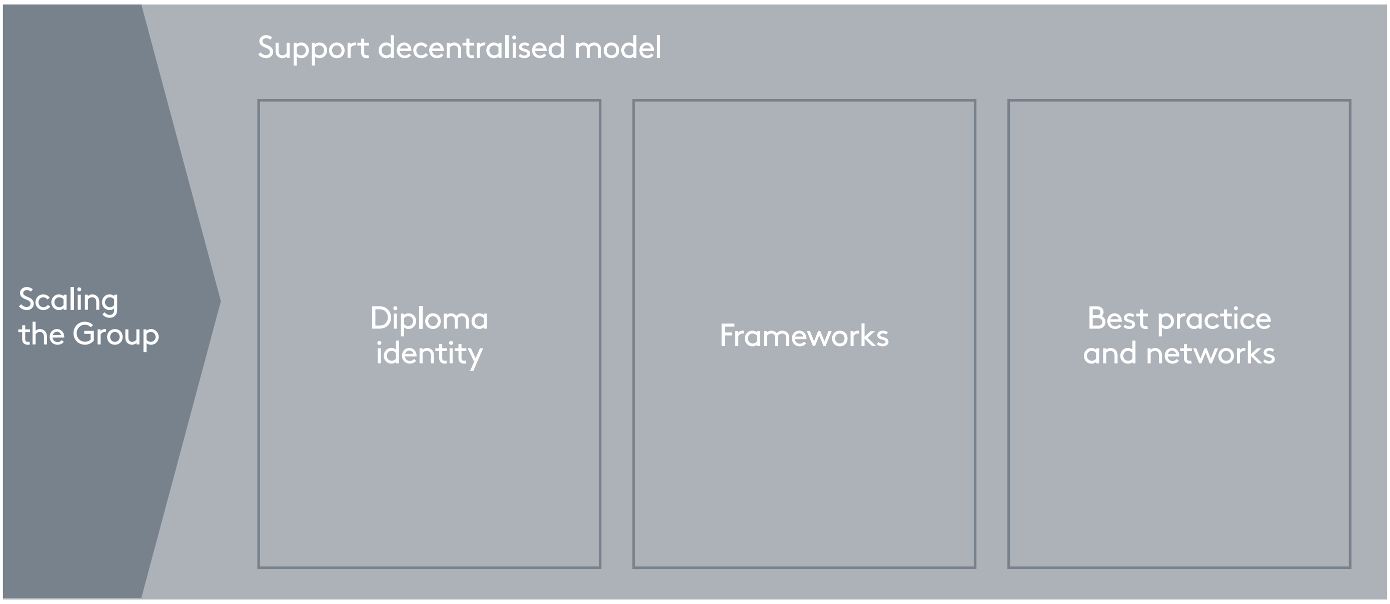
We continue to quietly evolve the structures, capability and culture of the Group to deliver for the long term.

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

Year	%
2022	**27%**
2021	24%

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.

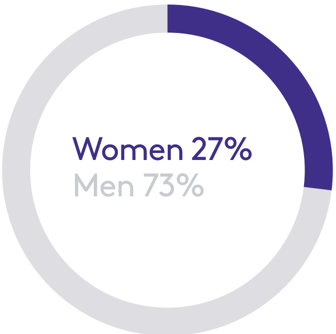
Ethnic diversity (as at 30 September)

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

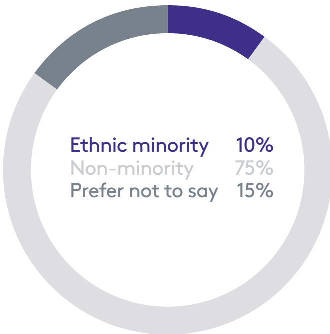
We have also started to measure ethnicity for the SMT. We have found that the percentage of the SMT that identify as belonging to an ethnic minority has increased slightly on the prior year (FY21: 7%). As with gender, this is largely due to external hires into the SMT during the year.

Diversity of our Senior Management Team

Gender diversity

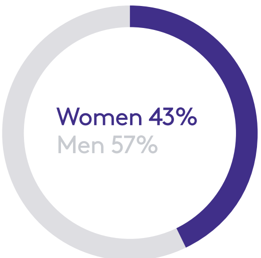


Ethnic diversity

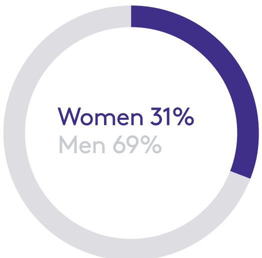


Gender diversity across the Group

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.

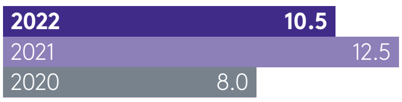
This target puts us on track to achieve net zero emissions across our operations by 2040.

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

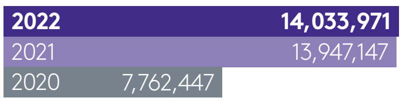
Tonnes CO_2e per £1m revenue

10.5



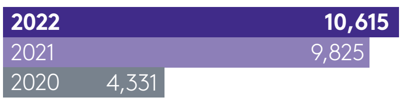
Purchased electricity kWh

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.

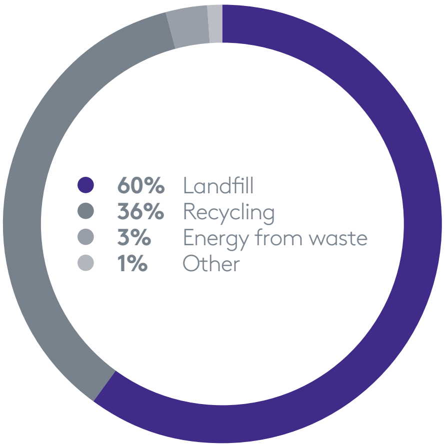
Consolidating and upgrading facilities has been particularly effective and we have seen a 30% reduction in Scope 2 emissions at our Hercules Aftermarket business in the US due to moving operations to the more energy efficient Louisville facility. We have also seen some benefit from energy efficiency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

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.

DVR governance structure: page 52

Internal control and risk Management: pages 80-88

Governance: pages 90-141

Nomination Committee Report: pages 108-113

STRATEGY

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

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.

Internal control and risk management: pages 80-88

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.

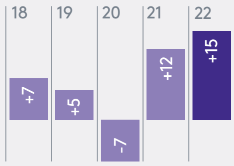
MEASURING OUR PROGRESS

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

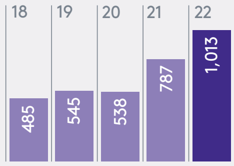
Organic revenue growth
Organic revenue growth is the Group's number one priority. We focus on products and solutions which are critical to customers' needs, giving resilience to revenues. We target mid-single digit organic growth.

6%
Five-year average



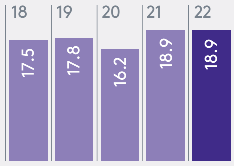
Reported revenue growth
We aim to deliver sustainable double-digit growth through a combination of organic growth and high-quality, value-enhancing acquisitions which accelerate our organic growth.

18%
Five-year compound



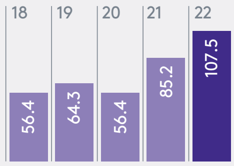
Adjusted operating margin
Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins. We target a margin of 17%+.

17.9%
Five-year average



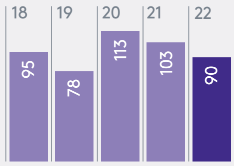
Adjusted EPS
EPS growth is a measure of how successful we have been in growing organically and through acquisition, including capital allocation and tax considerations. We target double-digit EPS growth.

17%
Five-year compound



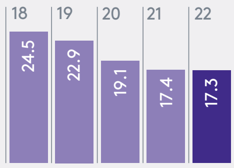
Free cash flow conversion
A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends. We target free cash flow conversion of 90%+.

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



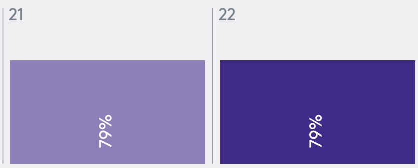
NON-FINANCIAL KPIs

OUR COLLEAGUES

Engagement index
An externally benchmarked score from our annual engagement survey

TARGET

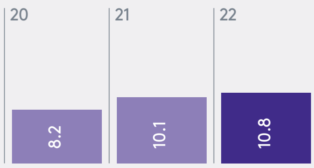
maintain 70%+



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

TARGET

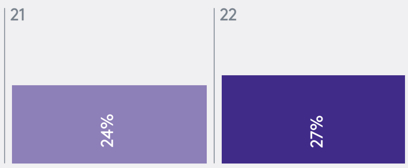
5% year-on-year reduction



% 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.

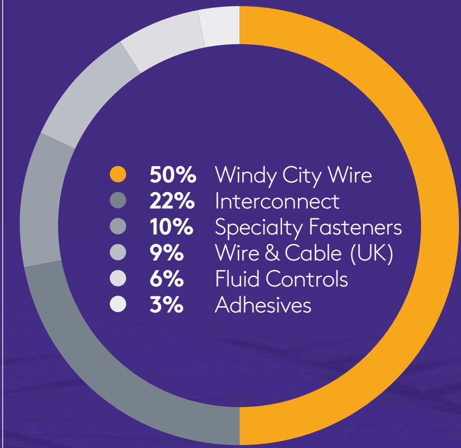
Interconnect: 22%
Harness components and specialist connectors used in technically demanding applications across multiple industries in Europe and the US. Our businesses supply a range of products and value-add services and products including protective sleeving, cut-to-length tubing, kitting, connector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

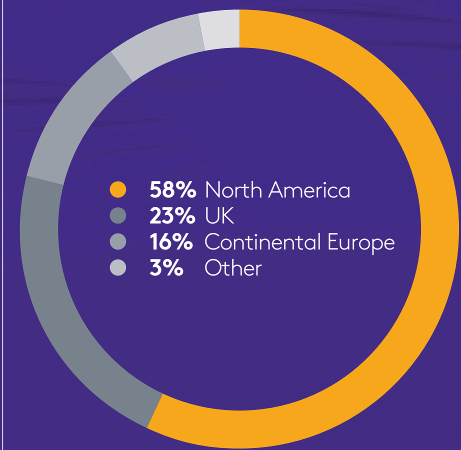
Fluid Controls: 6%
Fluid controllers, compressors, valves, temperature and pressure measurement devices, and specialised liquid dispensing components primarily for customers in the UK Food & Beverage sector.

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

Revenue by segment[1]

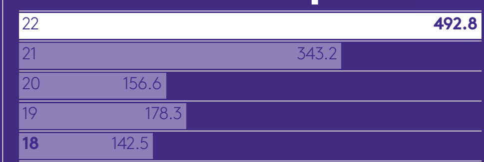


Revenue by geography[1]



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.

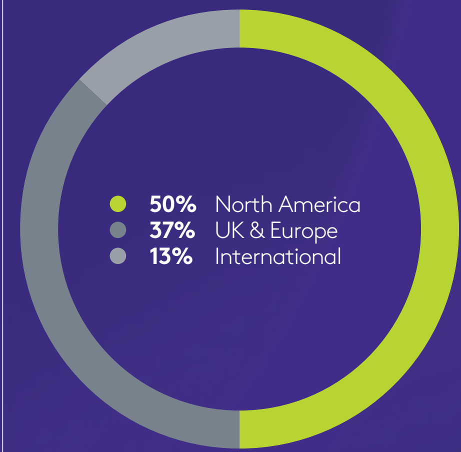
North American Aftermarket: 23%
Supplies a variety of seals, generally on a next-day basis, for a broad range of mobile machinery used in heavy Construction, Mining and Agriculture. Products are used in repair and maintenance after equipment has completed its initial warranty period or been sold on the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

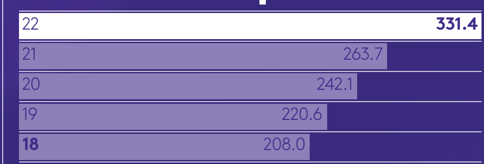
Revenue by segment[1]

Revenue by geography[1]



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

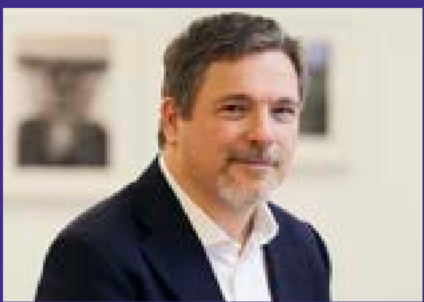
+11% p.a.



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:

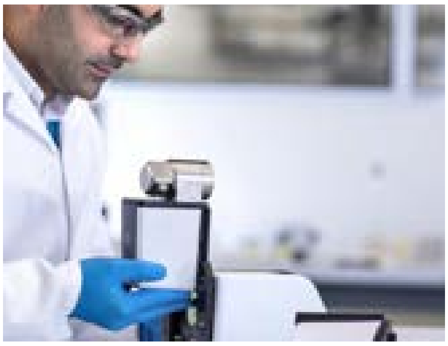
- Revenue diversification underpins the Sector's consistency. For most businesses, this reflects incremental benefits from revenue diversification initiatives focused on growth segments, geographic penetration and product extension.
- Additionally, our facility in Louisville has delivered a step change 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

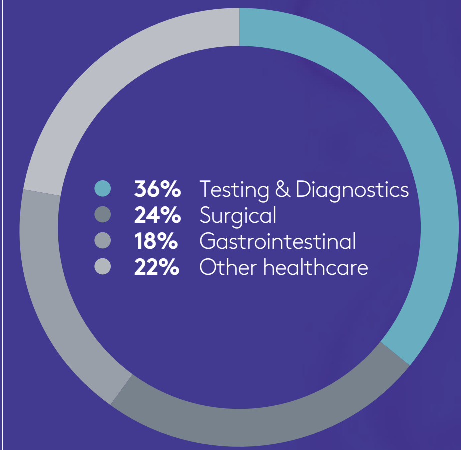
The Life Sciences Sector businesses supply a range of equipment, consumables, instrumentation and related services to the Healthcare industry.

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.

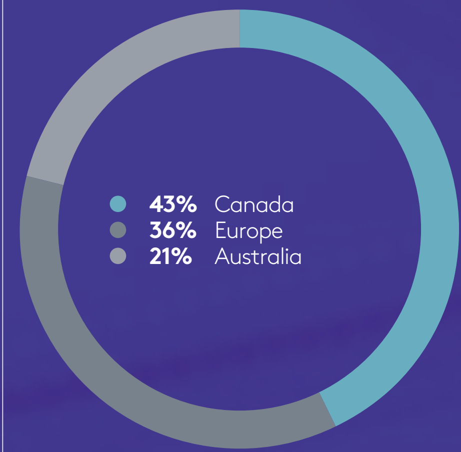
Australasia: 21%
A leading supplier of instrumentation and consumables to the pathology, scientific research and medical segments. Operating in Australia and New Zealand, the businesses also supply specialist surgical equipment and consumables used in hospital operating rooms.

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]

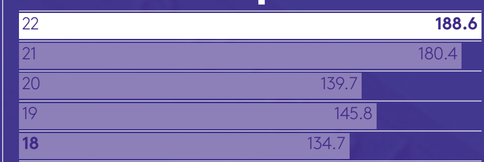


Revenue by geography[1]



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.

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.

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	–

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** No change 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** New 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.

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.

CHAIR'S INTRODUCTION TO GOVERNANCE

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

Principles of the UK Corporate Governance Code 2018	More information
Board leadership and company purpose Diploma is led by an effective and committed Board, dedicated to promoting the long-term sustainable success of the Company, generating value for shareholders and stakeholders, and contributing to wider society.	Read more on pages 72 to 75, and page 99.
Division of responsibilities The roles of the Chair and the Group CEO are separate and there is an appropriate balance of Executive and Independent Non-Executive Directors.	Read more on pages 96 to 98.
Composition, succession and evaluation Appointments are subject to a formal, rigorous and transparent procedure. Succession plans are in place for the Board and senior management. An evaluation of the Board and its committees is undertaken annually, in line with the Code.	Read more on page 96, and pages 108 to 113.
Audit, risk and internal control Formal, transparent policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions, and the integrity of financial and narrative statements, and to manage and mitigate risks.	Read more on pages 80 to 88, and pages 102 to 107.
Remuneration Diploma has remuneration policies designed to attract the best talent and promote long term sustainable performance aligned with shareholder interests. Executive remuneration is aligned to the Company's purpose and values and is clearly linked to the delivery of long-term strategy.	Read more on pages 114 to 138.

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

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

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

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

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

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

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

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

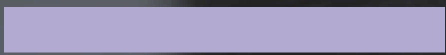
The Board's priorities for 2023 remain consistent, with a continued focus on the implementation of the Group' strategy; challenging and empowering management; succession planning and management of risk. Your Board is well placed to execute its stewardship role to ensure that the Group continues to evolve,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

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

David Lowden
Chair

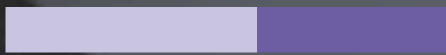
GOVERNANCE AT A GLANCE

Ethnic diversity



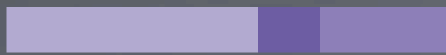
- **100%** Non-ethnic minority

Gender diversity



- **57%** Male
- **43%** Female

Length of tenure



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

Skills and experience

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

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

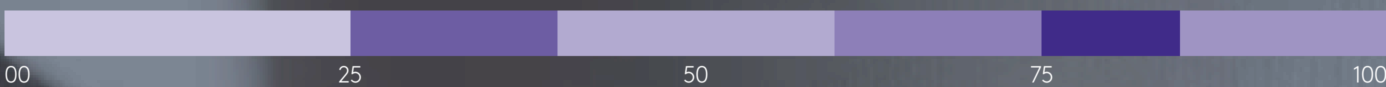
Member	Board	Audit Committee	Nomination Committee	Remuneration Committee
David Lowden	**8/8**	**–**	**4/4**	**6/6**
John Nicholas	**3/3**	**–**	**1/1**	**1/1**
Johnny Thomson	**10/10**	**–**	**–**	**–**
Barbara Gibbes	**9/9**	**–**	**–**	**–**
Anne Thorburn	**10/10**	**5/5**	**5/5**	**6/6**
Andy Smith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

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

Changes to the Board

- John Nicholas stepped down from the Board on 19 January 2022.
- David Lowden was appointed as Chair of the Board and Nomination Committee on 19 January 2022.
- Barbara Gibbes stepped down from the Board on 30 September 2022.

Board activity and focus area



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

Our governance framework

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

David Lowden
Chair

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

Anne Thorburn
Senior Independent Director

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

Independent Non-Executive Directors

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

Group Company Secretary

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

Board Committees

Audit Committee
Chair: Anne Thorburn

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

Nomination Committee
Chair: David Lowden

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

Remuneration Committee
Chair: Andy Smith

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

Treasury Committee

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

Administration Committee

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

Disclosure Committee

Oversees the disclosure of market sensitive information.

Executive Directors
Chief Executive Officer and Chief Financial Officer

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

Executive team

The Executive team provide strategic and operational leadership to the Group, ensuring that strategies are executed effectively. The team comprises the direct reports of the Group CEO.

Senior Leadership Team

The Senior Leadership Team oversee essential day-to-day business operations and talent strategy, lead core initiatives and implement policies and procedures. The team is made up of members of the Executive team, Managing Directors of the businesses and key Group roles.

BOARD OF DIRECTORS

Geraldine Huse
Non-Executive Director

Joined
January 2020

Johnny Thomson
Chief Executive Officer

Joined
February 2019

Andy Smith
Non-Executive Director

Joined
February 2015

Dean Finch
Non-Executive Director

Joined
May 2021

David Lowden
Board Chair

Joined
October 2021

Anne Thorburn
Senior Independent Director

Joined
September 2015

BOARD OF DIRECTORS SKILLS AND EXPERIENCE

David Lowden
Board Chair & Nomination Chair

Joined
October 2021

Current external appointments:
- Senior Independent Director, Morgan Sindall plc
- Chair, Capita PLC

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

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

Johnny Thomson
Chief Executive Officer

Joined
February 2019

Current external appointments:
- None

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

Past appointments:
- Group Finance Director, Compass Group PLC
- Regional Managing Director, Latin America, Compass Group PLC

Anne Thorburn
Senior Independent Director & Audit Chair

Joined
September 2015

Current external appointments:
- Non-Executive Director and Chair of the Audit Committee, TT Electronics plc

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

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

Chris Davies
Chief Financial Officer

Joined
November 2022

Relevant skills and experience
- Retail and FMCG Sectors
- Financial & Risk Management
- Strategy
- M&A and Financing
- International Business
- Operations and Customer Service

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

Current external appointments
- Non-Executive Director, Motability Operations Group PLC

Committee membership

R Remuneration

A Audit

N Nomination

Chair

Andy Smith
Independent Non-Executive Director & Remuneration Chair

Joined
February 2015

Current external appointments:
- None

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

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

Geraldine Huse
Independent Non-Executive Director

Joined
January 2020

Current external appointments:
- President, Procter & Gamble, Canada

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

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

Dean Finch
Independent Non-Executive Director

Joined
May 2021

Current external appointments:
- Group Chief Executive, Persimmon PLC

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

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

John Morrison
Group Company Secretary & Head of Legal

Joined
April 2020

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

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

BOARD OF DIRECTORS DIVISION OF RESPONSIBILITIES

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

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

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

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

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

ROLES IN THE BOARDROOM

Non-Executive Chair

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

Independent Non-Executive Directors

- ensure that no individual or small group of individuals can dominate the Board's decision making.
- provide constructive challenge, give strategic guidance, offer specialist advice and hold executive management to account.

Independent Non-Executive Directors meeting the independence criteria set out in the Code comprise more than half of Board membership.

Senior Independent Non-Executive Director

- leads the Board and ensures its overall effectiveness in discharging its duties.
- provides the Chair with support in the delivery of objectives, where necessary works closely with the Nomination Committee, leads the process for the evaluation of the Chair and ensures orderly succession of the Chair's role.
- acts as an alternative contact for shareholders, providing a means of raising concerns other than with the Chair or senior management.

Group CEO & Group CFO

- lead the implementation of the Group's strategy set by the Board.
- Group CEO is responsible for delivering the strategy and for the overall management of the Group.
- Group CEO leads the Executive team and ensures its effectiveness in managing the overall operations and resources of the Group.
- Executive Directors provide information and presentations to the Board and participate in Board discussions regarding Group management, financial and operational matters.

Matters delegated to the CEO and CFO include managing the Group's business in line with the Group's strategy, annual budget and implementation of the risk governance framework.

Group Company Secretary

- supports the Chair and ensures the Directors have access to accurate and timely information they need to perform their roles.
- is the trusted interlocutor within the Board and its Committees, and between executive management and the Non-Executive Directors.
- advises the Board on legal and corporate governance matters and supports the Board in applying the Code and complying with UK listing obligations, and other statutory and regulatory requirements.

BOARD OF DIRECTORS MONITORING CULTURE

Purpose, culture and values

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

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

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

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

How the Board monitors culture

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

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

Employee engagement

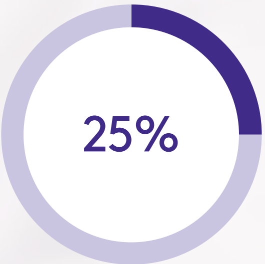
The Board is committed to engaging with employees and has considered the employee engagement methods specified by the Code but felt that alternative methods are more appropriate. Given the Group's decentralised model and its geographical spread, the Board has continued with a multi-faceted approach to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

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

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

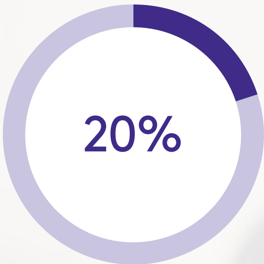
Set out below are some of the key activities, matters considered and decisions made by the Board in the year.

Strategy & strategic execution



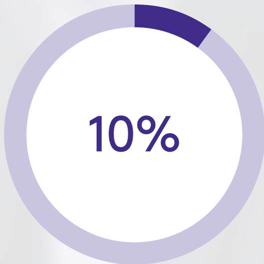
- Regularly reviewed the Group's performance against the strategy including actions taken in respect of managing the pandemic.
- Presentations by the Corporate Development Director and Sector leadership on strategic priorities and execution against those priorities.
- Reviewed and discussed our ESG strategy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

Finance



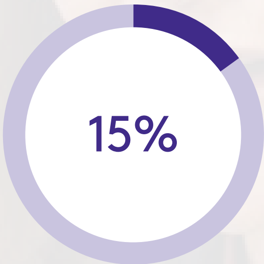
- Received updates on the Group's financial performance.
- Approved the 2023 budget; monitored performance against the 2022 budget through regular presentations from the CFO.
- Assessed and approved the proposed dividend payments, balancing the views of various stakeholders.
- Investor relations: received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

Operations



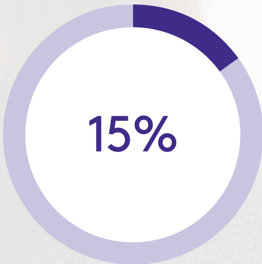
- Regular updates from the CEO.
- Monitored and discussed the impact of Covid-19 on the Group's operations.
- Modern Slavery Statement.
- Sector presentations.

Colleagues & culture



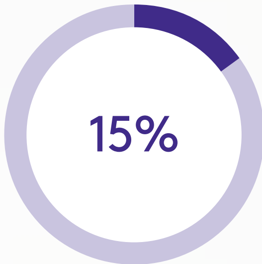
- Reviewed Group Colleague Engagement Survey.
- Received reports on workforce wellbeing throughout the year.
- USA site visits.
- Talent and succession update.
- Whistleblowing reports.

