

Registered in England and Wales
Company Registration No: 3899848

DIPLOMA DELIVERS

DIPLOMA PLC

Annual Report 2022

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EVERYTHING WE DO IS
DRIVEN BY OUR PURPOSE

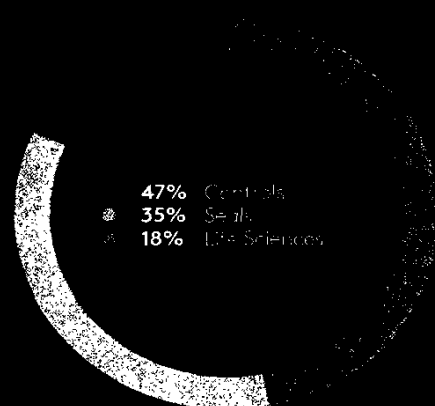
**Our purpose is
to consistently
deliver value
and reward our
stakeholders
by making a
difference to our
colleagues, our
customers and
suppliers, and
our communities.**

DIPLOMA AT A GLANCE

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

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

OUR SECTORS (REVENUE)*



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



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



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

REVENUE BY GEOGRAPHY*



* Figures are based on revenue for the year ended 31 March 2022 and are not necessarily comparable with prior periods.

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

Accountability

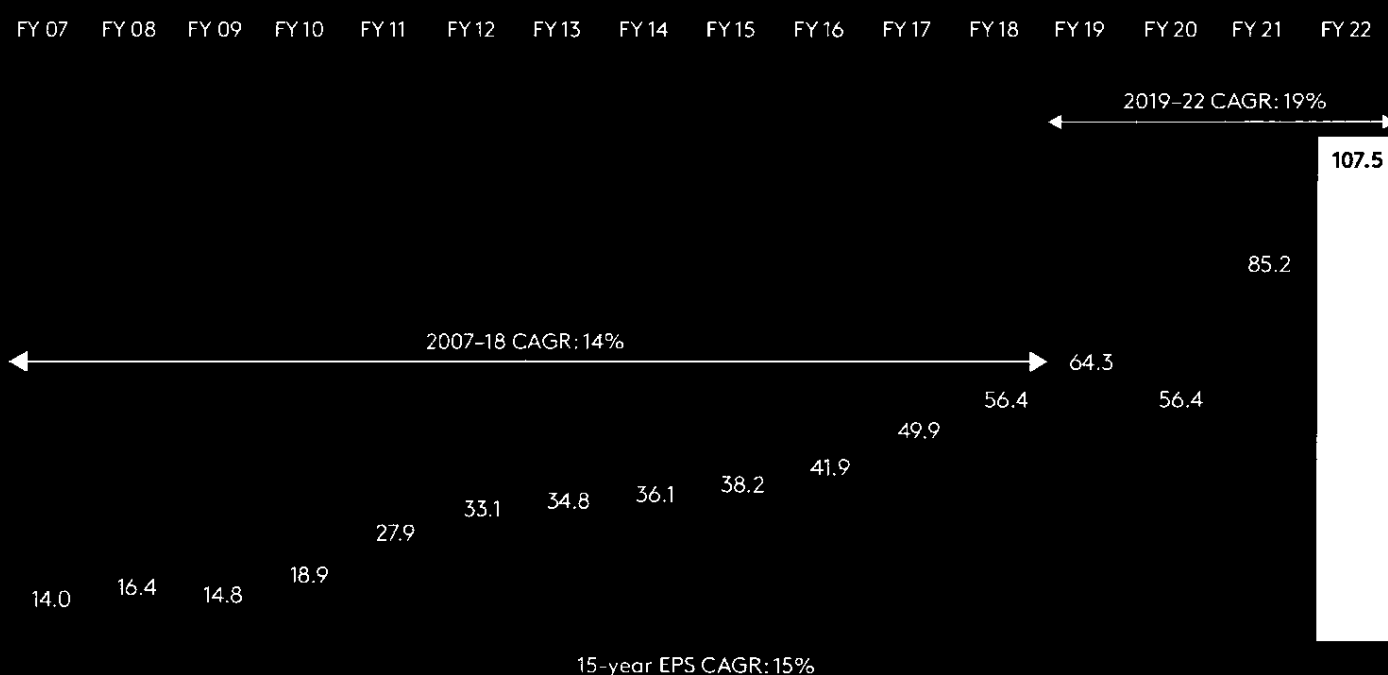
Determined to get better every day

Striving for high standards

Doing the right thing

TRACK RECORD OF COMPOUNDING GROWTH

Adjusted EPS (pence)



HIGHLIGHTS

YEAR ENDED 30 SEPTEMBER 2022

FINANCIAL PERFORMANCE

Organic growth

15%

Model: 5%

Free cash flow conversion¹

90%

Model: ca.90%+

Reported revenue growth¹

29%

Model: 10%+

Net debt/EBITDA¹

1.4x

Model: <2.0x

Adjusted operating margin¹

18.9%

Model: 17%+

ROATCE¹

17.3%

Model: High teens

Adjusted EPS growth¹

26%

Model: double digit

Dividend cover¹

2.0x

Model: ca. 2.0x

FOR OUR STAKEHOLDERS

Our Colleagues

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

Our Customers

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

Our Suppliers

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

Our Communities

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

	FY 2022	FY 2021	% change
Revenue	£1,012.8m	£787.4m	+29%
Adjusted operating profit	£191.2m	£148.7m	+29%
Statutory operating profit	£144.3m	£104.3m	+38%
Adjusted EPS	137.9p	85.2p	+26%
Statutory EPS	76.1p	56.3p	+36%
DPS	53.8p	42.6p	+26%

¹ The percentage change from FY2021 to FY2022 is based on the figures presented in this report.