Risk



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

Governance



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

AUDIT COMMITTEE REPORT

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

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

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

Dear Shareholder

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

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

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

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

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

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

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

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

Anne Thorburn
Chair of the Audit Committee
21 November 2022

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

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

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

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

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

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

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

Accounting for acquisitions and disposals
The Committee reviewed the accounting for acquisitions completed during the year, in particular the acquisitions of R&G Fluid Power Group and Accuscience. The acquisitions were material for the FY22 audit and, in accordance with IFRS 3 (Business Combinations), management has performed a full fair value exercise for these two acquisitions in this year's financial statements. As part of their audit of the Group, the external auditor has performed work on:
a) the Purchase Price Allocation (PPA);
b) the opening balance sheet as at the acquisition date; and
c) audit of any material fair value adjustments arising on the acquisition balance sheet.

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

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

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

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

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

Other audit matters

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

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

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

Going Concern and Viability

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

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

Engagement of the external auditor

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

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

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

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

Non-audit services

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

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

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

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

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

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

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

Risk management and internal control

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

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

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

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

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

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

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

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

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

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

Internal audit

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

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

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

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

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

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

Whistleblowing

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

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

NOMINATION COMMITTEE REPORT

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

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

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

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

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

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

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

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

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

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

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

David Lowden
Chair of the Board and Nomination Committee
21 November 2022

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

Nomination Committee

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

The Group Company Secretary acts as Secretary to the Committee.

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

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

Induction and professional development

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

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

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

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

Process for Board appointments

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

During the year we engaged Russell Reynolds in connection with the recruitment of Chris Davies. Russell Reynolds do not have any other connection to the Group, other than providing executive search services.

Step 1

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

Step 2

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

Step 3

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

Step 4

The Committee makes a recommendation to the Board for its consideration

Step 5

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

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

Calendar of activities

November 2021

Meeting all Board colleagues, both individually and collectively

Meeting Group heads of functions

January 2022

Handover with outgoing Chair

March 2022

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

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

April 2022

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

Onboarding processes

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

Succession planning

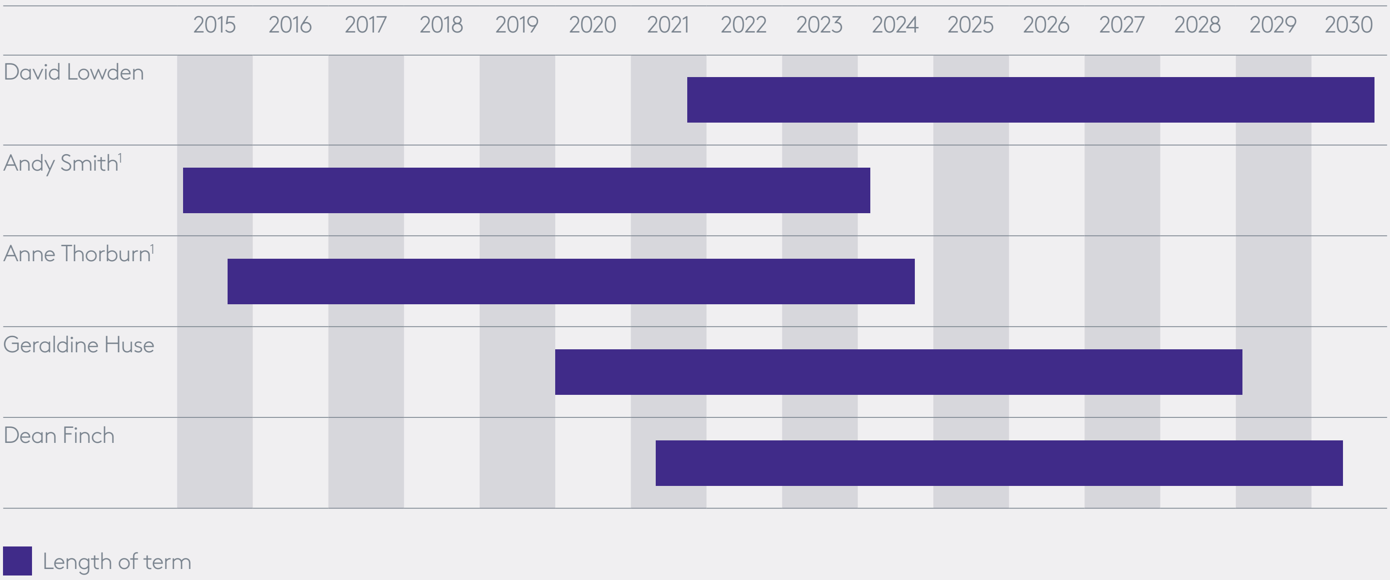
The Committee formally reviews succession planning for the Board, Group Company Secretary and Head of Legal, and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background, skills and expertise that will be required by the Group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

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

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

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

Length of tenure



1 Director in third and final term.

Board evaluation

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

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

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

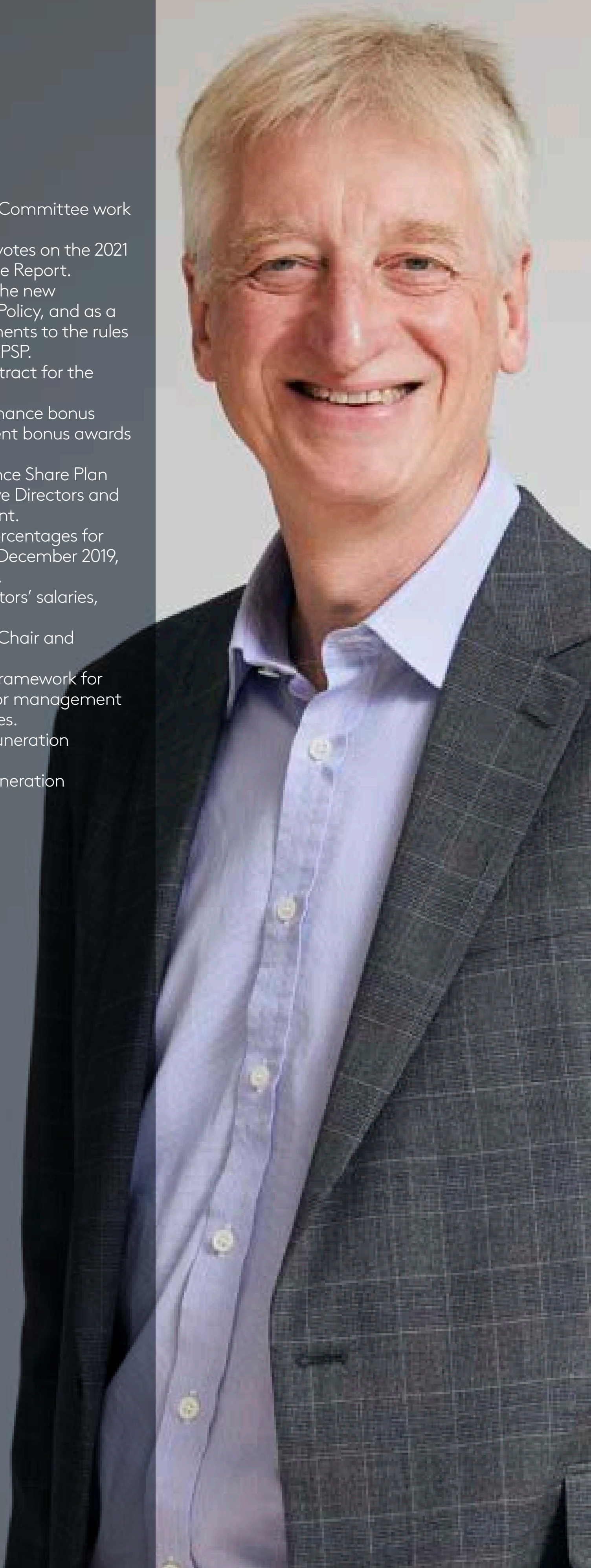
The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2023 Annual Report.

Key areas for development

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

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

REMUNERATION COMMITTEE REPORT



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

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

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

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

Dear Shareholder

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

Context and approach to remuneration

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

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

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

2022 performance and pay

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

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

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

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

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

Appointment of new CFO

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

We appointed Chris following a thorough process, which considered internal and external candidates. Diploma was Barbara's first FTSE Board appointment and her package was set accordingly. Chris' package is commensurate with his experience as an established CFO with an excellent track record in decentralised, service-led, multi-national organisations. It reflects the increasing size and complexity of Diploma and the important support he will provide in the delivery of strategy, business performance and a robust financial control framework. This provides the right balance within the company and reflects a fair package. The details of Chris's package are laid out on page 124. Consistent with our policy, Chris received buy-out awards in the form of cash, Diploma shares and Diploma PSP grants to compensate him for some of the variable remuneration awards that he has surrendered in order to join Diploma. Payments take account of the details of the remuneration foregone including the nature, vesting dates and performance requirements attached to that remuneration and payments will not exceed the expected value being forfeited. Exact amounts will be finalised following the publication of his previous employer's results and will be disclosed in next year's DRR.

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

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

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

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

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

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

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

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

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

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

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

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

Shareholder consultation on proposed changes

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

Remuneration for 2023 – implementation

Fixed pay:

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

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

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

Annual bonus:

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

PSP:

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

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

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

Non-Executive Directors and Committee evaluation

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

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

Conclusion

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

Andy Smith
Chair of the Remuneration Committee
21 November 2022

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

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

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

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

CASCADE OF REMUNERATION IN OUR DECENTRALISED BUSINESS:

EXECUTIVE DIRECTORS

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

LEADERSHIP ROLES

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

WORKFORCE

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

Business Performance 2022 Annual Report of Remuneration

Strategic execution

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

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

Disciplined portfolio development: disposals of Kentek and a1-envirosciences.

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

Performance

Adjusted operating profit
+29%

Revenue
+15%

Free cash flow
+11%

Adjusted EPS
19%
(3-year CAGR)

ROATCE:
17.3%

Relative TSR: percentile rank
91%
(3-year performance)

Reward

Maximum bonus payable

Maximum vesting on PSP

Strategic execution

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

A year of more consistent and robust reporting.

Targets set for the first time.

Performance

Engagement index
79%
(2021: 79%)

Scope 1 & 2 emissions
10,615 tonnes CO_2 e
(baseline year)

Waste to landfill
60%
(first year of measurement)

Reward

Flexibility to introduce DVR metrics in remuneration included in Policy.

2022 Broader Reward Priorities

Goal	Action
Support lower paid colleagues most affected by the cost of living crisis	**Wage increase for colleagues paid less than £40k of 7.5%, which is higher than the overall workforce increase.**
Retain talent in the competitive talent market	**Wage increase for the workforce of 7% (2021: 4%). Review of variable pay structures and quantum.**
Incentivise brilliant leaders on long-term success	**PSP participation increased to ca. 50 participants (2021: ca. 35 participants, 2020: ca. 15 participants). To keep pace with the growing Group variable pay structures and quantum reviewed, high pay for high performance.**

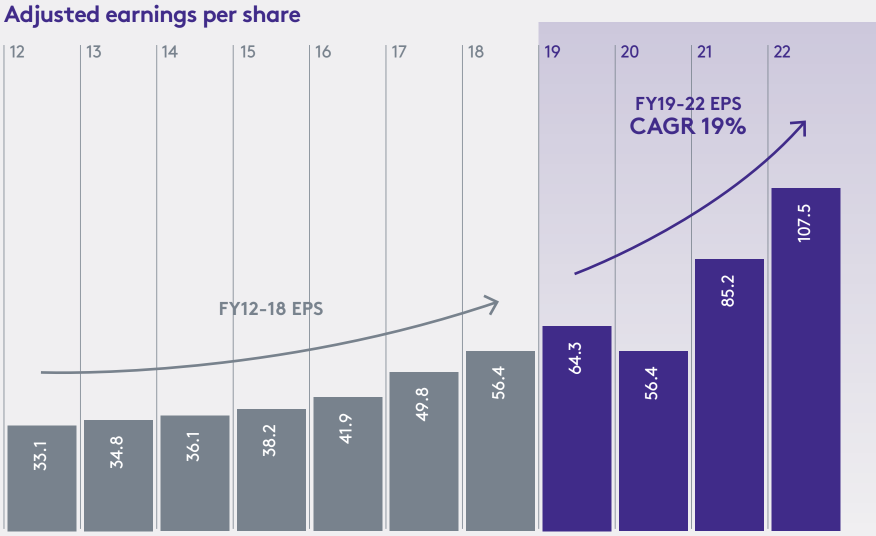
2022 Remuneration Policy Review – process

Changes to Remuneration Policy and its implementation

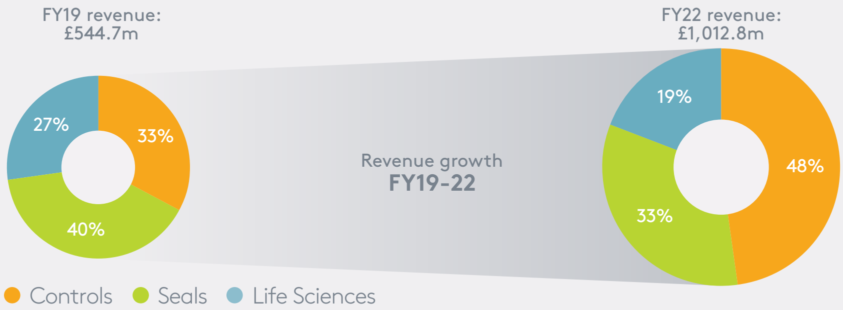
This section sets out the Directors' Remuneration Policy (the Policy) proposed for approval by shareholders at the Company's AGM on 18 January 2023. The Company's current Remuneration Policy (the Policy) was approved by shareholders at the 15 January 2020 AGM and the updated policy, subject to shareholder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

1. Excellent performance and increased scale and complexity of the Group: moved from FTSE ca. 185 to FTSE ca. 111

Adjusted earnings per share



The Group has doubled whilst improving operating margin



FY19
Adjusted Operating Profit £97.2m
(operating margin 17.8%)

FY22
Adjusted Operating Profit £191.2m
(operating margin 18.9%)

2. Wider stakeholder context considered during Policy review:

- Ambitious growth plans.
- Attracting, retaining and incentivising management.
- Increased market worth of management given performance track record.
- Workforce remuneration experience and views.
- Focus on supporting wider workforce during macro environment affecting workforce-inflation, energy.
- Increasing importance of ESG performance.
- Broader indicators of culture e.g. colleague engagement (Engagement index 79%).
- Market developments in governance practices, ensuring our governance aligns with needs of stakeholders.

3. Market insight: used to 'sense check':

a) Information on UK pay levels for companies of similar size FTSE 150-100 (Diploma: FTSE 111, 30 September 2022).
b) There are few direct peers for Diploma. Hence we use a range of companies in similar markets or with similar value-add business models to provide a comparison (RS Group plc, Bunzl plc, Inchcape plc, Spirax-Sarco Engineering plc, Rentokil Initial plc, Howden Joinery Group Plc, Spectris plc, Halma plc, DS Smith plc, Travis Perkins plc, Johnson Matthey plc). Some within this list are larger than Diploma but provide useful insight.
c) Variable pay targets for FTSE 250.

4. Shareholder consultation on proposed changes:

- Extensive, direct shareholder consultation with ca. 65% of the register.
- Consultation with key proxy voting agencies.
- Conversations with shareholders shaped policy proposals including considerations of quantum and stretch in performance targets.

2022 Remuneration Policy proposals and rationale

Pension alignment with wider workforce	Pension contribution for CEO reduced to 4% of base pay from 10% of base pay from January 2023. CFO pension value already aligned to wider workforce rate of 4% of base pay.
Improving the competitiveness of Executive Directors' compensation opportunity, reflecting growing business and criticality of leadership	We recognise the need to retain and motivate our team over the next period of exceptional Company growth. The renewed Policy and its implementation for 2022 will align pay to performance and investor expectations, as follows: – No change to annual bonus Policy maximum. – Increase to PSP maximum from 250% of salary to 300% of salary for CEO and from 200% to 250% for the CFO. – For 2022, the CEO's PSP award will be aligned to the new Policy maximum at 300% of base pay. The newly appointed CFO's PSP award will be 200% of base pay (prorated).
Shareholder alignment	Increased shareholding guideline (MSR) to align with new PSP policy maxima – 300% of salary for CEO and 250% of salary for CFO. Extension of post employment shareholding requirement to now require 50% of MSR to be held for two years after termination date.
Introduction of ESG	Flexibility to include ESG metrics during next policy period.

Proposed implementation of policy in FY23

	Fixed remuneration	**Annual bonus**	**Long-term incentives**	**Shareholding guideline**	**Post-cessation guideline**
Johnny Thomson (CEO)	Base pay: £754,000 Benefits fund Pension: £41,085 (equivalent to 4% of base pay from 1 Jan 23)	Max: 125% base pay Target: 62.5% base pay	Max: 300% base pay PSP (2022): 300% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 300% base pay	Holding requirement: 50% of MSR for 2 years after the termination date
Chris Davies[1] (CFO)	Base pay: £450,000 Benefits fund Pension: £18,000 (equivalent to 4% of base pay)	Max: 125% base pay Target: 62.5% base pay	Max: 200% base pay PSP (2022): 200% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 250% base pay	Holding requirement: 50% of the MSR for 2 years after the termination date
Change from 2021	CEO base pay 6% increase; CEO pension reduced; New CFO appointed	No change	Policy maximum increased for CEO & CFO PSP award increased for CEO New CFO appointed	Shareholding guideline increased in line with new PSP maxima	Increased post-cessation guideline from 12 months to 2 years

1 Chris Davies was appointed from 1 November 2022. Remuneration amounts in the table above are annualised. When implemented, all his fixed and variable pay is prorated in FY23.

Remuneration Policy

The Committee reserves the right to approve payments on terms that differ from the Policy where the terms of the payment were agreed before the Policy came into effect or were agreed at a time when the relevant individual was not a Director of the Company.

The Committee may also make minor amendments to the arrangements for Directors described in the Policy without shareholder approval for regulatory, tax or administrative purposes or to take account of a change in legislation.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required. Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for senior management more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be fair.	Pension contributions can either be paid directly into a pension savings scheme or taken as a separate cash allowance.	Maximum pension contributions will be no higher than the rate offered to the majority of our UK workforce for UK-based Executive Directors. Maximum pension contributions for non UK-based Executive Directors will be aligned with employees in the relevant local market.	No performance metric.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual Performance Bonus Plan	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee. Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be used to purchase shares on behalf of the Executive. The shares, which are beneficially owned by the Executive, are eligible for dividends and will only be released once the Executive reaches the minimum shareholding requirement. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply to bonus awards. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	Maximum of 125% of base salary for the Executive Directors. Performance below threshold results in zero payment. Achievement of threshold performance results in payment of 5% of base salary. On-target bonus is 50% of maximum bonus.	Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance. Personal or strategic objectives, if used, will account for no more than 20% of the bonus.
Performance Share Plan (PSP)	Incentivise Executive Directors to achieve superior returns and long-term value growth.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a 'good leaver'. Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant. Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	The maximum opportunity as a percentage of salary is 300% for the CEO and 250% for other Executive Directors. No more than 25% of the award will be payable at threshold performance.	Awards will be granted subject to a combination of financial and strategic measures closely aligned to the Company's strategy and measured over a period of no less than three years. Strategic non-financial objectives, if used, will account for no more than 20% of the PSP.

Chair and Non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chair and Non-Executive Directors' fees	To attract and retain a Chair and Independent Non-Executive Directors of the required calibre and experience.	Paid quarterly in arrears and reviewed each year. Although Non-Executive Directors currently receive their fees in cash, the Company may pay part or all of their fees in the form of shares. Any reasonable business related expenses (including tax thereon if determined to be a taxable benefit can be reimbursed).	The Chair's and Non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	No performance metric

Selection of performance measures and targets for Annual Bonus and PSP

The Annual Bonus Plan is designed to drive the annual financial and strategic objectives of the business. Performance measures are selected aligned to the company's strategic plan and key objectives. Targets are set by reference to internal budget. Details of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

The PSP is designed to drive the delivery of the Company's longer-term objectives and support the delivery of value for shareholders. Performance measures are selected to align with these objectives and targets are set by reference to internal long-term business plans. Any major adjustment in the calculation of performance measures will be disclosed to shareholders on vesting. Details of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

Illustration of application of Policy

Pay-for-performance: Executive Directors' potential value of 2023 remuneration packages

1 Base salary is as at 1 October 2022; benefits are as set out on page 121.
2 Stretch is calculated on the same basis as the Maximum bar; however, it includes a share price uplift of 50% over three years for the PSP.

New CFO Remuneration package

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022. Chris was appointed on a salary of £450,000 with maximum incentive opportunities of 125% and 200% of salary respectively for the annual bonus and PSP in line with the Company's remuneration policy. His pension contribution of 4% of salary is in line with the wider UK workforce. The chart above presents his potential remuneration on a fully annualised base salary, pension, benefits, bonus and LTIP. In line with the Remuneration Policy the Company is making additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that Chris Davies has foregone in order to join the Group. Payments will take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments will not exceed the expected value being forfeited.

On-target remuneration assumes an Annual Performance Bonus Plan of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 300% of base salary (CFO: 200%) applies to each PSP award. On-target vesting of PSP awards assumes an adjusted EPS growth of 7.67% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. No dividend equivalents are assumed, and no share price growth is assumed other than in the Stretch bar.

Consideration of shareholder views

The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published investor guidelines or appropriate regulation including the UK Corporate Governance Code. A thorough consultation was conducted for this policy review as explained on page 120. In response for feedback, we intend to increase EPS growth required for maximum payout under the PSP from 12% to 13% for the award in 2022. On reflection, and incorportating feedback from shareholders, we reconsidered the CEO base pay increase in the context of wider workforce pay increases, the macro-economic environment, inflationary pressures faced by our colleagues and the overall quantum of CEO reward.

Differences in remuneration policy for other employees

The Group seeks to promote positive relations with colleagues. The Committee is mindful of the pay increases, incentive outcomes and share award participation in relevant markets across the rest of the Group when considering the remuneration of the Executive Directors.

The Board as a whole takes responsibility for gathering the views of Diploma's workforce, and does so through multiple channels of engagement. While the Committee does not consult employees directly when setting the Executive Directors' remuneration policy, the senior management team engages with employees, either on a business-wide basis in the context of smaller focus groups, to solicit feedback generally on a wide range of matters, including remuneration. Feedback is passed to the Committee via the Executive team.

The Company reviews compensation arrangements including base salaries for the wider employee population annually. In line with the Group's decentralised model, compensation is agreed locally, with governance and guidance provided by the Group. Salary increases for the wider population are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, external competitive benchmarking, and general salary increases across the Group. The Company also seeks to provide an appropriate range of competitive benefits (including pension) to employees in line with their local markets. Senior managers have incentive plans aligned with the Executive Directors and there is a framework on remuneration which ensures alignment at different levels. Bonus plans for the workforce are agreed locally with oversight from the Sector management teams.

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the calibre required to manage the Company and successfully deliver its strategic objectives. The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed Directors.

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

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

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Johnny Thomson	15 Jan 2019	Rolling	1 year	1 year
Barbara Gibbes[1]	5 Feb 2020	Rolling	1 year	1 year

1 Barbara Gibbes stepped down from the Board as CFO and left the Group on 30 September 2022.

Payment for loss of office
The Committee has considered the Company's policy on remuneration for Executive Directors leaving the Company and is committed to applying a consistent approach to ensure that the Company pays no more than is fair and reasonable in the circumstances.

The loss of office payment policy is in line with market practice and will depend on whether the departing Executive Director is, or is deemed to be treated as, a 'good leaver' or a 'bad leaver'. In the case of a 'good leaver' the Policy includes:

- Notice period of 12 months' base salary, pension and contractual benefits or payment in lieu of notice.
- Bonus payable for the period worked, subject to achievement of the relevant performance conditions. Different performance measures (to the other Executive Directors) may be set for a departing Director as appropriate, to reflect any change in responsibility.
- Vesting of award shares under the Company's long-term incentive plan is not automatic and the Committee would retain discretion to allow partial vesting depending on the extent to which performance conditions had been met and the length of time the awards have been held. Time prorating may be disapplied if the Committee considers it appropriate, given the circumstances. Performance will normally be measured to the end of the normal performance period and, to the extent applicable, vest on the normal vesting date, save in exceptional circumstances when the Committee may determine that early vesting should still apply.
- The Committee will provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement and outplacement services, where appropriate.

When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the obligation for the Executive Director in appropriate circumstances to mitigate loss (for example, by gaining new employment) and the Executive Director's length of service.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

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

Malus and clawback
Malus provisions apply to all awards made under the Company's long-term incentive and annual bonus plans which give the Committee the right to cancel or reduce unvested share awards (or in the case of the Annual Performance Bonus Plan, cash payments) in the event of material misstatement of the Company's financial results, significant reputational damage to the Company, miscalculation of a participant's entitlement, individual gross misconduct or of corporate failure (resulting in a liquidation or the appointment of administrators).

The clawback arrangements permit the Committee to recover amounts paid to Executive Directors in specified circumstances and further safeguard shareholders' interests.

Remuneration for new appointments
The Committee has determined that new Executive Directors will receive a compensation package in accordance with the terms of the Group's approved Policy in force at the time of appointment.

The Committee has agreed the following principles that will apply when arranging a remuneration package to recruit new Executive Directors:

- The remuneration structure will be kept simple where practicable.
- The emphasis on linking pay with performance shall continue, with variable pay representing a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with Diploma's approved Policy detailed above with a maximum aggregate variable pay opportunity of 425% of salary for the CEO and 375% for other Executive Directors. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses/an expatriate allowance paid, if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or

arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding requirement, deferral of annual performance bonus and the Holding Period for PSP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chair or Non-Executive Director will be set in line with the approved Policy.

Committee discretion
The Committee operates the Annual Performance Bonus Plan and the Performance Share Plan (the Plans) in accordance with the relevant Plan rules and, where appropriate, the Listing Rules and HMRC legislation.

The Committee will exercise its powers in accordance with the terms of the relevant Plan rules.