79%

Colleague Engagement Index

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

Neptune, a Hercules OEM customer

578

Key suppliers identified

75%

Increase in donations to charity

DELIVERS FOR OUR STAKEHOLDERS

KEY ELEMENTS OF OUR LONG-TERM VALUE CREATION STORY

- 14 Our business model
- 22 Our strategy
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- 90 Governance



WHAT WE DO



DIPLOMA DELIVERS

DIFFERENTIATED VALUE-ADDED SOLUTIONS

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

VALUE-ADD ORGANIC GROWTH SCALE



WHAT WE DO

DIPLOMA DELIVERS

SUSTAINABLE ORGANIC GROWTH STRATEGY

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

CONSUMER
GREAT SERVICE
TECHNICAL EXPERTISE
VALUE-ADD
ORGANIC GROWTH
SCALE
RESPONSIBLY
POSITIVE IMPACT



WHAT WE DO

DIPLOMA DELIVERS

SCALING OUR VALUE ADDED MODEL

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

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

Overview

Strategic Report

Corporate Governance

Financial Statements

Other Information



WHAT WE DO

DIPLOMA DRIVERS

DELIVERING VALUE RESPONSIBLY

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

VALUE-ADD
OPERATING GROWTH
SCALE

**RESPONSIBLY
POSITIVE IMPACT
VALUE-ADD**

ESSENTIAL VALUES

OUR BUSINESS MODEL

DRIVEN BY OUR PURPOSE

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

OUR VALUE-ADDED BUSINESSES

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

Responsive customer service



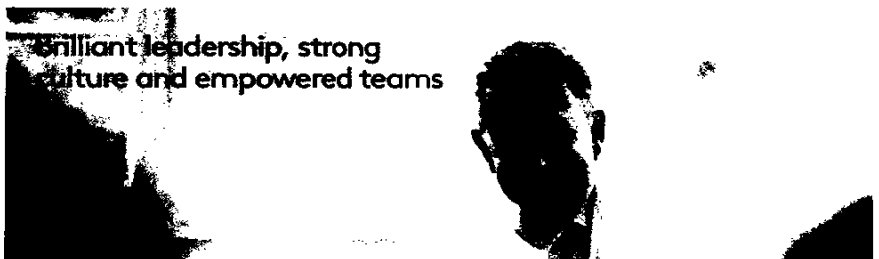
Technical expertise



Innovative, value-added solutions



Brilliant leadership, strong culture and empowered teams



THE GROUP

WE DELIVER
FOR OUR
STAKEHOLDERS

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

Build Diploma identity

Governance and execution

Best practice guidelines and networks

Our Customers & Suppliers

Helping our customers and suppliers to deliver the best possible customer experience

Our Colleagues

Group colleague
Engagement Score of

79%

Our Communities

Supporting our communities to thrive and prosper, and contributing to the wider social and economic fabric of the regions we operate in

Our Stakeholders

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

Group colleague
Engagement Score of

13%

CHAIR'S STATEMENT

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

It's 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 set myself the challenge of an organisation with existing opportunities, a different model could build more, delivering sustainable growth and great people. During my first year, I have not been disappointed and have been impressed by the power of our determined people and the productivity of our teams in their roles. 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, which we did not expect, given the growth in our international operations during the year and strong inflationary pressures on our cost base. EPS, our financial performance measure, has grown 10% year on year, which is a testament to our strategic growth transformation. Our focus has been on driving growth and increasing profitability, while also addressing our environmental and social goals. We have made significant progress in these areas, and we are confident that our strategic growth transformation will continue to drive strong financial performance in the years ahead.

Over the course of the year, we have seen a number of key developments, including the successful completion of our strategic growth transformation, which has enabled us to deliver strong financial performance and excellent strategic progress. We have also seen a number of key developments in our environmental and social performance, which we are proud to share with you.

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, 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 ownership they feel for their businesses. This is underlined by the very positive results of this year's Colleague Engagement Survey. The Survey measures the commitment and engagement of our colleagues and is a key indicator of our success. The results of the survey are a testament to the commitment and engagement of our colleagues, and we are proud to have achieved such a high level of performance.

Our Group Colleague Engagement Survey continues to show excellent levels of engagement. The learnings from the survey will inform future actions and initiatives to ensure colleagues continue to deliver Diploma at a great pace to work. The results and learnings were also discussed at the Board meeting to ensure and inform our view on future development.

Diploma's future continues to be critical to our strategic vision, and we are committed to ensuring we have the right people in the right roles to deliver our vision. We are also committed to ensuring we have the right people in the right roles to deliver our vision. We are also committed to ensuring we have the right people in the right roles to deliver our vision. We are also committed to ensuring we have the right people in the right roles to deliver our vision.

While we have much more to do, we are incredibly proud of the collective power of the Group and its talented people.

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 look forward to building on all that he achieved during his tenure.

Barbara Gibbs stepped down from the Board and the role of Chief Financial Officer on 30 September 2022. In her place, the Board welcomed to the team Barbara Gibbs, who has been appointed as the new Chief Financial Officer. Barbara has a wealth of experience and an excellent track record of leadership and delivery. The Nominations Committee led a thorough selection process and in August 2022, we announced the appointment of Chris Timmins as Chief Financial Officer. Chris joined us in November 2022, bringing a wealth of experience and an excellent track record of leadership and delivery. We are confident that Chris will continue to deliver strong financial performance for the Group.

Two of our independent non-executive directors, Anne Thompson and Andy Smith, are due to retire from the Board in 2024 at the end of their terms and this term. After consulting with our colleagues, we have agreed to recommend the re-election of the successful candidates to the Board for the next year. Further information on this and the retirement of the Board can be found in the Non-Executive Committee Report. It is our intention that the diversity of the Board will increase over time.

Dividends

The Board has approved a dividend of 42p per share for the year ending 31 March 2022, which is a 10% increase on the previous year. The dividend will be paid on 19 April 2022. The Board has also approved a dividend of 42p per share for the year ending 31 March 2023, which is a 10% increase on the previous year. The dividend will be paid on 19 April 2023. The Board has also approved a dividend of 42p per share for the year ending 31 March 2024, which is a 10% increase on the previous year. The dividend will be paid on 19 April 2024.

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...and a year and
...2020-21.
...and providing
...to invest in

[illegible]

**growth strategy:
driving growth,
ensuring resilience**

building resilience
cultivating quality
bank growth & op-
erative opportunities
and growing
three ways

high growth end
are also linked
with a positive

to the long-term systems
reconfiguration
operation.

infrastructure
 spending:
 spending has been a
 major driver for
 the economy.
 We are all
 going to be changing
 the way we
 live.

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

1. Positioning behind high growth end segments: many of which are also linked to mature users in adjacent markets with a position in the first three boxes 4B-4D.

Technology Investment in cloud and auto-centred digital content systems, together with just-in-time distribution, is creating a global network of digital content distribution centres.

Renewable energy and infrastructure investment in the EU and the developing world

Accelerating diagnostics spending: Spending on diagnostics and testing medical equipment is a fundamental enabler for the health care mission. We are accelerating our efforts to use our changing requirements spending priorities to enhance our diagnostic capabilities and to

2. Geographic penetration of core developed economies: Japan and the US have been successful in penetrating the Latin American market since 1980.

North American Aftermarket

and strong diversification in the **US and Europe at International Controls** with the acquisition of a major and initial market dominating and a new product revenue mix.

The acquisition of Anti-Chlorine in Germany and RCI in Austria marks the progress in **Australian Seals** where over the last three years, we have built a truly bigger higher quality business. We continue to build scale in **Europe in Life Sciences** with the acquisition of Applachemie.

3. Product range extension to expand addressable markets: we do this holistically within the businesses and in 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**: Tackler, acquired last year, has delivered impressive organic growth, and the tackler acquisition of Silicone Solutions further strengthens our position in the UK. **Amalgam** supports its **incremental product adjacency initiatives** to drive a diversified growth in the year with initiatives including Sealtek, diversification in international Centoler, proprietary product development in US MRD, initiatives across Sealtek related, Centoler, exchiders and gaskets and creating a 4-6 Cores product pipeline. Development in new innovative technology for example leveling applications in the general and industrial markets.

Focused portfolio development

Focused portfolio development is key to the sustainability of our organic growth. As the portfolio grows, we must filter out businesses that do not represent our future and focus on where the right value, a future and a return. We are looking satisfied about the portfolio we have built.

Acquisitions to accelerate organic growth

Acquisitions are a key part of our growth strategy, with a disciplined focus on value creation through a standard framework and criteria to ensure high quality acquisitions. Our pipeline growth projects is a product of our disciplined framework and a disciplined investment approach. We have a strong pipeline of high quality investments and a strong pipeline of high quality investments.



LJR Electronics (Controls): also held its February 1991 annual meeting revenue of \$1.1 million to give a total net income of \$1.1 million to the large, attractive and growing \$1.5 billion control market.

R&G (Seals): a value-added after-market distributor of a diverse range of industrial hydraulic and pneumatic products. Including seals and gaskets, acquired in April 2010, (annualised revenue of £100k). The business was based solely in the UK and produced the Seal's product portfolio to expand addressable markets.

Accuscience (Life Sciences): a market leading life sciences and medical technology company, raised approximately 140,000 in a round of seed revenue of £28m, leading a global round, continuing the build out of the European profile of the science program, new to the existing 13 markets, leading to:

ACT (Seals): a one-half pound of cuttable, fire-resistant, engineering grade, black, nitrile butadiene Acrylic rubber (NBR) compound, 14mm. thick, 100% essential, and suitable for use in a pump or valve, capable of withstanding a pressure of 150psi.

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- Two small bolt-ons at R&G (Seals):

The study also had encouraging findings for the two major priorities of the country's development plan: growth and employment. Growth was strong and stable, and employment was growing at a steady rate. The study also found that the country's economic growth was sustainable, and that the country's economic growth was sustainable.

Portfolio discipline

As part of this discipline approach to portfolio management, we made two primary portfolio changes in the year in year. Most, we disposed of eleven securities, currently part of the Life Sciences Sector for \$1.1m (annualised revenue c. £2m).