The Committee retains discretion over a number of areas relating to the operation and administration of the Plans. These include, but are not limited to:

- selecting the Executive Director participants and wider employee participation parameters for the annual bonus and PSP awards;
- timing of awards and grants of setting performance criteria each year;
- determining the quantum of grants and/or payments (within the limits set out in the Policy Table);
- adjusting the constituents of the TSR comparator group;
- determining the extent of vesting based on the assessment of performance;
- overriding formulaic outcomes and amending payouts under the Annual Bonus Plan and for PSP should it determine that either it is not a fair reflection of the underlying performance of the business or in exceptional circumstances;
- applying or disapplying time prorating;
- dealing with leavers;
- discretion to waive or shorten the holding period for shares acquired under the PSP;
- discretion to retrospectively amend performance targets in exceptional circumstances, including making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); and
- in respect of share awards, to adjust the number of shares subject to an award in the event of a variation in the share capital of the Company.

Policy in respect of external board appointments for Executive Directors
The Committee recognises that external Non-Executive Directorships may be beneficial for both the Company and Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such Non-Executive Directorship.

Employee and post-employment shareholding requirements
The Committee has adopted shareholding requirements for Executive Directors, to encourage substantial long-term share ownership. These specify that, over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares with a value equivalent to 300% of base salary in the case of the CEO, and for other Executive Directors, to 250% of base salary (the MSR).

Vested PSP awards and deferred annual bonus payments which are issued as shares must be retained until the required shareholding (net of tax) level is reached.

As explained in the long-term incentive award section on page 123, Executive Directors are required to hold shares vesting under the PSP (net of tax) until the fifth anniversary of the grant (the Holding Period). The Holding Period continues to apply to post-cessation of employment except where cessation is by reason of death, if there is a change of control, or the Committee exercises its discretion.

In addition, a revised post-cessation shareholding requirement will apply being 50% of the MSR for two years after the termination date (or if less than the MSR, the value of shares held at the cessation date). Post-cessation holding continues to apply to shares granted under the PSP since the approval of the 2020 Policy.

Chair and Non-Executive Directors

Recruitment and term
The Board aims to recruit Non-Executive Directors of a high calibre, with broad and diverse commercial, international, sectoral or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. Appointments of the non-Executive Directors are for an initial term of three years, subject to election by shareholders at the first AGM following their appointment and subject to annual re-election thereafter. The terms of engagement are set out in letters of appointment which can be terminated by either party serving three months' notice.

Fees
The Non-Executive Directors are paid a competitive basic annual fee which is approved by the Board on the recommendation of the Chair and the Executive Directors. The Chair's fee is approved by the Committee, excluding the Chair. Additional fees may also be payable for chairing a Committee of the Board, for acting as Senior Independent Director, or in respect of any other material additional responsibilities taken up. Fees are reviewed each year and take account of the fees paid in other companies of a similar size and complexity, the responsibilities of the role and the required time commitment.

If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro rata basis to recognise the additional workload.

The Non-Executive Directors are not eligible to participate in any of the Company's share plans, incentive plans or pension schemes and there is no provision for payment in the event of early termination.

Provision 40 table
The following table summarises how the Remuneration Policy fulfils the factors set out in Provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. **Example:** the structure of the Annual Performance Bonus Plan is completely based on financial metrics which align with published accounts.	The Committee is committed to providing open and transparent disclosures to shareholders, the workforce and other stakeholders with regard to executive remuneration arrangements. The Committee determines the Remuneration Policy and agrees the remuneration of each Executive Director as well as the remuneration framework for other senior managers. The Company provides open and transparent disclosures of our Executive Directors' remuneration arrangements including undertaking engagement with key shareholders when considering changes to Remuneration Policy.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand. **Example**: variable pay for Executive Directors is a simple Annual Bonus Plan and a Performance Share Plan.	Our remuneration arrangements for Executive Directors, as well as those throughout the organisation, are simple in nature and well understood by participants. The structure for Executive Directors consists of fixed pay (salary, benefits, pension) and variable pay (annual bonus plan and a long-term incentive plan, the PSP).
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. **Example**: the ROATCE underpin in the PSP reduces risk of low quality earnings.	Targets are reviewed to ensure they do not encourage excessive risk taking. Malus and clawback provisions also apply to both the annual bonus and long-term incentive plans. Members of the Committee are provided with regular briefings on developments and trends in executive remuneration.
Predictability The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Policy. **Example:** variable pay maximums are set out in the Policy.	The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the relevant policy.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance. **Example**: 95% of budget must be achieved to trigger payment of Annual Performance Bonus; 95% of budget only results in 5% payment.	Annual bonus payments and PSP awards require robust performance against challenging conditions that are aligned to the Company's strategy. The Committee has discretion to override formulaic results to ensure that they are appropriate and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy. **Example**: one of the Diploma values is continuous improvement; continuous improvement is required each year to reach remuneration targets.	The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy.

The following section of this Report provides details of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2022. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors (audited)
Total remuneration in 2022 and 2021

	Johnny Thomson		Barbara Gibbes[1]			
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Salary	**711**	690	**365**	340	**1,076**	1,030
Taxable benefits[2]	**25**	25	**19**	19	**44**	44
Pension	**71**	86	**15**	14	**86**	100
Total fixed	**807**	801	**399**	373	**1,206**	1,174
Annual performance bonus	**889**	863	**456**	425	**1,345**	1,288
Long-term incentive plans – dividend equivalent (cash)	**75**	88	**17**	–	**92**	88
Long-term incentive plans – performance element	**1,725**	1,675	**340**	–	**2,065**	1,675
Long-term incentive plans – share appreciation element	**262**	1,815	**110**	–	**372**	1,815
Long-term share-based remuneration[3]	**2,062**	3,578	**467**	–	**2,529**	3,578
Total variable	**2,951**	4,441	**923**	425	**3,874**	4,866
Single total figure	**3,758**	5,242	**1,322**	798	**5,080**	6,040

1 Barbara Gibbes stepped down as CFO and an Executive Director on 30 September 2022.
2 Taxable benefits comprises cash allowance in lieu of a car, private medical, life assurance and income protection.
3 Dividend equivalents are included in long-term share based remuneration and total variable pay. 2021 has been re-presented to also include dividend equivalents.

Departure of Barbara Gibbes and appointment of Chris Davies (audited)
As announced on 10 August 2022, Barbara Gibbes stepped down from her role as Group CFO and left the Company on 30 September 2022. Remuneration terms on leaving were in line with the approved Remuneration policy. Barbara will receive a payment in lieu of notice (PILON) from the Company equivalent to base salary, pension allowance and benefits only, paid in ten monthly instalments covering the period from 1 October 2022 to 9 August 2023 and reflecting her contractual notice. The maximum PILON is £341,357 and will be subject to deductions for tax and National Insurance contributions in the usual way and also subject to deduction for any mitigation, including if she secures alternative employment.

Barbara was treated as a good leaver and her outstanding long-term incentive awards (PSP (2020), PSP (2021)) will vest subject to the applicable performance criteria being met for the three-year period to 30 September 2023 and 30 September 2024 respectively. These awards have been prorated for time served to 30 September 2022 (two of the three years for the PSP (2020) and one of the three years for PSP (2021)). Further detail on her outstanding long-term incentives awards is included in this report on page 133.

Barbara will receive a contribution of up to £25,000 (excluding VAT) for outplacement counselling and up to £3,000 (excluding VAT) towards legal fees.

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022. Details of his remuneration are included on page 124.

Executive Directors' base salary (unaudited)
On 16 November 2022, the Committee approved a 6% increase in base salary for the CEO. Explanations of how the Committee has considered remuneration in the workforce are in the Chair's letter on page 116.

	Salary from 1 October 2022 £000	Salary from 1 October 2021 £000	Increase in salary
Johnny Thomson	**754**	711	6.0%
Barbara Gibbes[1]	**–**	365	n/a
Chris Davies (appointed 1 November 2022)[2]	**450**	–	n/a

1 Barbara Gibbes stepped down from her role as Group CFO and left the Company on 30 September 2022.
2 Chris Davies was appointed Group CFO on 1 November 2022. His annualised salary is £450,000.

Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2022 and 2021, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan. Johnny Thomson lowered his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2023, his pension contributions will be reduced further to 4% of base salary, in line with the majority of the UK workforce.

		2022		2021
	Contribution rate % of base salary	**Pension paid as cash £000**	Contribution rate % of base salary	Pension paid as cash £000
Johnny Thomson	**10**	**71**	12.5	86
Barbara Gibbes	**4**	**15**	4	14

Annual performance bonus (audited)

Bonus pay out for year ended 30 September 2022

The Board approves a stretching budget each year. For each performance measure, threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2022. The following table summarises the performance assessment by the Committee in respect of 2022 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2022[1]	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis) 50% of bonus opportunity	Minimum: £154.7m On-target:£162.4m Maximum: £170.5m	Adjusted operating profit for FY22 was £179.6m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
Revenue (calculated on a constant currency basis) 25% of bonus opportunity	Minimum: £809.0m On-target: £849.4m Maximum: £891.9m	Revenue for FY22 was £975.9m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
Free cash flow (reported) 25% of bonus opportunity	Minimum: £99.0m On-target: £104.0m Maximum: £109.0m	Free cash flow for the year was £120.4m. The maximum threshold was met and the maximum award is payable.

1 All figures for the FY22 targets are adjusted to FY21 exchange rates.

Bonus awarded to each of the Executive Directors for year ended 30 September 2022

	Base salary	2022 actual bonus – as a percentage of 2021 base salary					2022 bonus
	£000	Minimum	On-target	Maximum	**Financial objectives**	**Total bonus**	**£000**
Johnny Thomson	711	5%	63%	125%	**125%**	**125%**	**889**
Barbara Gibbes	365	5%	63%	125%	**125%**	**125%**	**456**

In line with the new Remuneration Policy, minimum shareholding requirement (MSR) for the CEO will increase to 300% of base salary and will increase to 250% of base salary for other Executive Directors. In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (300%) and therefore his bonus for the year will be paid as cash. The MSR no longer applies to Barbara Gibbes since she stepped down from her role as CFO and left the Company on 30 September 2022 and therefore her bonus for the year will be paid as cash. Post-termination shareholding (as laid out in the Company's existing Remuneration Policy) will apply for Barbara Gibbes which means that 50% of her MSR or her actual shareholding will be retained for 12 months post termination.

Bonus awards for year ended 30 September 2023

In the financial year beginning 1 October 2022, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue (both metrics measured on a constant currency basis) and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report & Accounts, due to their commercial sensitivity.

Long-term incentive awards (audited)

The Company's long-term incentive plan is the Performance Share Plan (PSP).

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2022 (PSP (2019)), 2023 (PSP (2020)) and 2024 (PSP (2021)).

Vesting of the award is based 50% on growth in adjusted EPS and 50% on relative TSR performance. In order for any payment to be earned under the EPS element of awards, the Committee must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underpin will be measured as the ROATCE in the third year of the performance condition and as defined in note 27 to the consolidated financial statements.

For the PSP (2022) as explained in the Chair's letter on page 117, the performance condition will remain the same as the PSP (2021) with the exception of the weighting between EPS and the relative TSR performance and the EPS targets. The vesting of this award will be weighted 75% on growth in adjusted EPS (subject to the ROATCE underpin) and 25% on relative TSR performance. The EPS target will be 5% to 13% growth per annum (PSP (2021): 5% to 12%).

EPS

The performance condition for PSP awards is that the average annual compound growth in the Company's adjusted EPS, over the three consecutive financial years following the financial year immediately prior to the grant, must exceed the specified absolute figures. The performance targets are as follows:

Adjusted EPS growth (over three years)	% of awards vesting
14% p.a. (PSP (2020) and PSP (2019))	100
13% p.a. (PSP (2022))	100
12% p.a. (PSP (2021))	100
5% p.a.	25
Below 5% p.a.	Nil

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 27 to the consolidated financial statements and this definition remains consistent with the definition of adjusted EPS approved by the Committee in previous years.

TSR

The performance condition compares the growth of the Company's TSR over a three-year period to that of the companies in the FTSE 250 Index (excluding financial services and Investment Trusts). The performance targets are as follows:

	% of awards vesting
Upper quartile	100
Median	25
Below median	Nil

Where the Company's TSR performance is between these percentage bands, vesting of the award is calculated based on ranking. The FTSE 250 Index was chosen because this is a recognised broad equity market index of which the Company is a member.

Awards vesting in 2022 (audited)

The PSP award granted on 23 December 2019 (PSP (2019)) to Johnny Thomson and on 10 March 2020 (PSP (2019)) to Barbara Gibbes, was subject to the performance conditions as set out in the table above and independently assessed over a three-year period ended 30 September 2022. The outcome of this award is presented in the table below:

Adjusted earnings per share

	Base EPS	EPS at 30 Sep 2022[1]	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2019)	64.3p	**109.4**	19.4%	14%	50%	50%

1 The pre-IFRS 16 adjusted EPS figure has been used for the purposes of assessing the vesting criteria of the PSP (2019) award. It was explained in the 2020 and 2021 DRR that the Committee intends to use this approach until the change in accounting standard reaches its three-year anniversary.

The Committee has reviewed the ROATCE outturn and concluded that 17.3% meets the Board's expectations.

TSR growth against FTSE 250 (excluding financial services and Investment Trusts)

	TSR at 30 Sep 2022	Median	Upper quartile	Maximum award	Vested award
PSP (2019)	**20.0% p.a.**	-1.28% p.a.	8.24% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson and Barbara Gibbes at 30 September 2022 in respect of this award.

	Share price at date of grant pence	Share price at 30 Sep 2022 pence	Proportion of award vesting	Shares vested number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Johnny Thomson PSP (2019)	2,018	2,324	**100%**	**85,481**	1,725	262	1,987
Barbara Gibbes PSP (2019)	1,755	2,324	**100%**	**19,374**	340	110	450

1 The performance element represents the face value of awards that vested, having met the performance conditions set out above.
2 The share appreciation element represents the additional value generated through appreciation of the share price from the date the award was granted to the end of the three-year performance period on 30 September 2022.

Dividend equivalent payments (audited)

Dividend equivalent payments of £74,881 (2021: £87,803) are payable to Johnny Thomson and dividend equivalent payments of £16,972 (2021: Nil) are payable to Barbara Gibbes in respect of the PSP (2019) award which vested on 30 September 2022. Dividend equivalent payments cover all payments made in the three-year performance period.

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

Johnny Thomson and Barbara Gibbes received a grant of the PSP 2021 award on 29 November 2021 in the form of nil-cost options. This award was based on a share price of 3,118p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award. The award for Johnny Thomson was 250% of base salary and for Barbara Gibbes was 175% of base salary.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the participating Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for this award are set out on page 131.

Outstanding share-based performance awards (audited)

Set out is a summary of the share-based awards outstanding at 30 September 2022, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out were granted based on a face value of 250% of base salary to Johnny Thomson and a face value of 175% (PSP (2021) and PSP (2020)) and 100% (PSP (2019)) of base salary to Barbara Gibbes; PSP (2019) being the prorated award for time served (including as CFO designate). No awards will vest unless the performance conditions set out on page 131 are satisfied.

Diploma PLC 2011 and 2020 Performance Share Plan (audited)

	Market price at date of award[2]	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2021	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2022
Johnny Thomson									
PSP (2019)	2,018p	1,725	30 Sep 2022	30 Sep 2022	85,481	**–**	**85,481**	**–**	**–**
PSP (2020)	2,306p	1,725	30 Sep 2023	30 Sep 2023	74,804	**–**	**–**	**–**	**74,804**
PSP (2021)	3,118p	1,777	30 Sep 2024	30 Sep 2024	–	**57,007**	**–**	**–**	**57,007**
Barbara Gibbes[1]									
PSP (2019)	1,755p	340	30 Sep 2022	30 Sep 2022	19,374	**–**	**19,374**	**–**	**–**
PSP (2020)	2,306p	595	30 Sep 2023	30 Sep 2023	25,802	**–**	**–**	**(8,601)**	**17,201**
PSP (2021)	3,118p	639	30 Sep 2024	30 Sep 2024	–	**20,485**	**–**	**(13,656)**	**6,829**

1 Barbara Gibbes stepped down as Group CFO and left the Group on 30 September 2022. Her awards have been prorated for two of the three years for the PSP (2020) award and prorated for one of three years for the PSP (2021) award. These awards will vest based on the testing of performance criteria for the three year period to 30 September 2023 and 30 September 2024 respectively.
2 The market price is the share price at the close of business on the day before the grant date.

The PSP awards vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. Shares will be held for a minimum of five years from grant date in line with the Policy, which also applies to Barbara Gibbes despite her leaving the Group.

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of options exercised during the year and outstanding at 30 September 2022 are set out later in this report.

Chair and Non-Executive Directors' remuneration (audited)

Individual remuneration for the year ended 30 September was as follows:

	Total fees	
	2022 £000	2021 £000
David Lowden[1]	**207**	–
John Nicholas[2]	**48**	153
Andy Smith	**67**	65
Anne Thorburn[3]	**77**	72
Geraldine Huse	**55**	53
Dean Finch[4]	**55**	19

1 The amount for David Lowden includes his fee as an Independent Non-executive Director from 19 October 2021 to 18 January 2022 and then as Chair from 19 January 2022. The Chair's annualised fee was £275,000.
2 The fee for John Nicholas was prorated following his retirement as Chair on 19 January 2022.
3 The fee for Anne Thorburn was prorated in 2021 following her appointment as Senior Independent Director on 20 January 2021.
4 The fee for Dean Finch was prorated in 2021 following his appointment on 21 May 2021.

The Non-Executive Directors received a basic annual fee of £54,500 during the year and additional fees are paid of £12,000 (2021: £12,000) for chairing a Committee of the Board or £10,000 (2021: £10,000) for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chair of the Company. The fees for Non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. From 1 October 2022, there has been a 5% increase to the Non-Executive Director fee to £57,250 and 5% increase to the Chair's fee to £288,750 per annum. The additional fee for chairing a Committee of the Board has increased 4% and for acting as Senior Independent Director to £10,500 per annum the additional fee has increased 5% to £12,500 per annum. There were no taxable employment benefits for Non-Executive Directors in 2022 and 2021.

Executive Directors' interests (audited)

In options over shares

In respect of nil-cost options granted under the PSP, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration of the Executive Directors is the difference between the amount the Executive Directors are required to pay to exercise the options to acquire the shares and the total value of the shares on the vesting date.

If the Executive Directors choose not to exercise the nil cost options on the vesting date (they may exercise the options at any time up to the day preceding the tenth anniversary of the date of grant), any subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the initial vesting date and the date of exercise of the option. This increase or decrease in value reflects an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The nil-cost options outstanding at 30 September 2022 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2021	Exercised in year	Vested during the year[3]	**Options unexercised as at 30 Sep 2022**	**Exercise price[4]**	Earliest normal exercise date	Expiry date
Johnny Thomson[1, 2]	2021	122,801	122,801	–	**–**	**£1**	Nov 2021	Feb 2029
	2022	–	–	85,481	**85,481**	**£1**	Nov 2022	Nov 2029
Barbara Gibbes	2022	–	–	19,374	**19,374**	**£1**	Nov 2022	Mar 2030

1 Johnny Thomson exercised 122,801 options on 22 November 2021 at a market price of 3,204p per share and the total proceeds before tax was £3,934,544 less the exercise price of £1.
2 On 22 November 2021, the aggregate number of shares received by the participant was reduced by 57,717 shares as part of arrangements under which the company settled the PAYE liability that arose as a result of the exercise in full by the Executive Director of options held over shares.
3 The closing price of an ordinary share on 30 September 2022 was 2,324p (2021: 2,842p).
4 All awards have a notional exercise price of £1 per award.

Directors' interests in ordinary shares

	As at 30 Sep 2022			As at 30 Sep 2021		
	Ordinary shares	**Options vested but unexercised**	**Options with performance measures**	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	**102,330**	**85,481**	**131,811**	37,246	122,801	160,285
Barbara Gibbes	**5,082**	**19,374**	**24,030**	1,649	–	45,176

In the new Policy, as set out on page 121, the Committee has increased the MSR of 300% (previously 250% for the CEO and at least 250% for other Executive Directors). As of 30 September 2022, Johnny Thomson's shareholding was 503% of salary and therefore he has met his MSR.

MSR no longer applies to Barbara Gibbes and post cessation holding of 50% of MSR (which is assessed against the existing policy as 200% of base salary) for 12 months applies, meaning that Barbara should hold 100% of base salary in shares for 12 months post cessation of employment. PSP awards must be held until the 5th anniversary of the PSP grant. By adhering to the five-year holding rule, Barbara Gibbes complies with the post cessation MSR. The shareholding calculations are in line with the Company's Shareholding Policy and includes shares from vested PSP awards.

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

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

The Non-Executive Directors' interests in ordinary shares of the Company at the start and end of the financial year were as follows:

	Interest in ordinary shares	
	As at 30 Sep 2022	As at 30 Sep 2021
David Lowden	**2,500**	–
John Nicholas[1]	**9,045**	9,045
Andy Smith	**7,545**	7,545
Anne Thorburn	**5,045**	5,045
Geraldine Huse	**2,045**	2,045
Dean Finch	**640**	–

1 As at 19 January 2022.

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

Remuneration in context

Chief Executive pay ratio (unaudited)

The table below sets out the Chief Executive pay ratios as at 30 September 2022.

The ratios compare the single total figure of remuneration of the CEO with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) UK employees. Option A has been used as it is the most statistically accurate method, considered best practice by the Government and investors, and is directly comparable to the CEO's remuneration.

The employee data was measured on 30 September 2022, using the most up-to-date bonus estimates. The approach used was the same as the single total figure methodology with the exception that bonus estimates were used and colleagues who work part time were converted to full time equivalent and those who worked part of the year were annualised.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	156:1	129:1	93:1
2021	Option A	228:1	180:1	126:1
2020	Option A	44:1	35:1	24:1

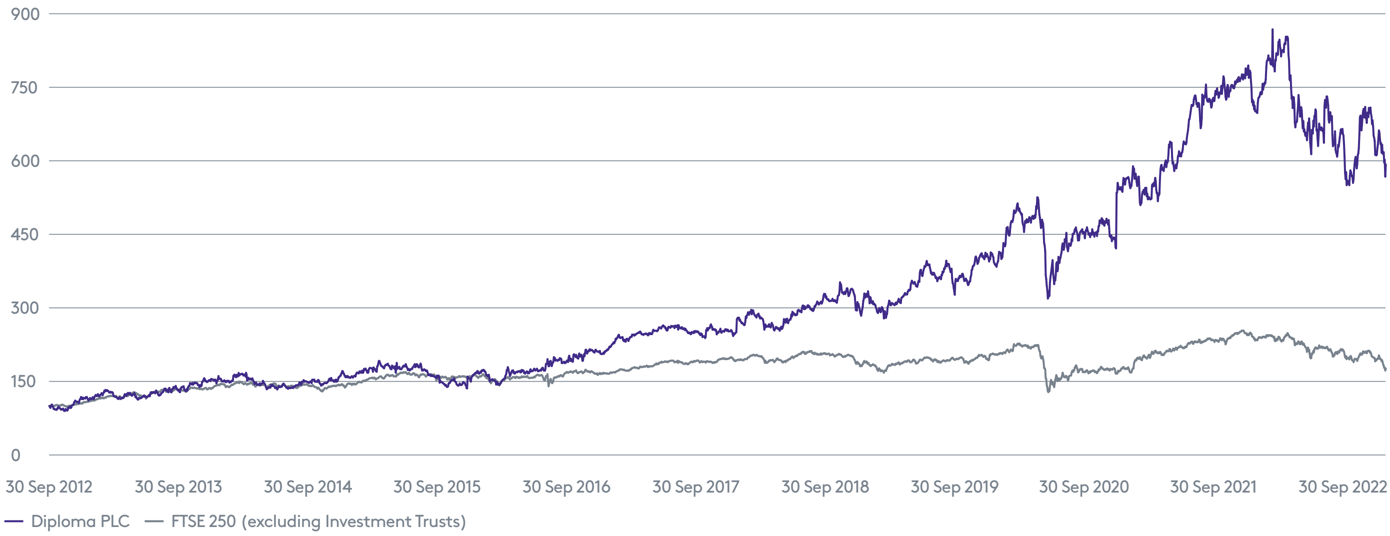
	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£711,000	n/a	£3,758,000
25th percentile	£22,531	32:1	£24,090
Median	£27,040	26:1	£29,074
75th percentile	£36,050	20:1	£40,216

The median pay ratio for employees represents the Group's principles for workforce remuneration. A significant proportion of the CEO's remuneration is delivered through variable pay, whereby awards are linked to financial performance and share price movements over the longer term. This means that the ratios will depend on variable pay outcomes and may fluctuate from year to year. The CEO pay ratio for 2022 has reduced from 180:1 to 129:1. The principal change for the CEO's single figure is due to lower share price appreciation. The median pay for UK colleagues has remained at a similar level £29,074 (2021: £29,036) with the addition of ca. 400 new employees from UK acquisitions. If we exclude employees who joined through acquisition during 2022, the median pay for the UK workforce has increased marginally to £29,550.

Aligning pay with performance (unaudited)

The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2022 against the FTSE 250 Index (excluding Investment Trusts) as the Company is a member of this Index. The FTSE 250 Index (excluding Investment Trusts) was chosen because this is a recognised broad equity market index.

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



TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and other payments to or by shareholders within the period.

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

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
2022	**Johnny Thomson**	**3,758**	**100%**	**100%**	**-17%**
2021	Johnny Thomson	5,242	100%	100%	+32%
2020	Johnny Thomson	999	25%	–	+34%
2019	Johnny Thomson[2]	1,079	72%	–	+20%
2019	John Nicholas[1]	62	–	–	+20%
2018	John Nicholas[1]	14	–	–	+36%
2018	Richard Ingram[2]	235	–	–	+36%
2018	Bruce Thompson[2]	3,842	100%	99%	+36%
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	-1%
2014	Bruce Thompson	1,846	65%	61%	+8%
2013	Bruce Thompson	2,401	33%	100%	+42%

1 John Nicholas was not eligible for an annual bonus or share award for service as interim Executive Chair for the period 28 August 2018 to 25 February 2019.
2 These amounts were prorated for the period served as CEO, with the exception of the annual bonus payable to Johnny Thomson, who joined the Company on 25 February 2019.