In November last year, we also disposed of Kentek, our Russian filters business, for \$10m (gross), less revenue of \$23m.

Scaling our value-added businesses and the Group

Scaling our value-added businesses

Reducing our value-added businesses' A/C for business growth and a solid track record, and have their reporting models to simplify to achieve their business customer proposition. And our businesses have defined their future target operating model and the target financial metrics.

Report of the Working Group to continue to
improve the **Core Competencies** of
the profession

- **Supply chain:** basic element of a firm's structure and productive capabilities and major strategic management techniques and evaluation of partners or a cluster of enterprises including location flexibility, environmental impact, the effect on customers, suppliers and staff. We do have many more to discuss management strategy and value added as a differentiator in 2022 in some cases better product quality, particularly at MNCs, are not comparable to local

Commercial discipline (or pricing): the combination of improving pricing processes and driving value we deliver to customers so we are able to protect our operating margins. We have more to learn and we can do a lot better both through working with our suppliers and greater forward planning. A lot of work needs to be done to get this right.

- **Operational excellence:** another form of productivity, viewed as a combination of waste-reduction practices and the adoption of lean manufacturing techniques and resulting in increasing use of automation. Through a combination of operational excellence and digital technology, standardization of work

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

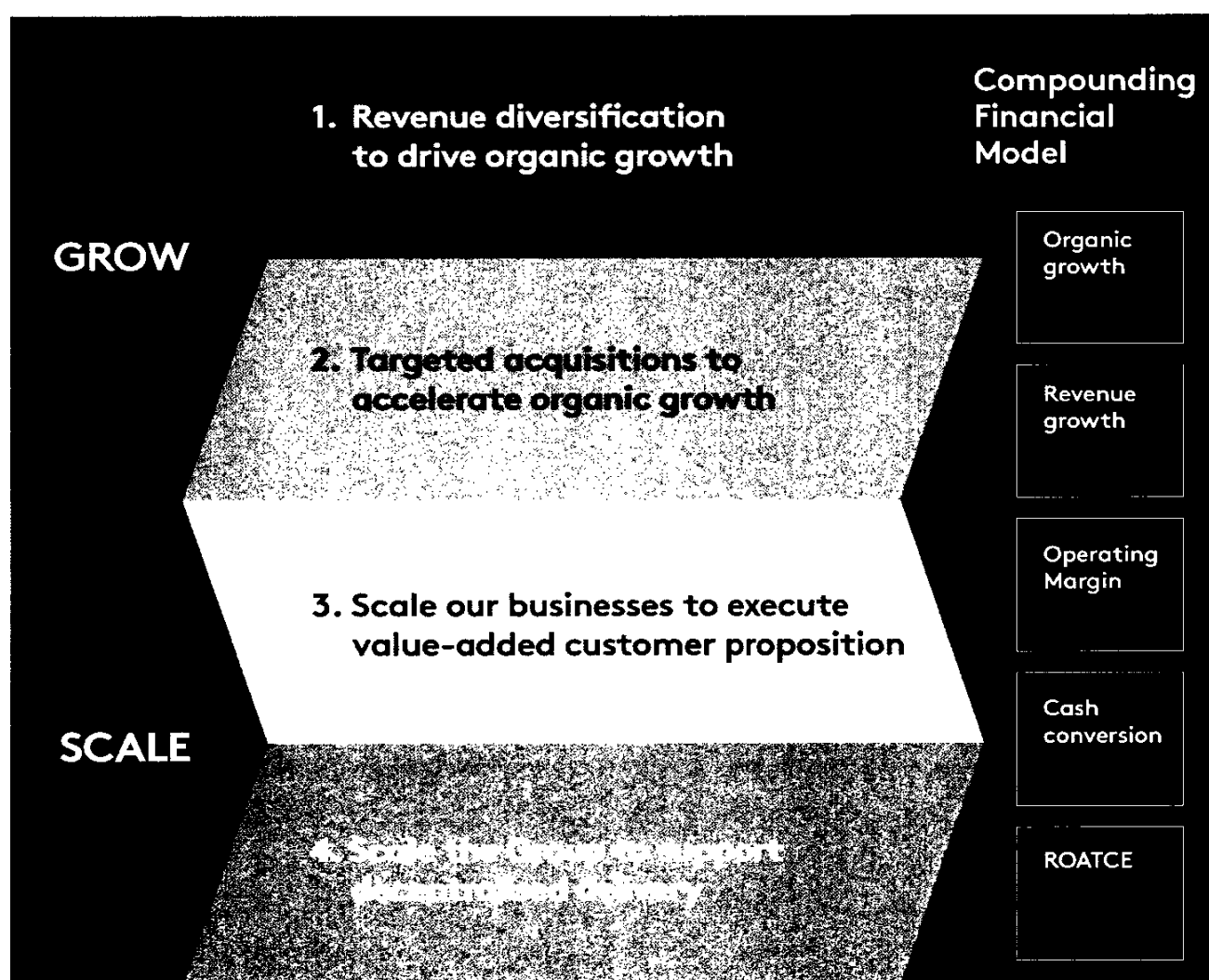
Talent: Investment in education and training is essential to the growth of the country's knowledge economy and to its place in the world. The large pool of highly educated, talented, and creative Indian IT professionals, IT engineers, and IT service providers has become a key strength of India's IT industry. This has enabled India to become a global leader in IT services, software development, and IT outsourcing. The country's IT industry has grown rapidly, contributing significantly to the country's economic growth and employment. India's IT industry has also become a major source of foreign exchange earnings for the country.