Relative importance of Executive Director remuneration (unaudited)

	2022 £m	2021 £m	Change £m
Total employee remuneration	**177.5**	136.9	40.6
Total dividends paid	**56.2**	52.9	3.3

Percentage change in remuneration of Directors and employees (unaudited)

Set out below is the change over the prior financial year in base salary/fees, benefits, pension and annual performance bonus of the Board and the Group's senior managers. Senior managers is a defined group of ca. 130 colleagues. The Committee chose senior managers for pay comparisons with the Board as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business. The figures for the Board are all on a full year basis to show the intended movement.

	Base salary/fee change (%)[1]			Pension change (%)			Taxable benefits change (%)			Bonus change (%)		
	2022 vs 2021	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019
Executive Directors												
Johnny Thomson[2]	**+3**	No change	+3	**-18**	-17	+3	**+2**	+4	No change	**+3**	+300	-64
Barbara Gibbes	**+7**	No change	n/a	**+7**	No change	n/a	**+2**	+7	n/a	**+7**	+300	n/a
Non-Executive Directors[3]												
David Lowden	**n/a**	No change	n/a									
John Nicholas[4]	**-69**	No change	+3									
Andy Smith	**+3**	No change	No change									
Anne Thorburn[5]	**+6**	+11	+3									
Geraldine Huse	**+3**	No change	+n/a									
Dean Finch[6]	**+185**	+n/a	+n/a									
Employees of the Parent Company[7]	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Senior management team	**+7.5**	+1	+5	**+7.5**	+1	+5	**No change**	No change	No change	**+22**	+77	-25

1 This does not take account of the voluntary pay reduction in 2020.
2 The reduction in pension was a voluntary reduction from 12.5% of base salary to 10.0% of base salary.
3 The Non-Executive Directors do not receive any pension, bonus or taxable benefits.
4 The fee for John Nicholas was prorated following his retirement as Chair on 19 January 2022. The like for like increase is +3%.
5 The increase for Anne Thorburn was the result of her appointment for only part of the prior year to Senior Independent Director on 20 January 2021. The like for like increase is +3%.
6 The increase for Dean Finch was due to the prior year being prorated from his date of appointment on 21 May 2021. The like for like increase is +3%.
7 There are no employees of the Parent Company.

Executives and senior management below the Board (unaudited)

Set out below is a summary of the share-based awards outstanding at 30 September 2022, which have been granted to members of the executive team and other senior employees, including share awards which have vested during the year based on performance and share awards which have been granted both last year and during this year. The awards set out below were granted based on a fair value that varied between 15% and 100% of base salary. No awards will vest unless the performance conditions set out on page 131 are achieved over a three-year measurement period. The committee anticipates making similar awards to members of the executive team and other senior employees in December 2022.

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Share over which awards held at 1 October 2021	**Shares over which awards granted during the year**	**Vested during the year**	**Lapsed during the year**	**Shares over which awards held at 30 Sep 2022**
PSP (2019)	2,018p	686	30 Sep 2022	34,006	**–**	**29,546**	**4,460**	**–**
PSP (2020)	2,306p	1,141	30 Sep 2023	49,472	**–**	**–**	**9,612**	**39,860**
PSP (2021)	3,108p/ 2,574p/ 2,682p	2,360	30 Sep 2024	–	**102,258**	**–**	**8,086**	**94,172**

GOVERNANCE

Remuneration Committee

The Committee is chaired by Andy Smith and comprises five Independent Non-Executive Directors. John Nicholas retired as Chair on 19 January 2022 and was replaced by David Lowden. The remaining members, Anne Thorburn, Dean Finch and Geraldine Huse, continue to serve on the Committee. The Group CEO and the Group HR Director attend meetings at the invitation of the Committee to provide advice to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

The Remuneration Committee Report

The Annual Report on Remuneration and the Chair's Statement will continue to be subject to an advisory vote by shareholders at the 2023 AGM.

Remuneration principles and structure

The Committee has adopted remuneration principles which are designed to ensure that executive remuneration:

- is aligned to the business strategy and promotes the long-term success of the Company;
- supports the creation of sustainable long-term shareholder value;
- provides an appropriate balance between remuneration elements and includes performance-related elements which are transparent, stretching and rigorously applied;
- provides an appropriate balance between immediate and deferred remuneration; and
- encourages a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results.

These principles apply equally to those of senior management and align to those of the wider workforce.

Key duties and focus in 2022

The Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors, and agrees the strategy, direction and policy framework for the remuneration of the senior executives who have a significant influence over the Group's ability to meet its strategic objectives. The Committee also oversees all workforce remuneration policies. In addition the Committee has a process in place to review risk of conflicts of interest.

The Committee's roles and responsibilities are set out in its Terms of Reference, which are reviewed annually and approved by the Board. The Terms of Reference are available on Diploma PLC's website at www.diplomaplc.com/governance/constitutional-documents.

The Committee's key responsibilities and focus during the year have been:

- Approved Remuneration Committee work programme for 2022.
- Reviewed the AGM 2022 votes.
- Conducted extensive shareholder consultation on the new Remuneration Policy and its implementation.
- Approved annual performance bonus targets and the subsequent bonus awards for 2022.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP (2019) which crystallised in 2022.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Oversight of leaving arrangements for the CFO and remuneration arrangements for the new CFO.
- Reviewed the fees of the Chair and Non-Executive Directors, including oversight of non-Executive Director changes.
- Finalisation of the appointment of a new Chair.
- Reviewed remuneration framework for executive management and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2022 Remuneration Committee Report.

Services from external advisors (unaudited)

The Committee has continued to receive its remuneration advice from WTW and legal remuneration advice from Simmons and Simmons. The fees are agreed in advance with the advisor, based on the scope of work. All advisors are selected by the Committee based on their technical expertise and independence. None of the advisors have any relationship with any Director and the Committee is satisfied that the services of advisors are independent, which it validates by checking that the advisors are not providing other services to the Company. Fees during 2022 were higher due the Policy review and the change of CFO. Details are shown in the table below:

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Willis Towers Watson	Committee	Remuneration advice	None	129,872
Simmons and Simmons LLP	Committee	Legal and remuneration advice	None	10,375

Shareholder voting at previous Annual General Meeting (unaudited)

The Director's Remuneration Policy was approved by shareholders at the AGM held on 15 January 2020 and the Remuneration Committee's Annual Report (Report) for the year ended 30 September 2021 was approved by shareholders at the AGM held on 19 January 2022, with the following votes being cast:

	Policy		2021 Report	
Votes for	60,768,041	79.98%	101,036,465	93.26%
Votes against	15,209,003	20.02%	7,304,995	6.74%
Withheld	21,745,098	–	206,630	–

At the AGM in January 2022, the 2021 DRR was approved with 93.26% of votes in favour. Given the positive voting outcome there was no immediate need for shareholder follow up. Extensive consultation was conducted during 2022 on the new Policy and the 2022 DRR. During consultation there was an opportunity to check with shareholders if they had any outstanding issues from 2021 and none were raised.

DIRECTORS' REPORT

This section comprises information which the Directors are required by law and regulation to include within the Annual Report & Accounts. The Directors who held office during the year are set out on page 92.

Shareholders

Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England and Wales under Company Number 3899848. At the date of this report there were 124,679,542 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year including the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, together with an indication of future developments is set out in the Strategic Report on pages 2 to 89, which incorporates the requirements of the Companies Act 2006 (the Act).

Annual General Meeting

The Annual General Meeting (AGM) will be held at 09.00 am on Wednesday, 18 January 2023 in The Charterhouse, Charterhouse Square, London EC1M 6AN. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the Diploma PLC website.

Substantial shareholdings

At 30 September 2022, the Company had received formal notifications of the following holdings in its ordinary shares in accordance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs):

	Percentage of ordinary shares (September 2022)	Percentage of ordinary share capital (November 2022)
Mawer Investment Management Limited	9.80	No change
Capital Research Global Investors	12.01	13.06
Royal London Group	4.95	No change
The Vanguard Group, Inc	3.42	No change
Mondrian Investment Partners Limited	3.14	No change
BlackRock Inc	5.07	Below 5

Other than Capital Research Global Investors and BlackRock Inc, there have been no changes in the interests notified to the Company pursuant to the DTRs up to the date of this report.

Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association (the Articles), a copy of which is available on the Company's website. The Articles may be amended by special resolution of the Company's shareholders.

Shareholders

Shareholders are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies, or corporate representatives. On a show of hands each holder of ordinary shares shall have one vote, as shall proxies. On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before a general meeting.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company.

Contracts of significance and change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, principally bank facility agreements, the Company's Long-Term Incentive Plan and the Annual Performance Bonus Plan.

Restrictions on transfer of shares

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis, or where the Company has lien over that share. The Directors may also refuse to register a transfer of a certificated share, unless the instrument of transfer is: (i) lodged, duly stamped (if necessary), at the registered office of the Company or any other place as the Board may decide accompanied by the certificate for the share(s). Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertified share.

Participants in the Company's Performance Share Plan (PSP), who have yet to meet shareholding requirements, have vested PSP shares held in trust until the earlier occurrence of them meeting their shareholder requirement or for a period of two years, during which period these shares cannot be transferred to them. Executive Directors who participate in the Annual Performance Bonus Plan, who have yet to meet shareholding requirements, have 50% of their net annual bonus held in shares until the earlier occurrence of them meeting their shareholding requirement or five years.

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 19 January 2022.

Authority to make market purchases of own shares

An authority to make market purchases of up to 10% of the issued share capital shares was given to the Directors by a special resolution at the AGM of the Company held on 19 January 2022. In the year to 30 September 2022, the Company has not acquired any of its own shares.

Liability insurance and indemnities

As at the date of this report, the Company has granted qualifying third-party indemnities to each of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, Directors and officers of the Company and its subsidiaries have been, and continue to be, covered by Director and officer liability insurance.

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

	Listing Rule
The Trustees of the Diploma PLC Employee Benefit Trust waived dividends on all shares.	9.8.4(12)R and 9.8.6(13)R

Non-financial information
The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report on pages 2 to 89 that would otherwise be required to be disclosed in this Directors' Report.

Non-financial information statement
Other information that is relevant to the Directors' Report and which is incorporated by reference into this report, can be viewed in the section on Delivering Value Responsibly on pages 34 to 57 and includes:

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

Other related information can also be found as follows:

- Business model – pages 14 to 15.
- Principal risks and how they are managed or mitigated – pages 82 to 88.
- Non-financial key performance indicators – page 59.
- Employee engagement – pages 36 to 37.
- Stakeholder engagement – pages 72 to 75.

Financial
Results and dividends
The profit for the financial year attributable to shareholders was £94.7m (2021: £69.8m). The Directors recommend a final dividend of 38.8p (2021: 30.1p) per ordinary share, to be paid, if approved, on 3 February 2023. This, together with the interim dividend of 15p (2021: 12.5p) per ordinary share, amounts to 53.8p for the year (2021: 42.6p).

The results are shown more fully in the consolidated financial statements on pages 142 to 175 and summarised in the Financial Review on pages 77 to 79.

Independent Auditors
Each of the persons who is a Director at the date of approval of this Annual Report & Accounts confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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

Directors' assessment of going concern
The Directors continue to adopt the going concern basis in preparing the Annual Report & Accounts. Their assessment in reaching this conclusion is set out in the notes to the consolidated financial statements on page 170.

Statement of Directors' responsibilities for preparing the financial statements
The Directors are responsible for preparing the Annual Report & Accounts and the financial statements in accordance with applicable law and regulation.

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Parent Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in the Board of Directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the relevant financial reporting framework;
- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Parent Company's auditors are aware of that information.

This Directors' Report was approved by the Board of Directors on 21 November 2022 and is signed on its behalf by:

JD Thomson
Chief Executive Officer

Registered office:
10-11 Charterhouse Square
London
EC1M 6EE

Registered Number:
3899848

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Revenue	2,3	**1,012.8**	787.4
Cost of sales		**(638.3)**	(499.0)
Gross profit		**374.5**	288.4
Distribution costs		**(25.9)**	(23.9)
Administration costs		**(204.3)**	(160.2)
Operating profit	2	**144.3**	104.3
Financial expense, net	5	**(14.8)**	(7.7)
Profit before tax		**129.5**	96.6
Tax expense	6	**(34.1)**	(26.9)
Profit for the year		**95.4**	69.7
Attributable to:			
Shareholders of the Company		**94.7**	69.8
Minority interests	20	**0.7**	(0.1)
		95.4	69.7
Earnings per share			
Basic earnings	8	**76.1p**	56.1p
Diluted earnings	8	**75.9p**	55.9p

ALTERNATIVE PERFORMANCE MEASURES[1]

	Note	2022 £m	2021 £m
Operating profit		**144.3**	104.3
Add: Acquisition related and other charges included in administration costs	2	**46.9**	44.4
Adjusted operating profit	2,3	**191.2**	148.7
Deduct: Net interest and similar charges	5	**(11.6)**	(6.8)
Adjusted profit before tax		**179.6**	141.9
Adjusted earnings per share	8	**107.5p**	85.2p

1 The adjusted numbers set out above are non-statutory measures which are defined and reconciled in note 27 of the financial statements

The notes on pages 146 to 175 form part of these consolidated financial statements.

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

	Note	**2022 £m**	2021 £m
Profit for the year		**95.4**	69.7
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial gain on the defined benefit pension schemes	24	**10.6**	7.4
Deferred tax on items that will not be reclassified	6,13	**(2.8)**	(0.8)
		7.8	6.6
Items that may be reclassified to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		**76.8**	(16.2)
Gains on fair value of cash flow hedges	18	**4.5**	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	18	**(0.4)**	0.1
Deferred tax on items that may be reclassified	6,13	**(1.1)**	(0.1)
		79.8	(15.8)
Total Other Comprehensive Income		**87.6**	(9.2)

		2022 £m	2021 £m
Total Comprehensive Income for the year		**183.0**	60.5
Attributable to:			
Shareholders of the Company		**182.2**	60.8
Minority interests		**0.8**	(0.3)
		183.0	60.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	**Shareholders' equity £m**	Minority interests £m	**Total equity £m**
At 1 October 2020		6.3	188.6	28.3	(0.3)	304.1	**527.0**	3.7	**530.7**
Total Comprehensive Income		–	–	(16.2)	0.5	76.5	**60.8**	(0.3)	**60.5**
Share-based payments	4	–	–	–	–	1.8	**1.8**	–	**1.8**
Tax on items recognised directly in equity	6	–	–	–	–	1.0	**1.0**	–	**1.0**
Notional purchase of own shares		–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Acquisition of business	20	–	–	–	–	–	**–**	0.9	**0.9**
Minority interest put option on acquisition		–	–	–	–	(0.9)	**(0.9)**	–	**(0.9)**
Minority interest issued		–	–	–	–	–	**–**	0.7	**0.7**
Dividends	7,20	–	–	–	–	(52.9)	**(52.9)**	(0.3)	**(53.2)**
At 30 September 2021		6.3	188.6	12.1	0.2	329.1	**536.3**	4.7	**541.0**
Total Comprehensive Income		–	–	76.7	3.0	102.5	**182.2**	0.8	**183.0**
Share-based payments	4	–	–	–	–	2.8	**2.8**	–	**2.8**
Tax on items recognised directly in equity	6	–	–	–	–	0.4	**0.4**	–	**0.4**
Notional purchase of own shares		–	–	–	–	(2.8)	**(2.8)**	–	**(2.8)**
Acquisition of business	20	–	–	–	–	–	**–**	2.5	**2.5**
Disposal of business	20	–	–	–	–	–	**–**	(1.3)	**(1.3)**
Minority interest put option on acquisition		–	–	–	–	(1.9)	**(1.9)**	–	**(1.9)**
Minority interest put option disposal		–	–	–	–	1.2	**1.2**	–	**1.2**
Minority interest acquired	20	–	–	–	–	–	**–**	(0.3)	**(0.3)**
Dividends	7,20	–	–	–	–	(56.2)	**(56.2)**	(0.2)	**(56.4)**
At 30 September 2022		**6.3**	**188.6**	**88.8**	**3.2**	**375.1**	**662.0**	**6.2**	**668.2**

The notes on pages 146 to 175 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	9	**372.3**	260.7
Acquisition intangible assets	10	**455.0**	344.9
Other intangible assets	10	**4.1**	3.4
Property, plant and equipment	11	**49.6**	35.4
Leases – right-of-use assets	12	**62.4**	44.9
Retirement benefit assets	24	**6.4**	–
Deferred tax assets	13	**0.2**	0.4
		950.0	689.7
Current assets			
Inventories	14	**217.4**	139.8
Trade and other receivables	15	**169.9**	117.8
Assets held for sale	15	**–**	11.3
Cash and cash equivalents	17	**41.7**	24.8
		429.0	293.7
Current liabilities			
Borrowings	23	**(30.5)**	(18.0)
Trade and other payables	16	**(189.5)**	(127.0)
Current tax liabilities	6	**(11.8)**	(10.0)
Other liabilities	19	**(19.0)**	(11.7)
Lease liabilities	12	**(12.7)**	(9.7)
		(263.5)	(176.4)
Net current assets		**165.5**	117.3
Total assets less current liabilities		**1,115.5**	807.0
Non-current liabilities			
Retirement benefit obligations	24	**–**	(4.9)
Borrowings	23	**(340.1)**	(188.2)
Lease liabilities	12	**(56.4)**	(38.6)
Other liabilities	19	**(12.4)**	(12.0)
Deferred tax liabilities	13	**(38.4)**	(22.3)
Net assets		**668.2**	541.0
Equity			
Share capital		**6.3**	6.3
Share premium		**188.6**	188.6
Translation reserve		**88.8**	12.1
Hedging reserve		**3.2**	0.2
Retained earnings		**375.1**	329.1
Total shareholders' equity		**662.0**	536.3
Minority interests	20	**6.2**	4.7
Total equity		**668.2**	541.0

The consolidated financial statements on pages 142 to 175 were approved by the Board of Directors on 21 November 2022 and signed on its behalf by:

JD Thomson
Chief Executive Officer

C Davies
Chief Financial Officer

The notes on pages 146 to 175 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Operating profit		**144.3**	104.3
Acquisition related and other charges		**46.9**	44.4
Non-cash items and other		**18.1**	9.8
Increase in working capital		**(28.7)**	(12.6)
Cash flow from operating activities	22	**180.6**	145.9
Interest paid, net (including borrowing fees)		**(15.0)**	(5.6)
Tax paid		**(40.6)**	(24.2)
Net cash from operating activities		**125.0**	116.1
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	21	**(173.0)**	(451.4)
Deferred consideration paid	19	**(7.1)**	(6.6)
Proceeds from sale of business (net of cash disposed)		**13.7**	11.0
Purchase of property, plant and equipment	11	**(14.3)**	(4.9)
Purchase of other intangible assets		**(1.1)**	(1.3)
Proceeds from sale of property, plant and equipment		**9.9**	4.8
Net cash used in investing activities		**(171.9)**	(448.4)
Cash flow from financing activities			
Proceeds from issue of share capital (net of fees)		**–**	(0.6)
Dividends paid to shareholders	7	**(56.2)**	(52.9)
Dividends paid to minority interests	20	**(0.2)**	(0.3)
Proceeds from minority interests	20	**–**	0.7
Acquisition of minority interests	20	**(0.3)**	–
Purchase of own shares by Employee Benefit Trust		**–**	–
Notional purchase of own shares on exercise of share options		**(2.8)**	(0.6)
Proceeds from borrowings	23	**154.8**	215.3
Repayment of borrowings	23	**(20.0)**	(12.4)
Principal elements of lease payments		**(10.9)**	(9.5)
Net cash from financing activities		**64.4**	139.7
Net increase/(decrease) in cash and cash equivalents		**17.5**	(192.6)
Cash and cash equivalents at beginning of year		**24.8**	206.8
Effect of exchange rates on cash and cash equivalents		**(0.6)**	10.6
Cash and cash equivalents at end of year	17	**41.7**	24.8

ALTERNATIVE PERFORMANCE MEASURES[1]

	Note	2022 £m	2021 £m
Free cash flow	27	**120.4**	108.8
Adjusted earnings	27	**133.9**	106.1
Free cash flow conversion %	27	**90%**	103%

1 The adjusted numbers set out above are non-statutory measures which are defined and reconciled in note 27 of the financial statements

1. General information

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10-11 Charterhouse Square, London EC1M 6EE. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as 'the Group') and were authorised by the Directors for publication on 21 November 2022. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Diploma PLC transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements of the Parent Company, Diploma PLC, have been prepared in accordance with FRS 101 (Reduced Disclosure Framework) and are set out in a separate section of the Annual Report & Accounts on pages 176 to 178. A full list of subsidiary and other related undertakings is set out on pages 187 to 189.

2. Business Sector analysis

The Chief Operating Decision Maker (CODM) for the purposes of IFRS 8 is the CEO. The financial performance of the business Sectors is reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

For management reporting purposes, the Group is organised into three main reportable business Sectors: Life Sciences, Seals and Controls. These Sectors are the Group's operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures below. The CODM reviews discrete financial information at this operating segment level. The principal activities of each of these Sectors are described in the Strategic Report on pages 60 to 71. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

Sector assets exclude cash and cash equivalents, deferred tax assets, retirement benefit assets, acquisition related assets and corporate assets that cannot be allocated on a reasonable basis to a business Sector. Sector liabilities exclude borrowings (other than lease liabilities), retirement benefit obligations, deferred tax liabilities, acquisition related liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business Sector. These items are shown collectively in the following analysis as 'unallocated assets' and 'unallocated liabilities', respectively.

	Life Sciences		Seals		Controls		Corporate		Group	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Revenue – existing	**178.0**	180.4	**294.4**	263.7	**481.9**	343.3	**–**	–	**954.3**	787.4
Revenue – acquisitions	**10.6**	–	**37.0**	–	**10.9**	–	**–**	–	**58.5**	–
Revenue	**188.6**	180.4	**331.4**	263.7	**492.8**	343.3	**–**	–	**1,012.8**	787.4
Adjusted operating profit – existing	**39.7**	43.2	**57.0**	46.5	**104.0**	72.4	**(18.2)**	(13.4)	**182.5**	148.7
Adjusted operating profit – acquisitions	**1.3**	–	**5.6**	–	**1.8**	–	**–**	–	**8.7**	–
Adjusted operating profit	**41.0**	43.2	**62.6**	46.5	**105.8**	72.4	**(18.2)**	(13.4)	**191.2**	148.7
Acquisition related and other charges	**1.5**	(4.6)	**(16.6)**	(9.7)	**(30.5)**	(30.1)	**(1.3)**	–	**(46.9)**	(44.4)
Operating profit	**42.5**	38.6	**46.0**	36.8	**75.3**	42.3	**(19.5)**	(13.4)	**144.3**	104.3
Operating assets	**74.0**	51.2	**207.5**	134.4	**211.5**	164.8	**–**	–	**493.0**	350.4
Goodwill	**106.2**	81.4	**125.2**	60.0	**140.9**	119.3	**–**	–	**372.3**	260.7
Acquisition intangible assets	**74.9**	47.2	**100.2**	50.4	**279.9**	247.3	**–**	–	**455.0**	344.9
	255.1	179.8	**432.9**	244.8	**632.3**	531.4	**–**	–	**1,320.3**	956.0
Unallocated assets:										
– Deferred tax assets							**0.2**	0.4	**0.2**	0.4
– Cash and cash equivalents							**41.7**	24.8	**41.7**	24.8
– Acquisition related assets							**1.8**	–	**1.8**	–
– Retirement benefit assets							**6.4**	–	**6.4**	–
– Corporate assets							**8.6**	2.2	**8.6**	2.2
Total assets	**255.1**	179.8	**432.9**	244.8	**632.3**	531.4	**58.7**	27.4	**1,379.0**	983.4
Operating liabilities	**(41.7)**	(30.2)	**(103.3)**	(58.4)	**(92.6)**	(68.1)	**–**	–	**(237.6)**	(156.7)
Unallocated liabilities:										
– Deferred tax liabilities							**(38.4)**	(22.3)	**(38.4)**	(22.3)
– Retirement benefit obligations							**–**	(4.9)	**–**	(4.9)
– Acquisition related liabilities							**(31.4)**	(23.7)	**(31.4)**	(23.7)
– Corporate liabilities							**(32.8)**	(28.6)	**(32.8)**	(28.6)
– Borrowings							**(370.6)**	(206.2)	**(370.6)**	(206.2)
Total liabilities	**(41.7)**	(30.2)	**(103.3)**	(58.4)	**(92.6)**	(68.1)	**(473.2)**	(285.7)	**(710.8)**	(442.4)
Net assets	**213.4**	149.6	**329.6**	186.4	**539.7**	463.3	**(414.5)**	(258.3)	**668.2**	541.0

Acquisition related and other charges are £46.9m (2021: £44.4m) and comprise £42.4m (2021: £33.1m) of amortisation of acquisition intangible assets, £10.5m of acquisition expenses as defined in note 27 (2021: £9.7m), a £7.3m (2021: £1.6m net charge) net gain on the disposal of businesses, which is set out in note 21, and one-off restructuring costs of £1.3m associated with the transition of the Group's Chief Financial Officer.

Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Capital expenditure	**8.0**	2.3	**3.7**	2.5	**2.7**	1.1	**0.9**	0.3	**15.3**	6.2
Depreciation and amortisation	**2.9**	2.6	**3.5**	2.9	**4.6**	4.1	**0.2**	0.3	**11.2**	9.9
Revenue recognition										
– immediately on sale	**176.4**	164.2	**315.6**	260.1	**492.8**	343.3	**–**	–	**984.8**	767.6
– over a period of time	**12.2**	16.2	**15.8**	3.6	**–**	–	**–**	–	**28.0**	19.8
	188.6	180.4	**331.4**	263.7	**492.8**	343.3	**–**	–	**1,012.8**	787.4

Accrued income ('contract assets') at 30 September 2022 of £0.1m (2021: £0.8m) and deferred revenue ('contract liabilities') of £3.5m at 30 September 2022 (2021: £2.5m) are included in trade and other receivables (note 15) and trade and other payables (note 16), respectively.

3. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
United Kingdom	**209.7**	142.5	**21.0**	10.5	**193.6**	82.5	**202.2**	83.4	**3.4**	0.5
Rest of Europe	**166.7**	166.5	**29.3**	31.9	**169.1**	115.3	**179.8**	140.3	**1.7**	0.8
North America	**561.0**	411.8	**129.5**	94.7	**519.2**	443.7	**614.2**	496.1	**8.9**	4.1
Rest of world	**75.4**	66.6	**11.4**	11.6	**57.1**	47.8	**62.3**	53.1	**1.3**	0.8
	1,012.8	787.4	**191.2**	148.7	**939.0**	689.3	**1,058.5**	772.9	**15.3**	6.2

1 Non-current assets excludes deferred tax assets, derivative assets and the retirement benefit asset.

4. Group employee costs

Average number of employees

	2022	2021
Life Sciences	**423**	453
Seals	**1,174**	1,055
Controls	**981**	831
Corporate	**36**	31
Number of employees – average	**2,614**	2,370
Number of employees – year end	**2,909**	2,498

Group employee costs, including key management

	2022 £m	2021 £m
Wages and salaries	**154.8**	119.1
Social security costs	**13.3**	10.5
Other pension costs	**6.6**	5.5
Share-based payments	**2.8**	1.8
	177.5	136.9

Key management short-term remuneration, including Directors

	2022 £m	2021 £m
Salaries and short-term employee benefits	**5.0**	5.4
Compensation to directors for loss of office	**0.4**	–
Pension costs	**0.2**	0.2
Share-based payments	**2.4**	1.8
	8.0	7.4

The Group considers key management personnel as defined in IAS 24 (Related Party Disclosures) to be the Directors of the Company and the members of the Executive team.

The Executive Directors' remuneration and their interests in shares of the Company are given on pages 114 to 138 in the Remuneration Committee Report. The charge for share-based payments of £2.4m (2021: £1.8m) relates to the Group's PSP, described in the Remuneration Committee Report.

Directors' short-term remuneration

	2022 £m	2021 £m
Non-Executive Directors	**0.5**	0.4
Executive Directors	**2.6**	2.5
	3.1	2.9

5. Financial expense, net

	2022 £m	2021 £m
Interest (expense)/income and similar charges		
– bank facility and commitment fees	**(1.0)**	(0.5)
– interest income on short term deposits	**0.1**	–
– interest expense on bank borrowings	**(7.9)**	(4.1)
– notional interest expense on the defined benefit pension scheme (note 24)	**–**	(0.1)
– amortisation of capitalised borrowing fees	**(0.2)**	(0.3)
– interest on lease liabilities	**(2.6)**	(1.8)
Net interest expense and similar charges	**(11.6)**	(6.8)
– acquisition related finance charges	**(3.2)**	(0.9)
Financial expense, net	**(14.8)**	(7.7)

Acquisition related finance charges includes fair value remeasurements of put options for future minority purchases of £1.4m debit (2021: £0.1m debit), unwind of discount on acquisition liabilities of £0.4m debit (2021: £nil), and £1.4m debit (2021: £0.8m debit) for the amortisation of capitalised borrowing fees on acquisition related borrowings.

6. Tax expense

	2022 £m	2021 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**10.0**	5.5
Overseas tax	**30.8**	21.5
	40.8	27.0
Adjustments in respect of prior year:		
UK corporation tax	**(0.2)**	2.1
Overseas tax	**0.1**	0.5
Total current tax	**40.7**	29.6
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(3.1)**	(1.9)
Overseas	**(3.5)**	(0.8)
Total deferred tax	**(6.6)**	(2.7)
Total tax on profit for the year	**34.1**	26.9

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax charge relating to the retirement benefit scheme and cash flow hedges of £3.9m was debited (2021: £0.9m debit) to the Consolidated Statement of Comprehensive Income. A further £0.4m was credited (2021: £1.0m credit) to the Consolidated Statement of Changes in Equity, comprising current tax of £0.4m (2021: £0.8m) with nil deferred tax in the current year (2021: £0.2m), the prior year relates to share-based payments.

Factors affecting the tax charge for the year

The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.0% to the profit before tax of £129.5m and the amount set out above is as follows:

	2022 £m	2021 £m
Profit before tax	**129.5**	96.6
Tax on profit at UK effective corporation tax rate of 19.0% (2021: 19.0%)	**24.6**	18.4
Effects of:		
– higher tax rates on overseas earnings	**6.7**	4.7
– adjustments in respect of prior years	**(0.1)**	2.6
– change to future tax rate in the United Kingdom	**–**	0.5
– other permanent differences	**2.9**	0.7
Total tax on profit for the year	**34.1**	26.9

The Group earns its profits in the UK and overseas. The Group prepares its consolidated financial statements for the year to 30 September and the statutory tax rate for UK corporation tax in respect of the year ended 30 September 2022 was 19.0% (2021: 19.0%) and this rate has been used for tax on profit in the above reconciliation.

The Group's net overseas tax rate is higher than that in the UK, primarily because profits earned in the US, Canada, Germany and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2022 have been calculated by reference to the future UK corporation tax rate of 25.0% (2021: 25.0%), as substantively enacted to be effective from 1 April 2023.

At 30 September 2022, the Group had outstanding tax liabilities of £11.8m (2021: £10.0m) of which £1.9m (2021: £2.7m) related to UK tax liabilities and £9.9m (2021: £7.3m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these 'Pillar 2' rules with effect for accounting periods beginning on or after 31 December 2023. The Group is reviewing these draft rules to understand any potential impact.

7. Dividends

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Interim dividend, paid in June	**15.0**	12.5	**18.7**	15.6
Final dividend of the prior year, paid in February	**30.1**	30.0	**37.5**	37.3
	45.1	42.5	**56.2**	52.9

The Directors have proposed a final dividend in respect of the current year of 38.8p per share (2021: 30.1p), which will be paid on 3 February 2023 subject to approval by shareholders at the Annual General Meeting (AGM) on 18 January 2023. The total dividend for the current year, subject to approval of the final dividend, will be 53.8p per share (2021: 42.6p).

The Diploma PLC Employee Benefit Trust holds 71,033 (2021: 90,640) shares, which are ineligible for dividends.

8. Earnings per share

Basic and diluted earnings per share

Basic earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,468,210) and the profit for the year attributable to shareholders of £94.7m (2021: £69.8m). Basic earnings per share is 76.1p (2021: 56.1p). Diluted earnings per share is 75.9p (2021: 55.9p) and is based on the average number of ordinary shares (which includes any potentially dilutive shares) of 124,855,007 (2021: 124,794,473).

Further description of the Company's share capital is set out in note (e) to the Parent Company Financial Statements on page 178.

Adjusted earnings per share

Adjusted EPS, which is defined in note 27, is 107.5p (2021: 85.2p).

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			**129.5**	96.6
Tax expense			**(34.1)**	(26.9)
Minority interests			**(0.7)**	0.1
Earnings for the year attributable to shareholders of the Company	**76.1**	56.1	**94.7**	69.8
Acquisition related and other charges and acquisition related finance charges, net of tax	**31.4**	29.1	**39.2**	36.3
Adjusted earnings	**107.5**	85.2	**133.9**	106.1

9. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 30 September 2020	62.0	60.5	36.5	**159.0**
Acquisitions	24.1	6.8	86.7	**117.6**
Disposals	(3.8)	–	–	**(3.8)**
Reclassification to held for sale	–	(4.7)	–	**(4.7)**
Exchange adjustments	(0.9)	(2.6)	(3.9)	**(7.4)**
At 30 September 2021	81.4	60.0	119.3	**260.7**
Acquisitions	19.0	56.8	5.2	**81.0**
Exchange adjustments	5.8	8.4	16.4	**30.6**
At 30 September 2022	106.2	125.2	140.9	**372.3**

The Group tests goodwill for impairment at least once a year. For the purposes of impairment testing, goodwill is allocated to each of the Group's three cash-generating units (CGUs), which are the three operating Sectors: Life Sciences; Seals; and Controls. This represents the lowest level within the Group at which goodwill is monitored by management and reflects the Group's strategy of acquiring businesses to drive synergies across a Sector, rather than within an individual business. The impairment test requires a 'value in use' valuation to be prepared for each Sector using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and the Group's strategic plan.

The key assumptions used to prepare the cash flow forecasts relate to operating margins, revenue growth rates, working capital movements and the discount rate and climate related risks (based on an initial high level assessment which will be further refined in FY 2023). The operating margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups; working capital movements are projected to remain consistent as a percentage of revenue. The cash flow forecasts use the budgeted figures for 2023, and then the three-year strategy cash flows for the next two years. From year four onwards a long-term growth rate of 2% is utilised.

The cash flow forecasts are discounted to determine a current valuation using market derived pre-tax discount rates; Life Sciences 13.9% (2021: 10.6%), Seals 13.8% (2021: 11.3%) and Controls 13.8% (2021: 11.7%). These rates are based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well-developed markets and geographies and with robust capital structures.

Based on the criteria set out above, no impairment in the value of goodwill in the CGUs was identified.

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a 'reasonably possible adverse change' in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a 'reasonably possible adverse change' would not give rise to an impairment charge to goodwill in any of the three CGUs.

10. Acquisition and other intangible assets

	Customer relationships £m	Supplier relationships £m	Trade names, brands and databases £m	**Total acquisition intangible assets £m**	**Other intangible assets £m**
Cost					
At 1 October 2020	150.8	29.5	2.9	**183.2**	**7.6**
Additions	–	–	–	**–**	**1.4**
Acquisitions	264.4	1.0	41.4	**306.8**	**0.2**
Disposals	(1.5)	(1.0)	(1.1)	**(3.6)**	**(0.9)**
Reclassification to held for sale	(6.9)	–	–	**(6.9)**	**(0.4)**
Exchange adjustments	(14.4)	(0.7)	(1.7)	**(16.8)**	**(0.3)**
At 30 September 2021	392.4	28.8	41.5	**462.7**	**7.6**
Additions	–	–	–	**–**	**1.0**
Acquisitions	96.2	–	3.7	**99.9**	**0.8**
Disposals	–	–	–	**–**	**(1.1)**
Exchange adjustments	59.3	2.1	8.5	**69.9**	**1.0**
At 30 September 2022	**547.9**	**30.9**	**53.7**	**632.5**	**9.3**
Amortisation					
At 1 October 2020	72.4	20.7	2.9	**96.0**	**4.6**
Acquisitions	14.6	–	4.1	**18.7**	**–**
Charge for the year	12.7	1.7	–	**14.4**	**0.7**
Disposals	(1.5)	(1.0)	(1.1)	**(3.6)**	**(0.7)**
Reclassification to held for sale	(5.4)	–	–	**(5.4)**	**(0.1)**
Exchange adjustments	(2.0)	(0.3)	–	**(2.3)**	**(0.3)**
At 30 September 2021	90.8	21.1	5.9	**117.8**	**4.2**
Acquisitions	3.6	–	0.4	**4.0**	**–**
Charge for the year	32.0	1.8	4.6	**38.4**	**0.8**
Disposals	–	–	–	**–**	**(0.4)**
Exchange adjustments	13.7	1.7	1.9	**17.3**	**0.6**
At 30 September 2022	**140.1**	**24.6**	**12.8**	**177.5**	**5.2**
Net book value					
At 30 September 2022	**407.8**	**6.3**	**40.9**	**455.0**	**4.1**
At 30 September 2021	301.6	7.7	35.6	344.9	3.4

Acquisition intangible assets relate to items acquired through business combinations which are fair-valued and amortised over their useful economic lives.

	Economic life
Customer relationships	5–15 years
Supplier relationships	8–10 years
Trade names, brands and databases	5–11 years

Customer relationships principally relate to: Windy City Wire (£193.0m – 14 years useful life remaining), R&G (£43.9m – 15 years useful life remaining) and VSP (£30.5m – 7 years useful life remaining). Trade names and brands mainly relates to Windy City Wire (£32.4m – 10 years useful life remaining).

Other intangible assets comprise computer software that is separately identifiable from IT equipment and includes software licences.

11. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	**Total £m**
Cost					
At 1 October 2020	13.8	5.4	32.3	11.8	**63.3**
Additions	–	0.5	2.4	2.0	**4.9**
Acquisitions of businesses	–	2.3	19.1	0.4	**21.8**
Disposals	(3.3)	(0.2)	(2.7)	(1.4)	**(7.6)**
Reclassification to held for sale	(8.0)	–	(2.6)	–	**(10.6)**
Exchange adjustments	(0.6)	(0.2)	(1.6)	–	**(2.4)**
At 30 September 2021	1.9	7.8	46.9	12.8	**69.4**
Additions	–	2.2	5.3	6.8	**14.3**
Acquisitions of businesses (note 21)	1.5	2.5	2.7	–	**6.7**
Disposals	–	(0.4)	(3.2)	(1.4)	**(5.0)**
Exchange adjustments	0.2	1.1	9.5	1.5	**12.3**
At 30 September 2022	**3.6**	**13.2**	**61.2**	**19.7**	**97.7**
Depreciation					
At 1 October 2020	5.3	3.0	20.8	6.3	**35.4**
Charge for the year	0.4	1.1	5.9	1.8	**9.2**
Disposals	(1.6)	(0.1)	(2.6)	(1.2)	**(5.5)**
Reclassifications to held for sale	(3.0)	–	(1.5)	–	**(4.5)**
Exchange adjustments	(0.2)	–	(0.3)	(0.1)	**(0.6)**
At 30 September 2021	0.9	4.0	22.3	6.8	**34.0**
Charge for the year	0.1	1.0	7.1	2.2	**10.4**
Disposals	–	(0.3)	(2.7)	(0.7)	**(3.7)**
Exchange adjustments	0.1	0.5	6.0	0.8	**7.4**
At 30 September 2022	**1.1**	**5.2**	**32.7**	**9.1**	**48.1**
Net book value					
At 30 September 2022	**2.5**	**8.0**	**28.5**	**10.6**	**49.6**
At 30 September 2021	1.0	3.8	24.6	6.0	35.4

Land included within freehold properties above which is not depreciated is £2.7m (2021: £2.7m). Capital commitments contracted, but not provided, were £0.2m (2021: £0.8m).

Freehold properties include ca. 150 acres of land at Stamford (the Stamford Land) that comprises mostly farm land and former quarry land. The Group has entered into a Promotion and Option Agreement with Larkfleet Limited (Larkfleet) in respect of the Stamford Land. Under the terms of the Agreement, Larkfleet promotes the site through the planning system. If satisfactory planning permission is granted, Larkfleet has an option to purchase up to 60% of the residential development land. The remaining land will be sold by the Group on the open market at a time of its choosing.

The initial planning promotion period is six years, but this can be extended by Larkfleet to ten years if they pay an extension fee. If planning permission has been granted, the Agreement extends for up to ten years to allow for marketing and disposal of all of the land benefiting from planning permission to be completed.

The Stamford Land falls within the Stamford North Urban Extension (SNUE) proposal which sits within the local authority areas of South Kesteven District Council (SKDC) in Lincolnshire and Rutland County Council (RCC). The SNUE is a major allocation within the SKDC Adopted Local Plan and is a proposed major allocation within the RCC Draft Local Plan, which is currently at the Regulation 19 stage. Various planning applications in respect of the Stamford Land have been submitted in the second half of FY 2021 and during the current year, and we are awaiting formal notification of any further developments.

In the Directors' opinion, the current fair value of its land at 30 September 2022 is £1.0m (2021: £1.0m) with a book value of £nil (2021: £nil).

12. Leases – right-of-use assets and lease liabilities

Right-of-use assets

	Land & buildings £m	Plant & machinery £m	Motor vehicles £m	IT & office equipment £m	**Total £m**
Cost					
At 1 October 2020	34.3	0.5	3.3	0.8	**38.9**
Additions	24.9	0.1	1.6	0.3	**26.9**
Disposals	(2.2)	–	(0.4)	–	**(2.6)**
Reclassification to held for sale	(0.7)	–	(0.2)	–	**(0.9)**
Exchange adjustments	(0.6)	–	(0.1)	–	**(0.7)**
At 30 September 2021	55.7	0.6	4.2	1.1	**61.6**
Additions	19.8	0.2	4.9	0.5	**25.4**
Disposals	(1.1)	–	(0.9)	–	**(2.0)**
Exchange adjustments	6.7	–	0.1	0.1	**6.9**
At 30 September 2022	**81.1**	**0.8**	**8.3**	**1.7**	**91.9**
Depreciation					
At 1 October 2020	5.8	0.1	1.2	0.2	**7.3**
Charge for the year	9.0	0.1	1.4	0.3	**10.8**
Disposals	(0.6)	–	(0.2)	–	**(0.8)**
Reclassification to held for sale	(0.4)	–	(0.1)	–	**(0.5)**
Exchange adjustments	(0.1)	–	–	–	**(0.1)**
At 30 September 2021	13.7	0.2	2.3	0.5	**16.7**
Charge for the year	10.7	0.1	1.5	0.4	**12.7**
Disposals	(0.5)	–	(0.8)	–	**(1.3)**
Exchange adjustments	1.4	–	–	–	**1.4**
At 30 September 2022	**25.3**	**0.3**	**3.0**	**0.9**	**29.5**
Net book value					
At 30 September 2022	**55.8**	**0.5**	**5.3**	**0.8**	**62.4**
At 30 September 2021	42.0	0.4	1.9	0.6	44.9

Right-of-use assets represent those assets held under leases which IFRS 16 requires to be capitalised.

During the year, a property in Switzerland was sold and leased back as part of the Group's operational strategy on a lease of 15 years. Cash proceeds of £9.6m have been received and a gain of £1.5m has been recognised within administration costs.

Lease liabilities

The movement on the lease liability is set out below:

	2022 £m	2021 £m
At 1 October	**48.3**	33.7
Additions	**26.6**	26.9
Disposals	**(0.9)**	(1.9)
Lease repayments	**(13.5)**	(11.3)
Interest on lease liabilities	**2.6**	1.8
Reclassifications to held for sale	**–**	(0.3)
Exchange movements	**6.0**	(0.6)
At 30 September	**69.1**	48.3

Analysed as:	**£m**	£m
Repayable within one year	**12.7**	9.7
Repayable after one year	**56.4**	38.6

Leases of low-value assets and short-term leases are accounted for applying paragraph 6 of IFRS 16. Lease costs of £2.0m (2021: £2.4m) in respect of low-value assets, short-term leases, and variable lease payments not included in the measurement of lease liabilities have been recognised within administration costs. The total cash outflow in respect of leases was £15.5m (2021: £13.7m).

13. Deferred tax

The movement on deferred tax is as follows:

	2022 £m	2021 £m
At 1 October	**(21.9)**	(7.9)
Credit for the year (note 6)	**6.6**	2.7
Acquisitions, disposals and transfers to assets held for sale	**(17.6)**	(16.6)
Accounted for in Other Comprehensive Income or directly in Equity	**(3.9)**	(0.7)
Exchange adjustments	**(1.4)**	0.6
At 30 September	**(38.2)**	(21.9)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances on a net basis.

	Assets		Liabilities		Net	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Property, plant and equipment	**0.1**	0.4	**(5.8)**	(5.8)	**(5.7)**	(5.4)
Goodwill and intangible assets	**–**	–	**(42.0)**	(26.6)	**(42.0)**	(26.6)
Retirement benefit assets/obligations	**–**	2.2	**(1.0)**	–	**(1.0)**	2.2
Inventories	**3.1**	2.8	**(0.1)**	(0.2)	**3.0**	2.6
Share-based payments	**1.4**	1.1	**–**	–	**1.4**	1.1
Trading losses	**–**	–	**–**	–	**–**	–
Leases	**1.2**	0.8	**–**	–	**1.2**	0.8
Other temporary differences	**5.1**	3.7	**(0.2)**	(0.3)	**4.9**	3.4
	10.9	11.0	**(49.1)**	(32.9)	**(38.2)**	(21.9)
Deferred tax offset	**(10.7)**	(10.6)	**10.7**	10.6	**–**	–
	0.2	0.4	**(38.4)**	(22.3)	**(38.2)**	(21.9)

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas withholding tax (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been recognised in respect of unremitted earnings from overseas businesses of £184.9m (2021: £157.3m) was £9.3m (2021: £8.0m).

14. Inventories

	2022 £m	2021 £m
Finished goods	**217.4**	139.8

Inventories are stated net of impairment provisions of £24.3m (2021: £15.8m). During the year £4.0m (2021: £2.0m) was recognised as a charge against cost of sales, comprising the write-down of inventories to net realisable value.

15. Trade and other receivables and assets held for sale

	2022 £m	2021 £m
Trade receivables	**158.9**	112.0
Less: loss allowance	**(7.2)**	(3.6)
	151.7	108.4
Other receivables	**9.8**	3.6
Prepayments and accrued income	**8.4**	5.8
	169.9	117.8

Assets held for sale

There were no assets held for sale at 30 September 2022 (2021: £11.3m). Assets held for sale at 30 September 2021 comprised one operating facility whereby the freehold property was sold and leased back to the business during the year and the Group's 90% investment in Kentek Oy, which was disposed of during the year, as explained in note 21.

The maximum exposure to credit risk for trade receivables at 30 September, by currency, was:

	2022 £m	2021 £m
UK sterling	**41.3**	26.3
US dollars	**70.1**	48.4
Canadian dollars	**12.6**	8.9
Euros	**18.0**	11.4
Other	**16.9**	17.0
	158.9	112.0

Trade receivables, before loss allowance, are analysed as follows:

	2022 £m	2021 £m
Not past due	**124.9**	92.9
Past due	**26.8**	15.5
Receivables impaired	**7.2**	3.6
	158.9	112.0

The ageing of trade receivables classified as past due, but not impaired, is as follows:

	2022 £m	2021 £m
Up to one month past due	**20.7**	12.4
Between one and two months past due	**4.5**	2.4
Between two and four months past due	**1.6**	0.7
Over four months past due	**–**	–
	26.8	15.5

The movement in the loss allowance for impairment of trade receivables is as follows:

	2022 £m	2021 £m
At 1 October	**3.6**	1.2
Charged against profit, net	**3.4**	1.3
Set up on acquisition	**0.6**	1.5
Utilised by write-off	**(0.4)**	(0.4)
At 30 September	**7.2**	3.6

Concentrations of credit risk with respect to trade receivables are very limited, reflecting the Group's customer base being large and diverse. The Group has a history of low levels of losses in respect of trade receivables. Management is satisfied that the loss allowance takes into account the historical loss experience and forward-looking expected credit losses in line with IFRS 9 (Financial Instruments).

16. Trade and other payables

	2022 £m	2021 £m
Trade payables	**96.4**	74.5
Other payables	**25.8**	9.0
Other taxes and social security	**11.0**	6.8
Accruals and deferred income	**56.3**	36.7
	189.5	127.0

The maximum exposure to foreign currency risk for trade payables at 30 September, by currency, was:

	2022 £m	2021 £m
UK sterling	**24.1**	20.9
US dollars	**50.2**	36.3
Canadian dollars	**0.8**	0.5
Euros	**14.1**	14.7
Other	**7.2**	2.1
	96.4	74.5

17. Cash and cash equivalents

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2022 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2021 Total £m
Cash at bank	**15.2**	**7.1**	**2.3**	**7.8**	**6.4**	**38.8**	8.5	2.5	0.6	5.6	3.8	21.0
Short-term deposits	**–**	**0.1**	**1.8**	**–**	**1.0**	**2.9**	–	0.9	1.3	–	1.6	3.8
	15.2	**7.2**	**4.1**	**7.8**	**7.4**	**41.7**	8.5	3.4	1.9	5.6	5.4	24.8

The short-term deposits and cash at bank are both interest bearing at rates linked to the UK base rate, or equivalent rate.

18. Financial instruments

The Group's overall management of financial risks is carried out by a central treasury team under policies and procedures which are reviewed and approved by the Board. The treasury team identifies, evaluates and, where appropriate, hedges financial risks in close cooperation with the Group's operating businesses. The treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The Group's principal financial instruments, other than a number of forward foreign currency and fixed interest rate contracts, comprise cash and short-term deposits, trade and other receivables and trade and other payables, borrowings and other liabilities. Trade and other receivables and trade and other payables arise directly from the Group's day-to-day operations.

The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivities is set out below.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations; this arises principally from the Group's trade and other receivables from customers and from cash balances (including deposits) held with financial institutions.

The Group is exposed to customers ranging from government backed agencies and large public and private wholesalers, to small privately owned businesses and the underlying local economic risks vary throughout the world. Trade receivable exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for each customer.

The Group establishes a loss allowance that represents its estimate of potential losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable (see below) and considers factors which may impact risk of default. Where appropriate, we have grouped these receivables with the same overall risk characteristics. When the receivable is deemed irrecoverable, the provision is written off against the underlying receivable. During the year, the Group had no significant unrecoverable trade receivables.

Exposure to counterparty credit risk with financial institutions is controlled by the Group treasury team which establishes and monitors counterparty limits. Centrally managed funds are invested entirely with counterparties whose credit rating is 'AA' or better. There are no significant concentrations of credit risk. There has been no historical or expected credit loss on cash and cash equivalents.