Facility: The facility is a 100,000 sq. ft. building with a large open area for storage and a smaller area for processing. The facility is located in a rural area and is surrounded by fields. The facility is owned by the company and is used for the production of the product.

We have maintained high-teens margins of

18.9%

Building high-quality, scalable businesses for sustainable organic growth



5. Delivering Value Responsibly

1. Revenue diversification to drive organic growth

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

01

Positioning behind high-growth end segments

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

02

Geographic penetration of core developed markets

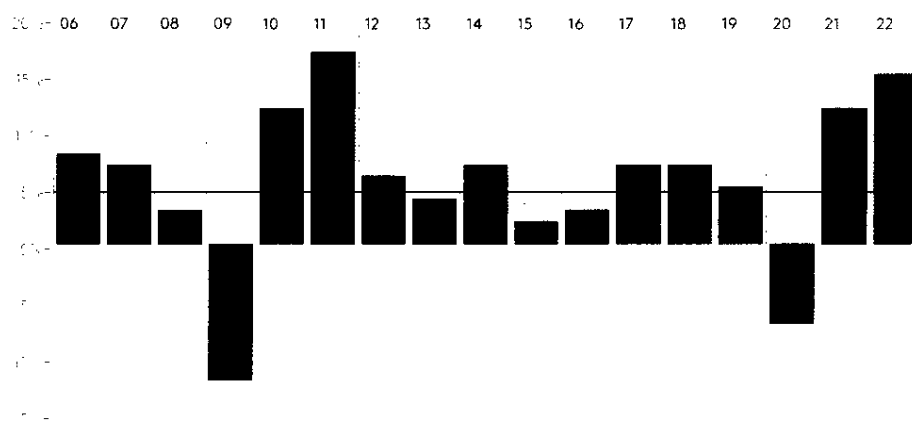
We are relatively underpenetrated in our core developed markets of North America, Europe and Australia where there is significant potential to increase market share.

03

Product range extension to expand addressable markets

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

STRONG ORGANIC GROWTH TRACK RECORD:



**TARGET:
MID-SINGLE DIGIT
ORGANIC GROWTH**

2. Targeted acquisitions to accelerate organic growth

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

01

Acquisitions to accelerate organic growth

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

We aim to add 1% 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 to ensure sound financing and

financially sound deal making process will result in selective, strategic acquisitions.

03

Success factors

Target attributes

Value-add, evidenced by strong margins, improving growth and excellent talent. Scalable businesses with management teams.

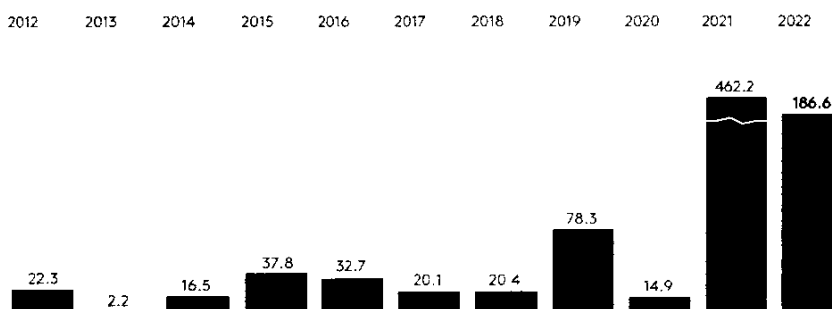
How we add value

Investment in innovation, digital, R&D, talent, marketing, high calibre expertise, operating standards, full business integration, systems.

Strategically & financially disciplined

- Portfolio focus on scalable businesses
- Structured negotiation
- Strongly disciplined and structured financials

Historic M&A spend (£m)



CASE STUDY

Windy City Wire: accelerating organic growth for the Group

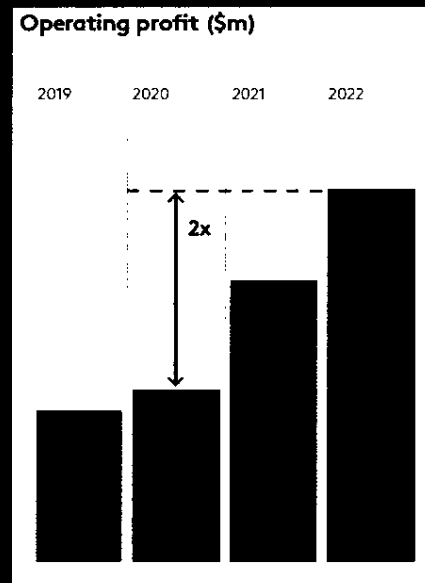
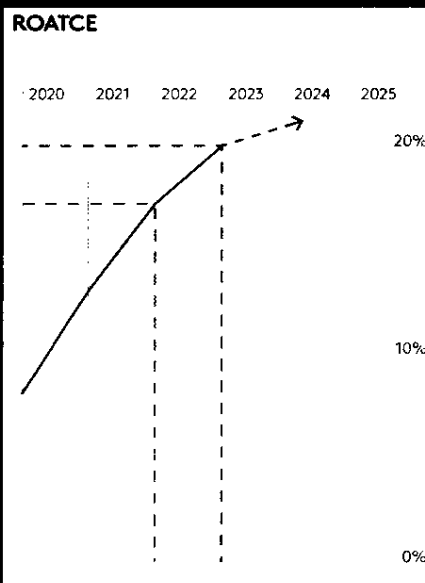
Windy City Wire is a leading value-added distributor of premium quality low voltage wire and cable.

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 CONTINUED

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 launched the acquisition of Accuscience in the Life Science Sector in the EMEA. Accuscience had a strong market and supply chain position, it was leveraged in the core markets, the product and manufacturing technology were fully integrated and growth potential was evident.

This had translated into a strong track record in growth and excellent relationships with customers and vendors.

Characteristics:

- Market leading in some key product segments
- Scaled across the EMEA footprint

Value drivers:

- Existing product line introduced organic growth
- Accuscience had a strong manufacturing footprint
- Strong product pipeline

Portfolio fit:

- Enabled expansion into the EMEA region
- Added value in the core value chain
- Product line extension
- Accelerated development

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 EMEA in the interconnect products including connectors, contacts and discrete components. LJR had a strong footprint in the US and a strong product line in the interconnect market. LJR forms part of our interconnect portfolio in the Central & Eastern region. Expanded our presence into the large, attractive and growing US interconnect market.

Characteristics:

- US value added distributor
- Established interconnect portfolio
- Based in Ohio, US

Value drivers:

- Organic growth
- Merged with existing US business
- Introduced new value added products

Portfolio fit:

- US interconnect segment
- Penetrating core developed economies
- Added value

CASE STUDY

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

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

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

Characteristics:

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

Portfolio fit:

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

Value drivers:

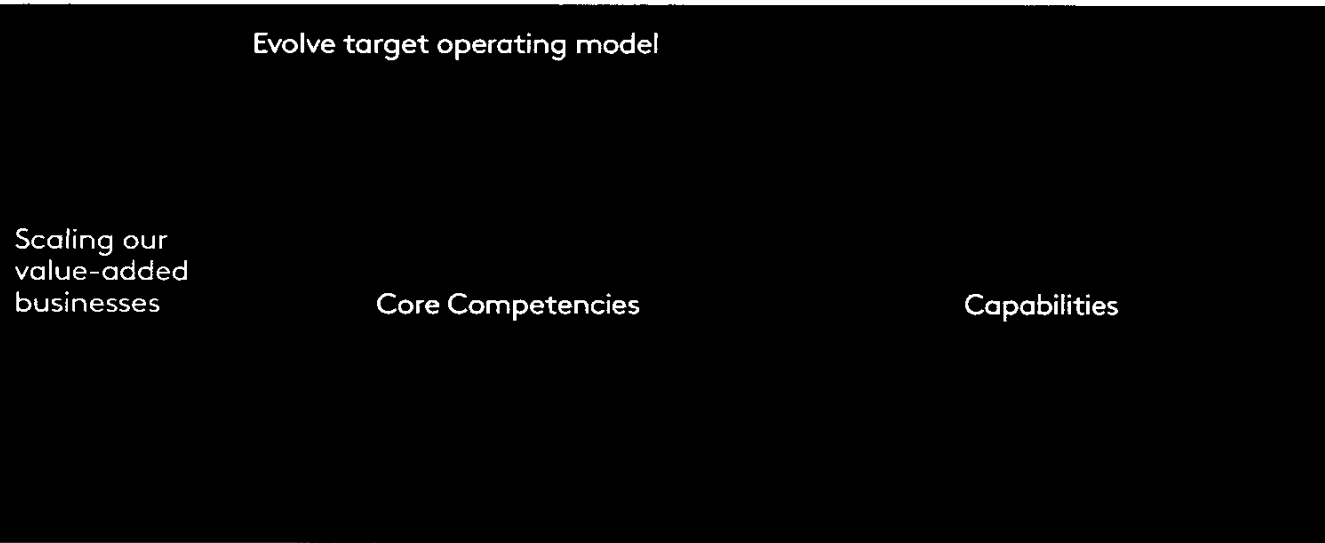
- Excellent organic growth track record and significant potential through developing the aftermarket e-commerce channel, continued regional expansion in the UK, and further product cross-selling and diversification
- Continued buy & build pipeline with an opportunity to further consolidate small, regional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

Acquisition of R&G Fluid Power Group

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 business.

Supply Chain Management

Efficient supply chains to deliver growth and adaptability. Automate and improve product development to Supply Chain Management.

Operational Excellence

End-to-end customer fulfilment and value that deliver growth.

Value-Add

Distributing value and products and solutions to lead our future. Strengthen technical expertise, innovation, product and end customer solutions.

Commercial Discipline

Proven commercial discipline, revenue growth, and strong operating performance. Strong financial discipline and strong customer focus.

Route to Market

Strong customer relationship and product development to drive growth and innovation.

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.