The Group's maximum exposure to credit risk was as follows:

	Carrying amount 2022 £m	Carrying amount 2021 £m
Trade receivables	**151.7**	108.4
Other receivables	**9.8**	3.6
Cash and cash equivalents	**41.7**	24.8
	203.2	136.8

There is no material difference between the book value of the financial assets and their fair value at each reporting date. An analysis of the ageing and currency of trade receivables and the associated loss allowance is set out in note 15. An analysis of cash and cash equivalents is set out in note 17.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income.

The expected loss rates are based on the payment profiles of revenues over a period of 96 months ended 30 September 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information including macroeconomic factors by obtaining and reviewing relevant market data affecting the ability of the customers to settle the receivables.

The Group has identified the current health of the economy (such as market interest rates and growth rates), of the countries in which it sells its goods to be the most relevant factors and accordingly adjusts the historical loss rates based on expected changes in these factors. An increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. Where objective evidence exists that a trade receivable balance may be impaired, provision is made for the difference between its carrying amount and the present value of the estimated cash that will be recovered.

Evidence of impairment may include such factors as a change in credit risk profile of the customer, the customer being in default on a contract, or the customer entering insolvent administration proceedings. All significant balances are reviewed individually on a monthly basis for evidence of impairment.

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group continually monitors net cash and forecasts cash flows to ensure that sufficient resources are available to meet the Group's requirements in the short, medium and long term. Additionally, compliance with bank covenants is monitored regularly and during 2022 all bank covenant tests were complied with. The applicable financial covenants are interest cover and leverage, whereby EBITDA must be at least 4x net finance charges (as defined by the SFA); and the ratio of net debt to EBITDA must not exceed 3x.

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 (RCF) 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 (RCF) 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 $100.0m (£89.6m) of debt. The effective fixed rate debt was 24% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100.0m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA position is 1.4x, as illustrated in note 27.

The undrawn committed facilities available at 30 September are as follows:

	2022 £m	2021 £m
Expiring within one year	–	–
Expiring after one year	**204.0**	89.9

The Group's undiscounted financial liabilities are as follows:

	2022 £m	2021 £m
Trade payables	**96.4**	74.5
Other payables	**25.8**	9.0
Other liabilities	**35.0**	25.3
Borrowings	**370.6**	212.7
	527.8	321.5
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**171.7**	116.5
One to two years	**48.7**	28.3
Two to five years	**307.4**	176.7
	527.8	321.5

There is no material difference between the book value of these financial liabilities and their fair value at each reporting date.

c) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars and Euros. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 15, 16 and 17, respectively.

The Group holds forward foreign exchange contracts in certain of the Group's businesses to hedge forecast transactional exposure to movements in the US dollar, Euro, UK Sterling, Swedish Krona and Japanese Yen. These forward foreign exchange contracts are classified as cash flow hedges and are stated at fair value. The notional value of forward contracts as at 30 September 2022 was £35.0m (2021: £46.0m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2022 was £1.3m asset (2021: £0.3m asset).

For hedges of foreign currency transactions, the Group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was £0.4m debit (2021: £0.1m credit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £1.4m credit (2021: £0.4m credit).

Management considers that the most significant foreign exchange risk relates to the US dollar, Canadian dollar and Euro. The Group's sensitivity to a 10% strengthening in UK sterling against each of these currencies (with all other variables held constant) is as follows:

	2022 £m	2021 £m
Decrease in adjusted operating profit (at average rates)		
US dollar: UK sterling	**10.3**	7.1
Canadian dollar: UK sterling	**2.6**	2.4
Euro: UK sterling	**1.7**	1.6
Decrease in total equity (at spot rates)		
US dollar: UK sterling	**12.6**	7.2
Canadian dollar: UK sterling	**12.9**	10.2
Euro: UK sterling	**5.4**	3.2

d) Interest rate risk
Interest rate risk is the risk that changes in interest rates will affect the Group's results. The Group's interest rate risk arises primarily from its cash funds and borrowings. The Group uses interest rate swaps to hedge a proportion of the external borrowings. These interest rate swaps are classified as cash flow hedges and are stated at fair value. The notional value of interest rate swap contracts as at 30 September 2022 was £89.6m (2021: nil). The net fair value of interest rate swap contracts used as hedges at 30 September 2022 was £3.1m asset (2021: nil) and is included within Trade and other receivables on the balance sheet. The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in finance costs during the year was nil (2021: nil). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £3.1m credit (2021: nil).

All cash deposits, held in the UK and overseas, are held on a short-term basis at floating rates or overnight rates, based on the relevant UK base rate, or equivalent rate. Surplus funds are deposited with commercial banks that meet the credit criteria approved by the Board, for periods of between one and six months at rates that are generally fixed by reference to the relevant UK base rate, or equivalent rate.

An increase of 1% in interest rates would have a ca. £1.4m (2021: £2.0m) impact on adjusted profit before tax. The impact of interest rate movements has moderated against the prior year due to the fixed interest rate swap contracts entered into in the year.

e) Fair values
There are no material differences between the book value of financial assets and liabilities and their fair value. The basis for determining fair values are as follows:

Derivatives
Forward exchange contracts are designated as level 2 assets (in the 'fair value hierarchy') and valued at year end forward rates, adjusted for the forward points to the contract's value date with gains and losses taken to equity. No contract's maturity date is greater than 18 months from the year end.

For hedges of foreign currency transactions, the Group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

Interest rate swap contracts are designated as level 2 assets (in the 'fair value hierarchy') and valued at year end as the net present value of the cashflows using current forward market interest rates, with gains and losses taken to equity.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, payment dates, maturities and notional amount. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. The hedge ineffectiveness can arise from differences in timing or cash flows of the hedged item and hedging instrument, or the counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

Trade and other receivables/payables
As the receivables/payables have a remaining life of less than one year, the book value is deemed to reflect the fair value.

Borrowings
The fair value of the borrowings equate to the book value.

Other liabilities
The carrying amount represents a discounted value of the expected liability which is deemed to reflect the fair value and are designated as level 3 assets (in the 'fair value hierarchy').

f) Capital management risk
The Group's capital structure comprises the retained earnings reserve (£375.1m), cash funds (£41.7m) and medium-term bank borrowing facilities. The Group's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain robust capital ratios to support the development of the business including executing acquisitions and providing strong returns to shareholders.

In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or increase bank borrowings.

19. Other liabilities

	2022 £m	2021 £m
Future purchases of minority interests	**7.4**	5.2
Deferred consideration	**24.0**	18.5
	31.4	23.7
Analysed as:		
Due within one year	**19.0**	11.7
Due after one year	**12.4**	12.0

The movement in the liability for future purchases of minority interests is as follows:

	2022 £m	2021 £m
At 1 October	**5.2**	4.2
Minority interest put options arising on acquisition	**1.9**	0.9
Minority interest put options removed on disposal	**(1.2)**	
Exchange movements	**0.1**	–
Fair value remeasurements	**1.4**	0.1
At 30 September	**7.4**	5.2

At 30 September 2022, the Group's minority interests retained put options to sell their minority interests of 10% in M Seals, 5% in Techsil, as well as 2% of R&G Fluid Power Group Limited (R&G), following its acquisition as described in note 21. The acquisition of R&G has resulted in the recognition of a put option liability on acquisition of £1.9m.

During the year, the Group disposed of Kentek Oy, and therefore the liability for future purchase of minority interests in respect of Kentek has been de-recognised (£1.2m).

At 30 September 2022, the estimate of the financial liability to acquire these outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2022. This led to a remeasurement of the options and the liability increased by £1.4m (2021: £0.1m increase) reflecting a revised estimate of the future performance of these businesses and in aggregate, £1.4m (2021: debit £0.1m) has been debited to the Consolidated Income Statement in respect of this remeasurement of the liability.

Deferred consideration comprises the following:

	1 Oct 2021 £m	Additions £m	Discount unwind £m	Revaluation £m	Payments £m	Foreign Exchange £m	**30 Sep 2022 £m**
Sphere	1.0	–	–	–	(1.0)	–	**–**
HSP	0.1	–	–	–	(0.1)	–	**–**
S&W	3.5	–	–	(0.5)	(3.0)	–	**–**
FITT	2.2	–	–	–	(2.2)	–	**–**
PDI	0.7	–	–	(0.1)	(0.6)	–	**–**
Biospecifix	0.4	–	–	–	(0.1)	–	**0.3**
Kungshusen	5.4	–	0.2	–	–	(0.2)	**5.4**
Techsil	1.1	–	0.1	–	–	–	**1.2**
AHW	4.1	–	0.1	–	–	0.7	**4.9**
R&G	–	8.7	–	–	(0.1)	–	**8.6**
AMG Sealing	–	0.5	–	–	–	–	**0.5**
Hydraproducts	–	0.5	–	–	–	–	**0.5**
ACT	–	2.3	–	–	–	–	**2.3**
Silicone Solutions	–	0.3	–	–	–	–	**0.3**
	18.5	**12.3**	**0.4**	**(0.6)**	**(7.1)**	**0.5**	**24.0**

Deferred consideration of £8.7m added in respect of R&G includes £1.3m relating to bolt-on acquisitions completed by R&G prior to acquisition by Diploma.

20. Minority interests

	£m
At 1 October 2020	3.7
Acquisition of business	0.9
Minority interest issued	0.7
Share of profit	(0.1)
Dividends paid	(0.3)
Exchange adjustments	(0.2)
At 30 September 2021	4.7
Acquisition of business	2.5
Minority interest acquired	(0.3)
Disposal of business	(1.3)
Share of profit	0.7
Dividends paid	(0.2)
Exchange adjustments	0.1
At 30 September 2022	**6.2**

External shareholders, represented by management in each business, hold a 10% minority interest in M Seals, a 5% minority interest in Techsil, and a 2% minority interest in R&G.

The minority interest in R&G arose following the acquisition of R&G, as explained in note 21, and resulted in a £2.5m increase to the minority interest. The disposal of Kentek Oy was completed on 16 November 2021 and resulted in a £1.3m reduction in the minority interest.

21. Acquisitions and disposals of businesses

Acquisition of R&G Fluid Power Group Limited

On 6 April 2022, the Group completed the acquisition of 98% of the share capital of R&G Fluid Power Group Limited (R&G), a value-added aftermarket distributor of a diverse range of industrial, hydraulic and pneumatic products in the United Kingdom. The initial cash payment was £91.7m, net of cash acquired of £1.7m. Deferred consideration of up to £7.4m is payable based on the acquired business achieving certain performance targets in the period up to 31 December 2022.

Acquisition expenses of £2.3m have been recognised in FY 2022.

The provisional fair value of R&G net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £13.3m following fair value adjustments of £1.3m. The goodwill represents the technical expertise of the acquired workforce and the opportunity to leverage any revenue synergies through cross-selling within other businesses. The principal fair value adjustments relate to an increase in the provisions held against inventory (£0.6m) and recognition of a dilapidations provision (£0.5m). The intangible assets of £47.6m relates to customer relationships (£43.9m) and brand (£3.7m).

Minority interests of £2.5m have been recognised at fair value upon acquisition of R&G, comprising the 2% minority interest held in R&G, as well as the 10% minority interest stake in Pneumatic Services Limited, a company for which R&G owned 90% of the share capital at the time of acquisition by the Group.

Acquisition of Accuscience

On 10 May 2022, the Group completed the acquisition of 100% of the share capital of Medilink Services (NI) Limited and Accu-Science Ireland Limited, (collectively Accuscience) a market-leading life sciences and med-tech distributor in Ireland, for consideration of £49.9m (€58.2m), net of cash acquired of £3.2m (€3.8m).

Acquisition expenses of £1.0m have been recognised in FY 2022.

The provisional fair value of Accuscience net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £2.2m (€2.3m) following fair value adjustments of £0.8m (€0.9m). The provisions held against inventory and trade receivables were increased by £0.6m (€0.7m) and £0.2m (€0.2m), respectively.

Other acquisitions

The Group completed a further five other acquisitions during the year. This comprised the purchase of the trade and assets of Silicone Solutions Limited (Silicone Solutions) (9 September 2022); 100% of the share capital of LJR Electronics, LLC (LJR) (2 February 2022), Anti Corrosion Technology Pty Limited (ACT) (29 July 2022), Hydraproducts Limited (Hydraproducts) (12 May 2022) and AMG Sealing Limited (AMG) (19 May 22).

The combined initial consideration for these acquisitions was £30.6m, net of cash acquired of £1.2m. Deferred consideration of up to £3.6m is payable based on the performance of the businesses.

Acquisition expenses of £0.7m have been recognised in respect of these transactions in the financial year.

The provisional fair value of the combined net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £9.2m following fair value adjustments of £1.2m. Fair value adjustments principally relate to an increase in provisions held against inventory of £0.9m.

The following table summarises the consideration paid for the acquisitions completed in the period and fair value of assets acquired and liabilities assumed, with fair values being provisional pending completion of a final valuation. Given the limited time between the acquisitions and signing of these accounts, the fair valuation of acquired assets and liabilities (principally intangible assets and working capital provisions) is incomplete at the date of these financial statements.

During the year an additional £0.8m was paid out in relation to completion account adjustments on previous transactions.

	R&G		Accuscience		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	**Book value £m**	**Fair value £m**
Acquisition intangible assets[1]	–	47.6	–	33.1	–	17.5	**–**	**98.2**
Deferred tax	(0.7)	(12.5)	–	(4.3)	–	(1.7)	**(0.7)**	**(18.5)**
Property, plant and equipment	5.9	5.9	0.7	0.7	0.1	0.1	**6.7**	**6.7**
Inventories	14.4	13.8	4.7	4.1	9.1	8.2	**28.2**	**26.1**
Trade and other receivables	14.4	14.3	5.5	5.3	2.8	2.7	**22.7**	**22.3**
Trade and other payables	(19.4)	(20.0)	(7.9)	(7.9)	(1.6)	(1.8)	**(28.9)**	**(29.7)**
Net assets acquired	**14.6**	**49.1**	**3.0**	**31.0**	**10.4**	**25.0**	**28.0**	**105.1**
Goodwill	–	52.5	–	18.9	–	9.2	**–**	**80.6**
Minority interests	–	(2.5)	–	–	–	–	**–**	**(2.5)**
Cash paid		93.4		53.1		31.8		**178.3**
Cash acquired		(1.7)		(3.2)		(1.2)		**(6.1)**
		91.7		49.9		30.6		**172.2**
Deferred consideration		7.4		–		3.6		**11.0**
Total investment		**99.1[2]**		**49.9**		**34.2**		**183.2**

1 On the acquisitions completed in the current year, acquired intangibles relate to customer relationships (£94.5m) and brand (£3.7m).
2 Diploma acquired R&G on a cash free/debt free basis. The total investment amounts to £99.1m (being cash paid (net of cash acquired) of £91.7m and deferred consideration of £7.4m). Of the initial cash paid, the vendor directed the funds in escrow to settle outstanding debt of £11.7m. The table below details this flow of funds:

	£m
Total investment	99.1
Debt settled	(11.7)
Net consideration	87.4

Acquisitions revenue and adjusted operating profit
From the date of acquisition to 30 September 2022, each acquired business contributed the following to Group revenue and adjusted operating profit:

	Acquisition date	Revenue £m	Adj.[2] £m	Pro forma revenue £m	Operating profit[1] £m	Adj.[2] £m	Pro forma operating profit[1] £m
LJR	2 Feb 2022	10.8	5.4	16.2	1.8	0.9	2.7
R&G	6 Apr 2022	34.3	34.3	68.6	4.8	4.9	9.7
Accuscience	10 May 2022	10.6	17.6	28.2	1.3	2.0	3.3
Hydraproducts	12 May 2022	1.6	2.5	4.1	0.4	0.6	1.0
AMG	19 May 2022	0.5	0.9	1.4	0.1	0.2	0.3
ACT	29 July 2022	0.6	3.0	3.6	0.3	1.5	1.8
Silicone Solutions	9 Sep 2022	0.1	2.1	2.2	0.0	0.8	0.8
		58.5	**65.8**	**124.3**	**8.7**	**10.9**	**19.6**

1 Adjusted operating profit.
2 Pro forma revenue and adjusted operating profit have been extrapolated (as prescribed under IFRS) from the results reported since acquisition to indicate what these businesses would have contributed if they had been acquired at the beginning of the financial year on 1 October 2021. These amounts should not be viewed as confirmation of the results of these businesses that would have occurred if these acquisitions had been completed at the beginning of the year.

Disposals
On 16 November 2021, the Group disposed of its 90% interest in Kentek Oy (Kentek) for proceeds of £10.0m. A charge of £1.6m has been recognised within administration costs principally relating to the recycling of cumulative foreign currency translation losses arising on the disposal of Kentek.

On 3 May 2022, the Group disposed of its 100% interest in a1-envirosciences Limited and a1-envirosciences GmbH (collectively a1-envirosciences) for proceeds of £11.4m. A gain of £8.9m has been recognised within administration costs comprising the profit on disposal of £8.7m and the recycling of cumulative foreign currency translation gains of £0.2m.

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

	2022 £m	2022 £m	2021 £m	2021 £m
Operating profit		**144.3**		104.3
Acquisition related and other charges (note 2)		**46.9**		44.4
Adjusted operating profit		**191.2**		148.7
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	**23.9**		20.7	
Share-based payments expense (note 4)	**2.8**		1.8	
Defined benefit pension scheme payment in excess of interest	**(0.6)**		(5.8)	
Profit on disposal of assets	**(1.6)**		(2.8)	
Acquisition and disposal expenses paid	**(6.5)**		(4.2)	
Other non-cash movements	**0.1**		0.1	
Non-cash items and other		**18.1**		9.8
Operating cash flow before changes in working capital		**209.3**		158.5
Increase in inventories	**(35.6)**		(13.5)	
Increase in trade and other receivables	**(10.6)**		(16.3)	
Increase in trade and other payables	**17.5**		17.2	
Increase in working capital		**(28.7)**		(12.6)
Cash flow from operating activities		**180.6**		145.9

23. (Net debt)/cash funds

The movement in (net debt)/cash funds during the year is as follows:

	1 Oct 2021 £m	Cash flow[1] £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2022 £m
Cash and cash equivalents	24.8	17.5	(0.6)	–	**41.7**
Borrowings	(206.2)	(131.3)	(30.9)	(2.2)	**(370.6)**
Net debt	(181.4)	(113.8)	(31.5)	(2.2)	**(328.9)**

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2021 £m
Cash and cash equivalents	206.8	(192.6)	10.6	–	24.8
Borrowings	–	(202.9)	(1.8)	(1.5)	(206.2)
Cash funds/(net debt)	206.8	(395.5)	8.8	(1.5)	(181.4)

1 The borrowings cash flow includes £3.5m of debt fees which have been capitalised and are included within interest paid in the Consolidated Cash Flow Statement.

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 (RCF) 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 (RCF) 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 $100.0m (£89.6m) of debt. The effective fixed rate debt was 24% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100.0m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA ratio is 1.4x, as illustrated in note 27.

As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173.3m ($193.5m) and the Group has utilised £201.0m of the revolving facility. There remains £158.7m undrawn on the revolving facility and £45.3m undrawn on the bullet term loan. Borrowings include £1.0m (2021: £0.4m) of accrued interest and the carrying amount of capitalised debt fees is £4.7m (2021: £2.8m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £113.5m ($153.0m) and drawings of £95.1m under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £89.9m.

Total net debt is £398.0m (2021: £229.7m) comprising cash funds of £41.7m (2021: £24.8m), borrowings of £370.6m (2021: £206.2m), and lease liabilities of £69.1m (2021: £48.3m). Bank covenants are tested against net debt funds only (i.e. excluding lease liabilities).

24. Retirement benefit asset and obligations

The Group maintains two pension arrangements which are accounted for under IAS 19 (Revised) (Employee Benefits). The principal arrangement is the defined benefit pension scheme in the UK, maintained by Diploma Holdings PLC and called the Diploma Holdings PLC UK Pension Scheme (the Scheme). This Scheme provides benefits based on final salary and length of service on retirement, leaving service or death and has been closed to further accrual since 5 April 2000.

The second and smaller pension arrangement is operated by Kubo, a business based in Switzerland and provides benefits on retirement, leaving service or death for the employees of Kubo in accordance with Swiss law. The Kubo pension scheme is a defined contribution based scheme, which for technical reasons, is required under IFRS to be accounted for in accordance with IAS 19 (Revised).

The amount of pension asset/deficit included in the Consolidated Statement of Financial Position in respect of these two pension arrangements is:

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	**(6.4)**	2.7
Kubo Pension Scheme	**–**	2.2
Pension scheme net (asset) / deficit	**(6.4)**	4.9

The amounts included in the Consolidated Income Statement in respect of these two pension arrangements are:

	2022 £m	2021 £m
Diploma Holdings PLC UK Pension Scheme	**–**	(0.1)
Kubo Pension Scheme	**(0.5)**	(0.5)
Amounts charged to the Consolidated Income Statement	**(0.5)**	(0.6)

Defined contribution schemes operated by the Group's businesses are not included in these disclosures.

Diploma Holdings PLC UK Pension Scheme

The Scheme is subject to a Statutory Funding Objective under the Pensions Act 2004 which requires that a valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The most recent triennial actuarial valuation carried out as at 30 September 2019 reported that the Scheme had a funding deficit of £9.9m and held assets which covered 76% of its liabilities at that date. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2022 and the results of the valuation will be reported in the 2023 Annual Report & Accounts. There were no Scheme amendments, curtailments or settlements during the year.

On 28 September 2018, the Trustees completed a Buy-In of the pensioner liabilities in the Scheme with Just Retirement Limited. The Scheme paid £12.3m to Just Retirement Limited on 28 September 2018 to fund 95% of the Buy-In premium and £0.7m was paid on 22 October 2018 to fund the remaining 5% of the premium. The impact of this transaction has been reflected in the pension disclosures set out below.

The Scheme is managed by a set of Trustees appointed in part by the Company and in part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

The Scheme exposes the Company, and therefore the Group, to a number of risks:

- **Investment risk.** The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, volatility over the short-term can cause additional funding to be required if a deficit emerges.
- **Interest rate risk.** The Scheme's liabilities are assessed using market yields on high-quality corporate bonds to discount the liabilities. As the Scheme's assets include equities, the value of the assets and liabilities may not move in the same way.
- I**nflation risk.** A significant proportion of the benefits under the Scheme are linked to inflation. The Scheme's assets are expected to provide a good hedge against inflation over the long term, however movements over the short term could lead to funding deficits emerging.
- **Mortality risk.** In the event that members live longer than assumed, a funding deficit may emerge in the Scheme.

a) Pension surplus / (deficit) included in the Consolidated Statement of Financial Position

	2022 £m	2021 £m
Market value of Scheme assets:		
Equities[1]	**20.7**	21.9
Gilts	**3.9**	5.7
Buy-In policy[2]	**7.3**	10.5
Cash	**–**	0.2
	31.9	38.3
Present value of Scheme liabilities	**(25.5)**	(41.0)
Pension scheme net asset / (deficit)	**6.4**	(2.7)

1 Quoted market price in an active market.
2 The Buy-In policy was valued on the same basis as the underlying pensioner liabilities.

In addition to the Buy-In policy, the pension scheme net asset includes £3.5m of historic annuities and related assets on a net basis, rather than on a gross basis.

b) Amounts charged to the Consolidated Income Statement

	2022 £m	2021 £m
Charged to operating profit	**–**	–
Interest cost on liabilities	**(0.8)**	(0.6)
Interest on assets	**0.8**	0.5
Charged to financial expense, net (note 5)	**–**	(0.1)
Amounts charged to the Consolidated Income Statement	**–**	(0.1)

c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2022 £m	2021 £m
Investment (loss)/gain on Scheme assets in excess of interest	**(6.5)**	5.0
Effect of changes in financial assumptions on Scheme liabilities	**15.4**	0.1
Effect of changes in demographic assumptions on Scheme liabilities	**0.3**	(0.9)
Experience adjustments on Scheme liabilities	**(0.7)**	–
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	**8.5**	4.2

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income, since the transition to IFRS, is £1.2m (2021: £9.7m).

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

	2022 £m	2021 £m
Deficit as at 1 October	**2.7**	12.7
Amounts charged to the Consolidated Income Statement	**–**	0.1
Contributions paid by employer	**(0.6)**	(5.9)
Net effect of remeasurements of Scheme assets and liabilities	**(8.5)**	(4.2)
(Asset) / deficit as at 30 September	**(6.4)**	2.7

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

	2022 £m	2021 £m
At 1 October	**41.0**	40.8
Experience adjustments on Scheme liabilities	**0.7**	–
Interest cost on liabilities	**0.8**	0.6
Impact from changes in actuarial assumptions	**(15.7)**	0.8
Benefits paid	**(1.3)**	(1.2)
At 30 September	**25.5**	41.0

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

	2022 £m	2021 £m
At 1 October	**38.3**	28.1
Interest on assets	**0.8**	0.5
Return on Scheme assets	**(6.5)**	5.0
Contributions paid by employer	**0.6**	5.9
Benefits paid	**(1.3)**	(1.2)
At 30 September	**31.9**	38.3

The actual return on the Scheme assets (including interest on assets) during the year was a loss of £5.7m (2021: £5.5m gain).

Assets
The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2022, the major categories of assets were as follows:

	2022 %	2021 %
North America equities	**28**	23
UK equities	**12**	10
European equities (non-UK)	**11**	10
Asia-Pacific and Emerging Markets equities	**12**	10
Gilts	**14**	14
Buy-In policy	**23**	33

Principal actuarial assumptions for the Scheme at balance sheet dates

		2022 %	2021 %	2020 %	2019 %
Inflation rate	– RPI	**3.6**	3.4	2.9	3.4
	– CPI	**3.2**	3.0	1.9	2.4
Expected rate of pension increases	– CPI	**3.2**	3.0	1.9	2.4
Discount rate		**5.3**	2.0	1.5	1.8

The volatility in bond yields in the period leading up to and after the Group's year end meant there was a significant favourable impact on the pension scheme's liabilities. This volatility also had an adverse impact on the valuation of the scheme's gilts. Since the year end bond yields have fallen back to levels more in line with historical trends. The Scheme had 14% of its assets in bonds as at 30 September 2022, with no exposure to LDI.