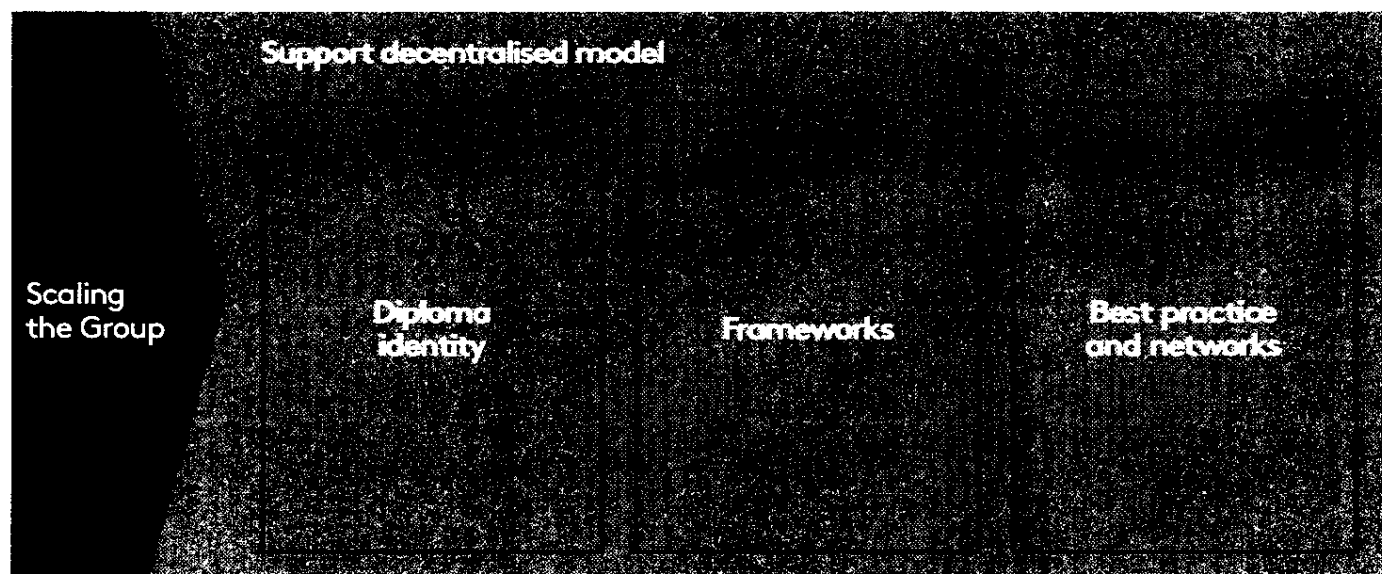
As a trusted, world-class talent provider, our identity and culture of the industry is central to the business.

Over the past three years, we have evolved the Group's organisational structure around our customers. We have also creatively invested in resources to ensure all our work teams are providing a seamless experience to our clients, supporting a decentralised, agile working model.

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

The Group has an ongoing intent to develop, providing strategic and performance frameworks, as well as setting and managing knowledge and best practice and ongoing

training and development, with the Group working closely with the client to ensure all our experience and expertise is shared and utilised.



Key capabilities

We support the development of three key capabilities, which are central to our success:

Talent

Talent is our core asset, and we invest in the development of our talent through ongoing training and development programs.

Technology

Our approach to Technology is to implement and use the latest technology to enhance our productivity and efficiency, ensuring we are always up-to-date with the latest technology.

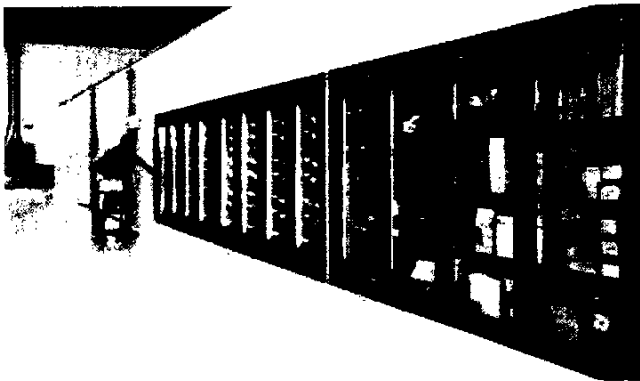
Facility

Our facilities are designed to provide a high-quality, professional environment for our clients, ensuring they have a positive experience when working with us.

STRATEGY CONTINUED

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 winning secured the rights to sub-license technology for our Australian Life Sciences platform, Aviculus, and Big Green said to initiate a joint venture in Brisbane. Alongside this, supporting sales and key activities and capital deployed into building new added value.

Building and creating a new opportunity for the growth and expansion was the main goal for the project. By combining four markets, our value added opportunity, we now have a platform for high-growth and opportunity to improve value, our management and operational excellence through working on our vision and activities, processes and systems. For example, it is a more frequent work environment with better environment, excellent cultural opportunities and career opportunities. The better about will help to build up with most of the product, services, and/or products to competitive the market, it will be a new, efficient and different the product.

The Aviculus platform, the platform will provide a future opportunity to provide a new environment through our, providing further technology and product development, and our own, creating customers and users.

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.

4. We scaled our value added business and the SLT. We want to retain our overall team management and work and strong cultures, however, there is huge opportunity for our leadership from one another. One of the key value of the platform is to share best practice sharing and create leadership networks.

Our Event in Chicago was built a leadership opportunity and an opportunity for our leaders to build their internal network and share experiences which they can leverage in their own business.