Demographic assumptions

Mortality table used:	S3PA
Year the mortality table was published:	CMI 2021
Allowance for future improvements in longevity:	Year of birth projections, with a long-term improvement rate of 1.0%
Allowance made for members to take a cash lump sum on retirement:	Members are assumed to take 100% of their maximum cash sum (based on current commutation factors)
The weighted average duration of the defined benefit obligation is around 15 years	

Sensitivities
The sensitivities of the 2022 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	6.7	1.7
Inflation	Increase by 0.5%	2.4	0.6
Life expectancy	Increase by one year	2.4	0.6

Risk mitigation strategies
When setting the investment strategy for the Scheme, the Trustees, in conjunction with the employer, take into account the liability profile of the Scheme. The current strategy is designed to invest in growth assets in respect of deferred pensioners. Annuity policies have been taken out in respect of some historic pensioners, but the Scheme has not purchased annuities for retirements since 2005.

In addition to these individual annuity policies, the Trustees have purchased a Buy-In policy for all existing pensioners as at 1 September 2018. The Buy-In policy secures the Scheme against both market and mortality risk relating to these pensioners. The Scheme however remains liable ultimately for the liabilities, should the insurance company which sold the liabilities go into insolvent liquidation.

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

The Company is required to agree a schedule of contributions with the Trustees of the Scheme following each triennial actuarial valuation. Following the triennial actuarial valuation carried out as at 30 September 2019, the Company agreed to contribute £0.5m in cash to the Scheme annually increasing at 2% per year. The current year contribution was £0.6m. No one-off contributions were made in the year (2021: one off contribution of ca. £5.1m).

The Kubo Pension Scheme (the Kubo Scheme)

In accordance with Swiss law, Kubo's pension benefits are contribution based with the level of benefits varying according to category of employment. Swiss law requires certain guarantees to be provided on such pension benefits. Kubo finances its Swiss pension benefits through the ASGA Pensionskasse, a multi-employer plan of non-associated companies which pools risks between participating companies. Set out below is a summary of the key features of the Kubo Scheme.

a) Pension deficit included in the Consolidated Statement of Financial Position

	2022 £m	2021 £m
Assets of the Kubo Scheme[1]	**13.5**	12.4
Actuarial liabilities of the Kubo Scheme	**(13.5)**	(14.6)
Pension scheme net deficit	**–**	(2.2)

1 The assets of the Kubo Scheme are held as part of the employee funds managed by ASGA Pensionskasse.

b) Amounts charged to the Consolidated Income Statement

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

c) Analysis of movement in the pension deficit

	2022 £m	2021 £m
At 1 October	**2.2**	5.6
Amounts charged to the Consolidated Income Statement	**0.5**	0.5
Contributions paid by employer	**(0.5)**	(0.5)
Net effect of remeasurements of Kubo Scheme assets and liabilities	**(2.1)**	(3.2)
Exchange adjustments	**(0.1)**	(0.2)
At 30 September	**–**	2.2

d) Amounts recognised in the Consolidated Statement of Comprehensive Income

The actuarial gain credited to the Consolidated Statement of Comprehensive Income is £2.1m (2021: £3.2m gain).

	2022 £m	2021 £m
Investment gain/(loss) on Scheme assets in excess of interest	**(1.3)**	2.8
Effect of changes in financial assumptions on Scheme liabilities	**4.2**	–
Effect of changes in demographic assumptions on Scheme liabilities	**–**	1.0
Experience adjustments on Scheme liabilities	**(0.4)**	(0.6)
Adjustment in respect of IFRIC 14	**(0.4)**	–
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	**2.1**	3.2

Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2022	2021
Expected rate of pension increase	**0%**	0%
Expected rate of salary increase	**1.0%**	1.0%
Discount rate	**2.3%**	0.2%
Interest credit rate	**1.0%**	0.5%
Mortality	**BVG2020**	BVG2020

Sensitivities

The sensitivities of the 2022 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.25%	3.7	0.4
Life expectancy	Increase by one year	1.7	0.2

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

	£m
Best estimate of employer's contribution in 2023	0.4
Best estimate of employees' contribution in 2023	0.4

The weighted average duration of the defined benefit obligation is approximately 15 years (2021: 18 years).

25. Auditors' remuneration

During the year the Group paid fees for the following services from the auditors:

	2022 £m	2021 £m
Fees payable to the auditors for the audit of:		
– the Company's Annual Report & Accounts	**1.1**	0.5
– the Company's subsidiaries	**0.4**	0.8
Audit fees	**1.5**	1.3

Non-audit fees of £29,200 (2021: £28,200) were paid to the Group's auditor for carrying out 'agreed upon procedures' on both the Half Year Announcement (which is unaudited), and subscription costs for access to a market-wide technical accounting database.

26. Exchange rates

The exchange rates used to translate the results of the overseas businesses are as follows:

	Average		Closing	
	2022	2021	**2022**	2021
US dollar (US$)	**1.27**	1.37	**1.12**	1.35
Canadian dollar (C$)	**1.63**	1.73	**1.53**	1.71
Euro (€)	**1.18**	1.15	**1.14**	1.16
Swiss franc (CHF)	**1.20**	1.25	**1.10**	1.26
Australian dollar (AUD)	**1.79**	1.83	**1.74**	1.87

27. Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures which are not defined within IFRS. The Directors use these measures for internal management reporting of key performance indicators (KPIs) in order to assess the operational performance of the Group on a comparable basis against the Group's KPIs, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined. As such these measures should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Annual Report & Accounts:

27.1 Adjusted operating profit and adjusted operating margin

'Adjusted operating profit' is defined as operating profit before amortisation and impairment of acquisition intangible assets or goodwill, acquisition expenses, post-acquisition related remuneration costs and adjustments to deferred consideration, the costs of a material restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's revenue.

	Note	2022 £m	2021 £m
Revenue		**1,012.8**	787.4
Operating profit		**144.3**	104.3
Add: Acquisition related and other charges included in administration costs		**46.9**	44.4
Adjusted operating profit	2,3	**191.2**	148.7
Adjusted operating margin	2,3	**18.9%**	18.9%

27.2 Adjusted profit before tax

'Adjusted profit before tax' is defined as adjusted operating profit, after net finance expenses (but before acquisition related finance charges) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

	Note	2022 £m	2021 £m
Adjusted operating profit	2,3	**191.2**	148.7
Deduct: Net interest expense and similar charges	5	**(11.6)**	(6.8)
Adjusted profit before tax		**179.6**	141.9

27.3 Adjusted earnings per share

'Adjusted earnings per share' (adjusted EPS) is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact on the items included in the calculation of adjusted profit, less profit/(loss) attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 124,533,060 (2021: 124,468,210). The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			**129.5**	96.6
Tax expense			**(34.1)**	(26.9)
Minority interests			**(0.7)**	0.1
Earnings for the year attributable to shareholders of the Company	**76.1**	56.1	**94.7**	69.8
Acquisition related and other charges and acquisition related finance charges, net of tax	**31.4**	29.1	**39.2**	36.3
Adjusted earnings	**107.5**	85.2	**133.9**	106.1

27.4 Free cash flow and free cash flow conversion

'Free cash flow' is defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations/investments (including any pre-acquisition debt like items such as pensions or tax settled post acquisition) and proceeds from business disposals, borrowings received to fund acquisitions and dividends paid to both minority shareholders and the Company's shareholders. 'Free cash flow conversion' reflects free cash flow as a percentage of adjusted earnings.

The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment or distribution to shareholders.

		Note	2022 £m	2021 £m
Net increase/(decrease) in cash and cash equivalents			**17.5**	(192.6)
Add:	Dividends paid to shareholders	7	**56.2**	52.9
	Dividends paid to minority interests	20	**0.2**	0.3
	Acquisition of minority interests	20	**0.3**	–
	Proceeds from minority interests	20	**–**	(0.7)
	Acquisition of businesses and payments of pre-acquisition debt-like items (net of cash acquired)		**177.6**	451.4
	Acquisition and disposal expenses paid	22	**6.5**	4.2
	Proceeds from sale of business (net of expenses)	21	**(13.7)**	(11.0)
	Proceeds from issue of share capital (net of fees)		**–**	0.6
	Deferred consideration paid	21	**7.1**	6.6
	(Proceeds from)/repayment of borrowings (net)	23	**(131.3)**	(202.9)
Free cash flow			**120.4**	108.8
Adjusted earnings			**133.9**	106.1
Free cash flow conversion			**90%**	103%

27.5 Trading capital employed and ROATCE

The below reconciliation includes 'trading capital employed', being defined as net assets less cash and cash equivalents (cash funds) and after adding back: borrowings (other than lease liabilities); retirement benefit obligations; deferred tax; and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets) and re-translated at 12 month average exchange rates. Return on adjusted trading capital employed (ROATCE) is defined as the pro forma adjusted operating profit, divided by adjusted trading capital employed, where pro forma adjusted operating profit is adjusted operating profit adjusted for the full year effect of acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

	2022 £m	2021 £m
Net assets	**668.2**	541.0
Add/(deduct):		
– Deferred tax, net	**38.2**	21.9
– Retirement benefit (assets)/obligations	**(6.4)**	4.9
– Acquisition related liabilities/assets, net	**29.6**	23.7
– Net debt	**328.9**	181.4
Reported trading capital employed	**1,058.5**	772.9
– Historic goodwill and acquisition related charges, net of deferred tax and currency movements	**99.6**	129.6
Adjusted trading capital employed	**1,158.1**	902.5
Adjusted operating profit	**191.2**	148.7
Pro forma adjustments[1]	**9.7**	8.7
Pro forma adjusted operating profit	**200.9**	157.4
ROATCE	**17.3%**	17.4%

1 Adjustment for annualisation of adjusted operating profit of acquisitions and disposals.

27.6 Net debt to EBITDA

Net debt to EBITDA is the net debt, defined as cash and cash equivalents and borrowings translated at 12 month average exchange rates, divided by EBITDA as defined in the Group's external facility covenants, which is the Group's adjusted operating profit adjusting for depreciation and amortisation of tangible and other intangible assets, the share of adjusted EBITDA attributable to minority interests, the annualisation of EBITDA for acquisitions and disposals made during the financial year and to remove the impact of IFRS 16 *(Leases)*. The Directors consider this metric to be an important measure of the Group's financial position.

	Note	2022 £m	2021 £m
Cash and cash equivalents	23	**41.7**	24.8
Borrowings	23	**(370.6)**	(206.2)
Re-translation at average exchange rates		**23.1**	1.6
Net debt (average exchange rates)		**(305.8)**	(179.8)
Adjusted operating profit	27.1	**191.2**	148.7
Depreciation and amortisation of tangible and other intangible assets	10,11	**11.2**	9.9
IFRS 16 impact		**1.2**	(0.5)
Minority interest share of adjusted EBITDA		**(1.1)**	(0.8)
Pro forma adjustments[1]		**10.2**	8.3
EBITDA		**212.7**	165.6
Net debt to EBITDA		**1.4x**	1.1x

1 Adjustment for annualisation of adjusted EBITDA of acquisitions and disposals.

27.7 Dividend cover

Dividend cover is adjusted earnings per share (as per note 27.3) divided by the total dividend for the year (interim and final proposed).

	Note	2022	2021
Adjusted earnings per share	8	**107.5**	85.2
Total dividend for the year (interim and final proposed)		**53.8**	42.6
Dividend cover		**2.0**	2.0

1.1 Basis of preparation

The consolidated financial statements have been prepared on a consistent basis to prior year and also under the historical cost convention, except for derivative financial instruments which are held at fair value.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Diploma PLC transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 October 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 89. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 77 to 79. In addition, pages 156 to 159 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group continues to operate against a backdrop of macroeconomic disruption, including widespread global inflation, rising interest rates and the continued uncertainty of the Covid-19 pandemic, in particular its lasting impact on global supply chains. Accordingly, the Directors have again considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described further on pages 82 to 88.

Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 18 and 23 to the consolidated financial statements. On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency revolving facility (RCF) 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 (RCF) 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 $100.0m (£89.6m) of debt. The effective fixed rate debt was 24% of total debt. Subsequent to year end, the Group has entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional $100.0m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA ratio is 1.4x, as illustrated in note 27.

As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173.3m ($193.5m) and the Group has utilised £201.0m of the revolving facility. There remains £158.7m undrawn on the revolving facility and £45.3m undrawn on the bullet term loan. Borrowings include £1.0m (2021: £0.4m) of accrued interest and the carrying amount of capitalised debt fees is £4.7m (2021: £2.8m).

As at 30 September 2021, under the SFA the Group had a drawn term loan with an aggregate principal amount of £113.5m ($153.0m) and drawings of £95.1m under the revolving facility. As at 30 September 2021 the undrawn revolving facility amount was £89.9m.

Total net debt is £398.0m (2021: £229.7m) comprising cash funds of £41.7m (2021: £24.8m), borrowings of £370.6m (2021: £206.2m), and lease liabilities of £69.1m (2021: £48.3m). Bank covenants are tested against net debt funds only (i.e. excluding lease liabilities).

Financial modelling

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business by business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep declines in revenues and operating margins as well as materially adverse working capital movements. These sensitivities model a continued unfavourable impact from a prolonged downturn in the economy.

The purpose of this exercise is to consider if there is a significant risk that the Group could breach either its facility headroom or financial covenants. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

Going concern basis

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

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries and Employee Benefit Trust (EBT)). Control exists when the Company is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assets, liabilities and results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

1.2.a. New accounting standards adopted

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

1.3 Acquisitions

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

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

1.4 Divestments

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

1.5 Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable for goods and services supplied to customers, after deducting sales allowances and value-added taxes; revenue receivable for services supplied to customers, as opposed to goods, is less than ca. 3% of Group revenue. Under IFRS 15, each customer contract is assessed to identify the performance obligation. An assessment of the timing of revenue recognition is made for each performance obligation. Revenue is recognised at a point in time for all standard revenue transactions when control of the goods provided is transferred to the customer. Revenue is also recognised at a point in time for contracts that contain multiple elements (service contracts) when the agreed output is produced by the customer, unless there are specific performance obligations to deliver other services over time. The revenue on such service contracts is not material in the context of the Group's total revenue.

The transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services provided. If a stand-alone selling price is not available, the Group will estimate the selling price with reference to the price that would be charged for the goods or services if they were sold separately. There are no contracts with variable consideration.

Provision is made for returns and in the few instances where rebates are provided. There are no capitalised contract costs recognised by the Group.

1.6 Employee benefits

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

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

b) Defined benefit pension plan: The deficit/asset recognised in the balance sheet for the Group's defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation/asset is calculated by independent actuaries using the projected unit cost method and by discounting the estimated future cash flows using interest rates on high-quality corporate bonds. The pension expense for the Group's defined benefit plan is recognised as follows:

i) Within the Consolidated Income Statement:
- Service cost of current members of the Kubo Scheme.
- Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised in operating profit.
- Any interest cost on the net deficit of the plan – calculated by applying the discount rate to the net defined benefit liability at the start of the annual reporting period.

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

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

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

1.7 Foreign currencies

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into UK sterling, which is the presentational currency of the Group.

a) Reporting foreign currency transactions in functional currency: Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:
   i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Consolidated Income Statement.
   ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated.
   iii) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and conversely, where a gain or loss on a non-monetary item is recognised in the Consolidated Income Statement, any exchange component of that gain or loss is also recognised in the Consolidated Income Statement.

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

c) Net investment in foreign operations:
   Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the Consolidated Income Statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated financial statements such exchange differences are initially recognised in Other Comprehensive Income as a separate component of equity and subsequently recognised in the Consolidated Income Statement on disposal of the net investment.

1.8 Taxation

The tax expense relates to the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year, which differs from profit before taxation as reported in the Consolidated Income Statement. Taxable profit excludes items of income and expense that are taxable (or deductible) in other years and also excludes items that are never taxable or deductible. The Group's liability for current tax, including UK corporation tax and overseas tax, is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences arise primarily from the recognition of the deficit on the Group's defined benefit pension scheme, the difference between accelerated capital allowances and depreciation and for short-term timing differences where a provision held against receivables or inventory is not deductible for taxation purposes. However, deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit, nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the Consolidated Income Statement, except when the item on which the tax or charge is credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Tax assets and liabilities are offset when there is a legally enforceable right to enforce current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. All repairs and maintenance expenditure is charged to the Consolidated Income Statement in the period in which it is incurred.

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment begins when the asset is available for use and is charged to the Consolidated Income Statement on a straight-line basis to write off the cost, less residual value of the asset, over its estimated useful life as follows:

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

The depreciation method used, residual values and estimated useful lives are reviewed and changed, if appropriate, at least at each financial year end. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses arising on disposals are determined by comparing sales proceeds with carrying amount and are recognised in the Consolidated Income Statement.

1.10 Intangible assets

All intangible assets, excluding goodwill arising on a business combination, are stated at their amortised cost or fair value at initial recognition less any provision for impairment. Amortisation of intangible assets is recognised as an administration cost.

a) Research and development costs

Research expenditure is written off as incurred. Development costs are written off as incurred unless forecast revenues for a particular project exceed attributable forecast development costs in which case they are capitalised and amortised on a straight-line basis over the asset's estimated useful life. Costs are capitalised as intangible assets unless physical assets, such as tooling, exist when they are classified as property, plant and equipment.

b) Computer software costs

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised as other intangible assets. Amortisation is provided on a straight-line basis over its useful economic life of between three and seven years.

c) Acquired intangible assets – business combinations

Intangible assets that may be acquired as a result of a business combination, include, but are not limited to, customer lists, supplier lists, databases, technology and software and patents that can be separately measured at fair value, on a reliable basis, are separately recognised on acquisition at the fair value, together with the associated deferred tax liability. Amortisation is charged on a straight-line basis to the Consolidated Income Statement over the expected useful economic lives.

Fair values of customer and supplier relationships on larger acquisitions are valued using a discounted cash flow model; databases are valued using a replacement cost model. For smaller acquisitions, intangible assets are assessed using historical experience of similar transactions.

d) Goodwill – business combinations

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of the consideration over the aggregate fair value of the identifiable intangible, tangible and current assets and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Transaction costs are expensed and are not included in the cost of acquisition.

1.11 Impairment of tangible and intangible assets

An impairment loss is recognised to the extent that the carrying amount of an asset or a CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the higher of: (i) its fair value less costs to sell; and (ii) its value in use. Its value in use is the present value of the future cash flows expected to be derived from the asset or CGU, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Impairment losses are recognised immediately in the Consolidated Income Statement.

a) Impairment of goodwill

Goodwill acquired in a business combination is allocated to a CGU; CGUs for this purpose are the Group's three Sectors which represent the lowest level within the Group at which the goodwill is monitored by the Group's Board of Directors for internal and management purposes. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the goodwill attributable to the CGU. Impairment losses cannot be subsequently reversed.

b) Impairment of other tangible and intangible assets

Other tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses and any subsequent reversals are recognised in the Consolidated Income Statement.

1.12 Inventories

Inventories are stated at the lower of cost (generally calculated on a FIFO or weighted average cost basis depending on the nature of the inventory) and net realisable value, after making due allowance for any obsolete or slow moving inventory. Cost comprises direct materials, duty and freight-in costs.

Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

1.13 Financial instruments

Financial assets and liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument.

a) Trade receivables and loss allowance
Trade receivables are initially measured at fair value, do not carry any interest and are reduced by a charge for impairment for estimated irrecoverable amounts. Such impairment losses are recognised in the Consolidated Income Statement, calculated under IFRS 9 (see note 1.2(a)).

b) Trade payables
Trade payables are non-interest bearing and are initially measured at their nominal value.

c) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, interest bearing deposits, bank overdrafts and short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are repayable on demand and can form an integral part of the Group's cash management. Bank overdrafts (where used) are presented net of cash and cash equivalents on the balance sheet.

d) Put options held by minority interests
The purchase price of shares to be acquired under options held by minority shareholders in the Group's subsidiaries are calculated by reference to the estimated profitability of the relevant subsidiary at the time of exercise, using a multiple based formula. The net present value of the estimated future payments under these put options is shown as a financial liability. The corresponding entry is recognised in equity as a deduction against retained earnings. At the end of each year, the estimate of the financial liability is reassessed and any change in value is recognised in the Consolidated Income Statement, as part of finance income or expense. Where the liability is in a foreign currency, any change in the value of the liability resulting from changes in exchange rates is recognised in the Consolidated Income Statement.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequent changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the hedging reserve and in Other Comprehensive Income and are reclassified to profit or loss on maturity of the derivative. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in accordance with IAS 39 are recognised immediately in the Consolidated Income Statement.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

No derivative contracts have been designated as fair value hedges or net investment hedges.

f) Borrowings
Borrowings are initially recognised at the fair value of the consideration received. They are subsequently measured at amortised cost. Borrowings are classified as non-current when the repayment date is more than 12 months from the period end date or where they are drawn on a facility with more than 12 months to expiry.

1.14 Investments (fair value through Other Comprehensive Income)
The investments held by the Group comprise equity shares which are not held for the purposes of equity trading and in accordance with IFRS 9 is classified as fair value through Other Comprehensive Income. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in Other Comprehensive Income.

1.15 Leases
The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, being the initial amount of the lease liability adjusted for any lease payments made at or before commencement date.

Lease liabilities are recorded at the present value of lease payments. Leases are discounted at the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, or useful life if shorter.

Interest is recognised on the lease liability, resulting in a higher finance cost in the earlier years of the lease term.

Lease payments relating to low value assets or to short-term leases are recognised as an expense on a straight-line basis over the lease term. Short-term leases are those with 12 months or less duration.

1.16 Other liabilities
Other liabilities are recognised when the Group has legal or constructive obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Other liabilities are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

1.17 Dividends
The annual final dividend is not provided for until approved at the AGM; interim dividends are charged in the period they are paid.

1.18 Share capital and reserves
Ordinary shares are classified as equity and details of the Group's share capital is disclosed in note (e) of the Parent Company's financial statements. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The Group also maintains the following reserves:

a) Translation reserve – The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign businesses.

b) Hedging reserve – The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

c) Retained earnings reserve – The retained earnings reserve comprises total cumulative recognised income and expense attributable to shareholders. Bonus issues of share capital and dividends to shareholders are also charged directly to this reserve. In addition, the cost of acquiring shares in the Company and the liability to provide those shares to employees, is accounted for in this reserve.

Where any Group company purchases the Company's equity share capital and holds that share either directly as treasury shares or indirectly within an ESOP trust, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. These shares are used to satisfy share awards granted to Directors under the Group's share schemes. The Trustee purchases the Company's shares on the open market using loans made by the Company or a subsidiary of the Company.

1.19 Related parties

There are no related party transactions (other than with key management) that are required to be disclosed in accordance with IAS 24. Details of their remuneration are given in note 4 to the consolidated financial statements.

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

The IASB has published a number of new IFRS standards, amendments and interpretations to existing standards which are not yet effective, but will be mandatory for the Group's accounting periods beginning on or after 1 October 2021. An assessment of the impact of these new standards and interpretations is set out below:

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
Reference to the Conceptual Framework – Amendments to IFRS 3

The Group does not anticipate that the adoption of these standards and interpretations that are effective for the year ending September 2023 will have a material effect on its financial statements.

1.21 Significant accounting estimates and critical judgements

The preparation of the Group's consolidated financial statements requires management to make critical accounting judgements, assumptions or estimates with regard to assets or liabilities that could potentially have a material adjustment to the carrying amount of assets or liabilities in the next 12 months.

1.21.1 Acquisition accounting (estimate)

Acquisition accounting is a significant accounting estimate.

When the Group makes an acquisition it recognises the identifiable assets and liabilities, including intangible assets, at fair value with the difference between the fair value of net assets acquired and the fair value of consideration paid comprising goodwill. Acquisitions are accounted for using the acquisition method as described in the Group Accounting Policies. The key assumptions and estimates used to determine the valuation of intangible assets acquired are the forecast cash flows, the discount rate and customer/supplier attrition. Customer and supplier relationships are valued using an excess earnings cash flow model. Acquisitions often comprise an element of deferred consideration and may include a minority interest, which are subject to put options. These put options are valued at fair value at the date of acquisition. Deferred consideration is fair valued based on the Directors' estimate of future performance of the acquired entity.

The significant assumptions in valuing the R&G and Accuscience intangible assets, which were acquired in the year, together with the sensitivity analysis, are set out below.

	R&G	Accuscience
Discount rate + 1% (all intangibles)	ca. £(2)m	ca. £(2)m
Revenue growth rate +1% (all intangibles)	ca. £2m	ca. £3m
Customer attrition rate +1% (customer relationships)	ca. £(2)m	ca. £(2)m

Management are also required to make judgements, assumptions and estimates relating to certain assets and liabilities that could potentially have a material impact over the longer term. These relate to:

1.21.2 Goodwill impairment (estimate)

The Group has material amounts of goodwill and intangible assets (principally customer and supplier relationships) recognised in the Consolidated Statement of Financial Position. As set out in note 1.11 of the Group Accounting Policies, goodwill is tested annually to determine if there is any indication of impairment. Assumptions are used to determine the recoverable amount of each CGU, principally based on the present value of estimated future cash flows to derive the 'value in use' to the Group of the capitalised goodwill. The key estimates made and assumptions used in performing impairment testing this year are set out in note 10 to the consolidated financial statements.

1.21.3 Inventory provisions (estimate)

Inventories are stated at the lower of cost and net realisable value as set out in note 1.12 of the Group Accounting Policies. In the course of normal trading activities, estimates are used to establish the net realisable value of inventory and impairment charges are made for obsolete or slow-moving inventories and against excess inventories.

The decision to make an impairment charge is based on a number of factors including management's assessment of the current trading environment, aged profiles and historical usage and other matters which are relevant at the time the consolidated financial statements are approved.

1.21.4 Defined benefit pension (estimate)

Defined benefit pensions are accounted for as set out in note 1.6 of the Group Accounting Policies. Determining the value of the future defined benefit obligation requires estimates in respect of the assumptions used to calculate present values. These include discount rate, future mortality and inflation rate. Management makes these estimates in consultation with an independent actuary. For the year ended 30 September 2022, the Defined benefit pension obligation is an asset rather than an obligation due to the increase in the discount rate. Detail of the estimates and key sensitivities made in calculating the defined benefit asset at 30 September 2022 are set out in note 25 to the consolidated financial statements.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	d	**297.2**	297.2
Debtors: amounts falling due within one year			
Amounts owed by Group undertakings		**35.8**	-
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		**–**	(34.7)
Net assets		**333.0**	262.5
Capital and reserves			
Called up share capital	e	**6.3**	6.3
Share premium		**188.6**	188.6
Profit and loss account[1]		**138.1**	67.6
Total shareholders' equity		**333.0**	262.5

1 Includes profit after tax for the year of £125.5m (2021: £69.6m).

The financial statements of Diploma PLC and the notes on 176 to 178, which form part of these financial statements, company number 3899848, were approved by the Board of Directors on 21 November 2022 and signed on its behalf by:

JD Thomson
Chief Executive Officer

C Davies
Chief Financial Officer

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total shareholders' equity £m
At 1 October 2020		6.3	188.6	50.4	**245.3**
Total Comprehensive Income	a	–	–	69.6	**69.6**
Dividends paid	f	–	–	(52.9)	**(52.9)**
Settlement of LTIP awards	e	–	–	0.5	**0.5**
At 30 September 2021		6.3	188.6	67.6	**262.5**
Total Comprehensive Income	a	–	–	125.5	**125.5**
Dividends paid	f	–	–	(56.2)	**(56.2)**
Settlement of LTIP awards		–	–	1.2	**1.2**
At 30 September 2022		**6.3**	**188.6**	**138.1**	**333.0**

a) Accounting policies

a.1) Basis of accounting

The Parent Company Financial Statements (the Financial Statements) have been prepared consistently in accordance with the Companies Act 2006 and FRS 101 (Reduced Disclosures Framework). The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. The Financial Statements, which are prepared on a historical cost basis, are presented in UK sterling and all values are rounded to the nearest 100,000 except when otherwise indicated.

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, and registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10-11 Charterhouse Square, London EC1M 6EE. The financial statements were authorised by the Directors for publication on 21 November 2022.

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

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

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

a.2) Total Comprehensive Income

Total Comprehensive Income comprises dividends received from subsidiaries, interest payable on inter-company balances at the UK base rate, plus 1.5% and that are repayable on demand.

a.3) Dividend income

Dividend income is recognised when received. Final dividend distributions are recognised in the Company's Financial Statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

a.4) Diploma PLC Employment Benefit Trust and employee share schemes

Shares held by the Diploma PLC Employee Benefit Trust (the Trust) are stated at cost and accounted for as a deduction from shareholders' equity in accordance with IAS 32, as applied by FRS 101. Shares that are held by the Trust are not eligible for dividends until such time as the awards have vested and options have been exercised by the participants.

a.5) Auditors' remuneration

Fees payable to the auditors for the audit of the Company's financial statements of £3,500 (2021: £3,500) were borne by a fellow Group undertaking.

b) Directors' and employees' remuneration

No remuneration is paid directly by the Company; information on the Directors' remuneration (which is paid by a subsidiary company) and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 114 to 138 and note 4 to the Consolidated Financial Statements on page 148. The Company had no employees (2021: none).

c) Company profit and loss account

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

d) Investments

	2022 £m	2021 £m
Shares in Group undertakings held at cost		
At 30 September	**297.2**	297.2

A full list of subsidiary and other related undertakings is set out on pages 187 to 189. Investments in subsidiaries are reviewed annually to see if there are any indicators of impairment. There were none (2021: none).

e) Called up share capital

	2022 Number	2021 Number	2022 £m	2021 £m
Issued, authorised and fully paid ordinary shares of 5p each				
At 30 September	**124,616,170**	124,563,515	**6.3**	6.3

During the year, 72,262 ordinary shares in the Company (2021: 27,914) were transferred from the Trust to participants on an after income tax basis in connection with the exercise of options in respect of awards which had vested under the 2011 Long-Term Incentive Plan, as set out in the Remuneration Committee Report.

At 30 September 2022, the Trust held 71,033 (2021: 90,640) ordinary shares in the Company representing 0.1% of the called up share capital. The market value of the shares at 30 September 2022 was £1.7m (2021: £2.6m).

f) Dividends
Details in respect of dividends proposed and paid during the year by the Company are included in note 7 to the consolidated financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- Diploma PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report (the "Annual Report"), which comprise: the Consolidated and Parent Company Statements of Financial Position as at 30 September 2022; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 25, we have provided no non-audit services to the Parent Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Group is split into three Sectors (Life Sciences, Seals and Controls) and we have conducted audit work across all of them. Through our full scope component audits, audit of the consolidation and additional audit procedures performed at a Group level we have achieved coverage of 75% (2021:79%) of Group profit before tax and 75% (2021: 77%) of Group revenue.

Key audit matters

- Valuation of the intangibles for the R&G and Accuscience acquisitions (Group)
- Carrying value of investments in subsidiaries (parent)

Materiality

- Overall Group materiality: £6.2m (2021: £4.8m) based on approximately 5% of profit before tax.
- Overall Parent Company materiality: £3.3m (2021: £3.0m) based on 1% of total assets.
- Performance materiality: £4.7m (2021: £3.6m) (Group) and: £2.5m (2021: £2.2m) (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Carrying value of investments in subsidiaries (Parent Company) and Valuation of the intangibles for the R&G and Accuscience acquisitions (Group) are new key audit matters this year. Provision for impairment of inventories – Controls Sector (Group) and Accounting for the Windy City Wire acquisition (intangibles valuation)(Group), which were key audit matters last year, are no longer included because of the reduced impact of COVID-19 on the industries in which the Controls Sector operates and there is no significant risk associated with the ongoing accounting for, or valuation of, the Windy City Wire intangibles.

Key audit matter	How our audit addressed the key audit matter
Valuation of the intangibles for the R&G and Accuscience acquisitions (Group) Refer to page 175 Significant accounting estimates and critical judgements (Acquisition accounting) and note 21 (Acquisitions and disposals of businesses) within the Group consolidated financial statements. The Group acquired R&G and Accuscience businesses for a consideration of £142.2m. Acquired intangible assets of £80.7m were identified and recognised in respect of these acquisitions. These included customer relationships (£77.0m), and brands (£3.7m). We have identified a significant risk associated with the valuation of the intangibles due to the magnitude of the acquisitions, the significant level of estimation involved in determining the fair value of the acquired intangibles and their sensitivity to changes in key assumptions. The valuation of the identifiable intangible assets requires management estimation as it is dependent on a number of key assumptions including forecast revenue growth rates, discount rates and average historical customer attrition rates. In considering such assumptions, there is an inherent level of estimation uncertainty and subjectivity.	Procedures undertaken to address the significant risk identified in respect of the valuation of the acquired intangibles include: We validated the mathematical accuracy of management's models and appropriateness of the methodologies used to determine the fair values, with support from our internal valuation experts. We obtained an understanding of the assumptions used to determine these estimates and identified the following key assumptions: – Discount rates: We engaged our valuation experts to corroborate the reasonableness of the discount rates using comparable market data, for example discount rates of other companies in similar industries. – Forecast revenue growth rates and margins: We compared the assumptions in respect of forecast revenue growth rates and margins to historical trading experience and the actual trading performance of the businesses post acquisition. In addition, we compared the forecasts used in the valuations to the Board approved budgets, the three year forecast and comparable companies. – Customer attrition rates: In respect of the customer relationship intangible assets, we corroborated the customer attrition rate assumptions and forecast cash flows. We compared the assumptions in respect of forecast cash flows to historical customer sales, we engaged our valuation experts to assist in the evaluation of the methodology used by management. From our procedures we concluded that management's estimate of the fair values of the acquired intangibles are appropriate.
Carrying value of investments in subsidiaries (Parent Company) At the balance sheet date, the Parent Company had investments in subsidiaries of £297.2m (2021: £297.2m). Refer to the Parent Company Statement of Financial Position and note d within the Parent Company financial statements. We have focused our audit efforts on this balance given the significance of it. The carrying amount of the Parent Company's investments in subsidiaries represents 89% of the Parent Company's total assets (2021: 100%). Given the trading performance of the underlying subsidiary investments, we do not consider the valuation of these investments to be at a high risk of material misstatement or to be subject to a significant level of impairment judgement/ estimation. However, due to their materiality in the context of the Parent Company financial statements as a whole, it is considered to be the area on which the most audit effort is focused for the Parent Company.	We checked that the net assets on the balance sheets of the individual investments were in excess of the carrying value of the Parent Company's investment in those subsidiaries. In addition, our work performed through the audit did not identify any other impairment indicators regarding the recoverability of the carrying value of those investments at the balance sheet date. We have no issues to report in respect of this work.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is focused on three core Sectors (Life Sciences, Seals and Controls) with operations primarily geographically located in Australia, Canada, the USA, the UK and Continental Europe. Within the aforementioned Sectors are a number of businesses / management reporting entities which are consolidated by Group management. The financial statements are a consolidation of multiple reporting components representing the operating businesses within these three core Sectors. Our audit scope was determined by considering the significance of each component's contribution to profit before tax and contribution to individual financial statement line items, with specific consideration to obtaining sufficient coverage over significant risks and other areas of higher risk. We identified 20 financial reporting components across eight countries for which we determined that full scope audits would need to be performed. Through our full scope audits, the audit of the consolidation and other audit procedures performed at a Group level, we have achieved coverage of 75% of the Group's profit before tax and 75% of the Group's revenue, giving us the evidence we needed for our opinion on the financial statements as a whole.

The reporting components, excluding those audited by the Group engagement team, were audited by eight component teams. The Group engagement team attended audit clearance meetings via video conference or in-person, met with management from certain UK, USA and Canada businesses and discussed the audit approach and audit findings with all reporting component teams. Our attendance at the clearance meetings, reviews of the component team reporting, and review and discussion of the audit working papers of a number of overseas locations, together with the additional procedures performed at Group level, gave us the evidence we needed for our opinion on the financial statements as a whole. Our audit procedures at the Group level included the audit of the consolidation, fair value adjustments and intangible asset valuations on acquisitions, goodwill and investment impairment trigger assessments, UK pensions and certain tax procedures. The Group engagement team also performed the audit of the Parent Company and five UK components.

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group and Parent Company financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact due to the Group's decentralised and diverse nature and agility to adapt to changing end markets. We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management and used in their impairment and going concern analysis. We discussed with management the ways in which climate change disclosures should continue to evolve as the Group continues to develop its response to the impact of climate change. We also considered the consistency of disclosures in relation to climate change contained in the other information within the Annual Report to the financial statements and our knowledge from our audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Parent Company
Overall materiality	£6.2m (2021: £4.8m).	£ 3.3m (2021: £3.0m).
How we determined it	Approximately 5% of Profit before tax	1% of Total assets
Rationale for benchmark applied	An appropriate measure for a listed group and one of the key measures used by the shareholders in assessing the statutory performance of the Group.	A typical measure used by shareholders in assessing the performance of a holding company and a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.4m and £5.6m. Certain components were audited to a local statutory audit materiality that was also less than our allocated component materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £4.7m (2021: £3.6m) for the Group financial statements and £2.5m (2021: £2.2m) for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £312,000 (Group audit) (2021: £250,000) and £165,000 (Parent Company audit) (2021: £149,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's going concern assessment to ensure it was based upon the latest Board approved forecasts and that the cash flow assumptions were consistent with our understanding of the outlook for the Group's businesses and the wider market;
- Testing the mathematical accuracy of the model;
- Corroborating key model inputs with other procedures performed over the course of the audit;
- Discussing conclusions with management across the business to ensure consistency and gain perspective on the developments within the business;
- Comparison of the prior year forecasts against current year actual performance to assess management's ability to forecast accurately; and
- Reviewing the latest signed financing agreements to validate covenants used in the modelling and the timing of debt maturities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Parent Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities for preparing the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK Listing Rules, the Companies Act 2006 and indirect and direct tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent journal entries to manipulate the financial performance and management bias in significant accounting estimates, in order to achieve management incentive scheme targets and market consensus. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- enquiring of Group and local management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of internal audit reports in so far as they related to the financial statements;
- inspecting management reports and Board minutes
- challenging assumptions and judgements made by management in their accounting estimates, including the inventory provision
- reviewing selected component auditors' work
- incorporating elements of unpredictability into our work
- identifying and testing journal entries, including those posted with unusual account combinations; and
- reviewing financial statement disclosures and testing these to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 March 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 30 September 2018 to 30 September 2022.

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

SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*
Seals	
HB Sealing Products, Inc.	D
HKX, Inc.	E
RTD Seals Corp.	C
VSP Technologies, Inc.	C
HB Sealing Products Limited	Q
M Seals A/S (90% owned)	M
M Seals AB (90% owned)	N
M Seals UK Limited[2]	A
Edco Seal and Supply Limited[1]	A
Diploma (Tianjin) Trading Co. Limited	V
Diploma CCA Limited[1]	A
FPE Seals Limited[2]	A
DMR Seals (Holdings) Limited[2]	A
DMR Gaskets Limited[2]	A
DMR Seals Limited[2]	A
A.B. Seals Limited[1]	A
Swan Seals (Aberdeen) Limited[1]	A
FPE Seals BV	J
Kubo Tech AG	K
Kubo Tech GmbH	L
PumpNSeal Australia Pty Limited	R
TotalSeal Group Australia Pty Limited	S
TotalSeal New Caledonia SAS	U
Fitt Management Pty Limited	AB
Fitt Resources Pty Limited	AB
Fitt Trading Pty Limited	AB
Merseyflex Limited[2] & (98% owned)	A
R&G Investments Limited[2] & (98% owned)	A
One Stop Fluid Power Limited[2] & (98% owned)	A
Pearson Hose & Hydraulics Limited[2] & (98% owned)	A
Northern Hose & Hydraulics Limited[1] & (98% owned)	A
Exeter Hose & Hydraulics Limited[2] & (98% owned)	A
North Devon Hose & Hydraulics Limited[2] & (98% owned)	A
Pressurelines Hose & Hydraulics Limited[2] & (98% owned)	A
Somerset Hose & Hydraulics Limited[2] & (98% owned)	A
West Cornwall Hose & Hydraulics Limited[2] & (98% owned)	A
Pearson Hydraulics Limited[2] & (98% owned)	A
Henry Gallacher Limited[2] & (98% owned)	A
Fluidair Power Limited[2] & (98% owned)	A
GHS Limited[2] & (98% owned)	A
Global Hydraulic Services Limited[2] & (98% owned)	A
Pennine Pneumatic Services Limited[2] & (88.5% owned)	A
Compcon Limited[2] & (88.5% owned)	A
Norman Walker (Machinery) Limited[2] & (88.5% owned)	A
Rubberfast Limited[2] & (98% owned)	A
Rubberlast Group Limited[2] & (98% owned)	A
Hydraulic & Offshore Supplies Limited[2] & (98% owned)	A
Lancashire Hose and Fittings Limited[2] & (98% owned)	A
Hyphose Limited[2] & (98% owned)	A
AMG Sealing Limited[2] & (98% owned)	A
Hydraproducts Limited[2] & (98% owned)	A
Century Hose Limited[2] & (98% owned)	A
Flexicon Industrial Supplies Limited[2] & (98% owned)	A
Integraflex Limited[2] & (98% owned)	A
Intrico Products[1] & (98% owned)	A

	Registered office address*
Hose & Hydraulics Group Limited[2] & (98% owned)	A
Grimsby Hydraulic Services Limited[2] & (98% owned)	A
Pneumatic Services Limited[2] & (88.5% owned)	A
AMG (Brighouse) Limited[2] & (98% owned)	A
Millennium Coupling Company Limited[2] & (98% owned)	A
Fluid Power Products Limited[1] & (98% owned)	A
Industrial Hose & Pipe Fittings Limited[2] & (98% owned)	A
Millennium Engineering (2012) Limited[2] & (98% owned)	A
Anti-Corrosion Technology Pty Limited	AH

SUBSIDIARIES OF DIPLOMA PLC
CONTINUED

Controls	Registered office address*
IS-Rayfast Limited	A
IS-Motorsport, Inc.	C
Amfast Limited[1]	A
Clarendon Specialty Fasteners Limited	A
Clarendon Specialty Fasteners (Asia) Limited	X
Clarendon Specialty Fasteners, Inc.	B
Clarendon Engineering Supplies Limited[1]	A
Clarendon Speciality Fasteners GmbH	Y
Cabletec Interconnect Component Systems Limited[1]	A
Sommer GmbH	G
Filcon Electronic GmbH	H
Actios SAS	O
Gremtek SAS	O
Gremco UK Limited[1]	A
Gremtek GmbH[1]	I
Ascome SARL	O
Cablecraft Limited[1]	A
Birch Valley Plastics Limited[1]	A
Krempfast Limited[2]	A
Betaduct Limited[1]	A
Hawco Limited	A
Abbeychart Limited[1]	A
HA Wainwright Limited[1]	A
Hawco Refrigeration Limited[1]	A
Hawco, Inc.	C
Microtherm UK Limited[1]	A
IS Group (Europe) Limited[1]	A
Specialty Fasteners Limited[1]	A
Specialty Fasteners & Components Limited[1]	A
FSC UK Limited[1]	A
FS Cables Limited[1]	A
FSC Global Limited[1]	A
Caplink Limited[1]	A
Shoal Group Limited	A
Specialised Wiring Accessories Limited[2]	A
M-Tec Limited[1 & (95% owned)]	A
Techsil Limited[2 & (95% owned)]	A
Glueline Limited[1 & (95% owned)]	A
Twist Acquisitions, LLC	Z
WCW Intermediate Holdings LLC	Z
Windy City Wire Cable & Technology Products LLC	Z
LJR Electronics LLC	AG
Buy Deutsch Connectors, LLC	AG

Life Sciences	Registered office address*
Somagen Diagnostics Inc.	F
AMT Electrosurgery Inc.	P
Vantage Endoscopy Inc.	P
Big Green Surgical Company Pty Limited	R
Diagnostic Solutions Pty Limited	R
Sphere Surgical Pty Limited	R
Aspire Surgical Pty Limited	R
Big Green Surgical NZ Limited	T
Techno-Path (Distribution) Limited	W
Abacus dx Pty Limited	R
Abacus dx Limited	T
Simonsen and Weel A/S	AC
Simonsen and Weel AB	AA
Kungshusen Medicinska AB	AD
Accu-Science Ireland Limited	AF
Medilink Services (NI) Limited[2]	AE

	Registered office address*
Intermediate holding companies	
Diploma Holdings PLC	A
Diploma Holdings, Inc.	C
Pride Limited[2]	A
Diploma Australia Holdings Limited[2]	A
Diploma Canada Holdings Limited[2]	A
Diploma Overseas Limited	A
Napier Group Limited	A
Williamson, Cliff Limited[2]	A
Diploma One Limited[1]	A
Diploma Two Limited[1]	A
Newlandglebe Limited[2]	A
Diploma Holding Germany GmbH	G
Diploma Canada Healthcare Inc.	F
Diploma Australia Healthcare Pty Limited	R
Diploma Australia Seals Pty Limited	R
Techsil Group Holdings Limited[2 & (95% owned)]	A
Techsil Holdings Limited[2 & (95% owned)]	A
R&G Fluid Power Holdings Limited[2]	A
R&G Fluid Power Group Limited[2 & (98% owned)]	A

1 Dormant company.
2 These subsidiaries, which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act, with Diploma PLC providing the relevant guarantee.

All subsidiaries are wholly owned, except where otherwise indicated.

All subsidiaries are owned through ordinary shares.

* Registered office address shown overleaf

A 10-11 Charterhouse Square, London, EC1M 6EE, UK.
B 5716 Corsa Avenue, Ste 110, Westlake Village, CA 91362-7354, USA.
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H Rotwandweg 5, D-82024, Taufkirchen/München, Germany.
I 20-24 Robert Bosch Strasse, 25451 Quickborn, Germany.
J Industrieterrein Dombosch 1, Elftweg 38, 4941 VP Raamsdonksveer, the Netherlands.
K Im Langhag 5, 8307 Illnau-Effretikon, Switzerland.
L Gewerbeallee 12a, 4221 Steyregg, Austria.
M Bybjergvej 13, DK 3060, Espergaerde, Denmark.
N Industrivagen 17, SE-302, 41 Halmstad, Sweden.
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AD Kikarvägen 14, 647 35 Mariefred, Sweden.
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AF Unit C3, M7 Business Park, Newhall, NAAS Kildare, Ireland
AG 2072 Byers Rd, Miamisburg, OH, 45342-1167, United States
AH 3/13 Selhurst St, BRISBANE QLD 4108, Australia

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

Q1 Trading Update released	18 January 2023
Annual General Meeting (2022)	18 January 2023
Half Year Results announced	15 May 2023
Q3 Trading Update released	20 July 2023
Preliminary Results announced	20 November 2023
Annual Report posted to shareholders	8 December 2023
Annual General Meeting (2023)	17 January 2024

Dividends (provisional dates)

Interim announced	15 May 2023
Paid	5 June 2023
Final announced	20 November 2023
Paid (if approved)	February 2024

Annual Report & Accounts

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

Share Registrar

Computershare Investor Services PLC
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Bristol BS99 6ZZ
Telephone: 0370 7020010

Its website for shareholder enquiries is:
www.computershare.co.uk

Shareholders' enquiries

If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

Group Company Secretary and Registered Office

John Morrison Solicitor
10-11 Charterhouse Square
London EC1M 6EE
Telephone: 020 7549 5700

Registered in England and Wales, number 3899848.

Website

Diploma's website is www.diplomaplc.com

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City Corporate Banking Centre
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FIVE YEAR RECORD

Year ended 30 September	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	**1,012.8**	787.4	538.4	544.7	485.1
Adjusted operating profit	**191.2**	148.7	87.1	97.2	84.9
Net interest and similar charges	**(11.6)**	(6.8)	(2.7)	(0.7)	(0.1)
Adjusted profit before tax	**179.6**	141.9	84.4	96.5	84.8
Acquisition related and other charges[1]	**(46.9)**	(44.4)	(17.3)	(13.1)	(11.7)
Fair value remeasurements	**(3.2)**	(0.9)	(0.4)	0.1	(0.4)
Profit before tax	**129.5**	96.6	66.7	83.5	72.7
Tax expense	**(34.1)**	(26.9)	(16.9)	(21.1)	(18.3)
Profit for the year	**95.4**	69.7	49.8	62.4	54.4
Capital structure					
Equity shareholders' funds	**662.0**	536.3	527.0	321.3	291.2
Minority interest	**6.2**	4.7	3.7	3.3	3.1
Add/(deduct): cash and cash equivalents	**(41.7)**	(24.8)	(206.8)	(27.0)	(36.0)
borrowings	**370.6**	206.2	–	42.1	–
retirement benefit (asset) / obligations	**(6.4)**	4.9	18.3	17.8	10.5
net acquisition related liabilities[2]	**29.6**	23.7	11.5	11.3	5.6
deferred tax, net	**38.2**	21.9	7.9	8.3	8.4
Reported trading capital employed	**1,058.5**	772.9	361.6	377.1	282.8
Add: historic goodwill and acquisition related charges, net of deferred tax and currency movements	**99.6**	129.6	99.4	84.3	74.6
Adjusted trading capital employed	**1,158.1**	902.5	461.0	461.4	357.4
Net (decrease)/increase in net (debt)/funds	**(113.8)**	(395.5)	224.0	(51.9)	13.1
Add: dividends paid	**56.4**	53.2	23.4	30.1	27.0
acquisition of businesses (including minority interests), net of disposals	**177.8**	450.5	14.9	78.3	20.4
proceeds from issue of share capital (net of fees)	**–**	0.6	(189.8)	–	–
Free cash flow[3]	**120.4**	108.8	72.5	56.5	60.5
Per ordinary share (p)					
Basic earnings	**76.1**	56.1	43.5	54.7	47.5
Adjusted earnings[4]	**107.5**	85.2	56.4	64.3	56.4
Free cash flow[3]	**96.7**	87.4	64.0	49.9	53.5
Dividends	**53.8**	42.6	30.0	29.0	25.5
Total shareholders' equity[5]	**532**	431	423	284	257
Dividend cover[6]	**2.0**	2.0	1.9	2.2	2.2
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed (ROATCE)[7]	**17.3**	17.4	19.1	22.9	24.5
Working capital: revenue	**15.6**	15.8	16.0	16.5	15.1
Adjusted operating margin	**18.9**	18.9	16.2	17.8	17.5

1 Acquisition related and other charges comprise the amortisation and impairment of acquisition intangible assets, acquisition expenses, adjustments to deferred consideration, profits/losses on disposal of businesses and other one-off costs.
2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.
3 Free cash flow is defined in note 27 to the consolidated financial statements. Free cash flow per share is the free cash flow balance divided by the weighted average number of ordinary shares in issue during the year.
4 Adjusted earnings per share is calculated in accordance with note 8 to the consolidated financial statements.
5 Total shareholders' equity per share has been calculated by dividing equity shareholders' funds by the number of ordinary shares in issue at the year end.
6 Dividend cover is calculated on adjusted earnings as defined in note 27 to the consolidated financial statements.
7 ROATCE represents adjusted operating profit, before acquisition related charges (adjusted for the full year effect of acquisitions and disposals), as a percentage of adjusted trading capital employed. Trading capital employed and adjusted trading capital employed are calculated as defined in note 27 to the consolidated financial statements.

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