CASE STUDY

Talent



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

Jill Tennant
Group HR Director

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

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

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

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

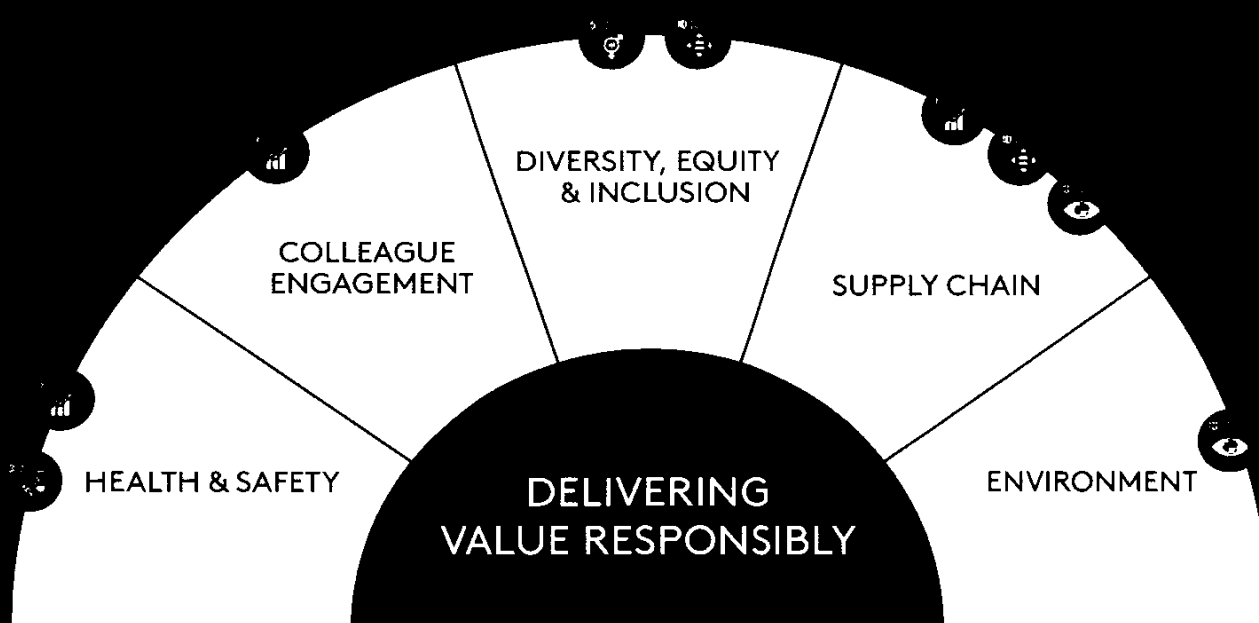
wear many hats. Incremental investment in functional expertise is critical to scaling. In 2022, we made 20 SMT hires focused on Commercial, Operations, Supply Chain, Finance and Human Resources. We are leveraging this external hiring to improve diversity - in 2022, 40% of external SMT hires were women,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

Talent is so 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 Sepsis and International Central. 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.

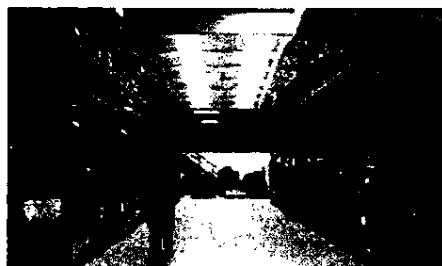
5. Delivering value responsibly

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 and customers are our priority. We engage with colleagues and retain talent in our businesses. We also have a duty to our customers, our community and diversity and inclusion. We will continue to be a leading employer, ensuring that all 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 users that actively contribute to the environment and community. Whether it's building a first-class product or providing a solution, the transition to a greener, more energy-efficient and sustainable future.



OUR PRIORITIES DURING THE YEAR

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

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

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

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

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

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



DELIVERING VALUE RESPONSIBLY

DIPLOMA DELIVERS FOR OUR COLLEAGUES

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

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

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

89%

of our colleagues are proud to work for their business

Brilliant leadership

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

In June this year, we brought together

75

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

Building engaging and fulfilling careers

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

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

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

Mental health and wellbeing

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

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

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

Engaging our Colleagues

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

2022 Highlights

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

86%

response rate

79%

engagement index

KPI

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

Target

Maintain an engagement index of 70%+

Ongoing Focus

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

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

Our turnover rate declined by 1% to 24.4% in 2022 (20.8% reflecting post-structure in Australia, Healthcare and International) due to increased contribution of our Louisville facility and a challenging talent market.

Our Colleague Engagement Survey revealed outstanding levels of engagement with colleagues helping to identify training and development opportunities for us. We have set a relatively modest target to maintain our Engagement Index at 70%+ which keeps us focused on understanding the real picture, improving engagement and continuously improving our people and business outcomes.

Action during 2022

Following the 2022 survey, we have focused on building our internal support function to help improve our engagement survey and our engagement practices. We have also created a new survey, called 'Group Health', which is a pulse check on the business and is administered on a bi-annual basis to further understand our responsibility to our people and improve the Group's performance and business outcomes.

"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 introduced a robust learning management system across the Group. This provides a central source of Group internal communications, policies and documents and internal courses and information to help our staff grow and thrive.

Our engagement score has risen to 77% and we were able to increase the responsiveness of the Group. Importantly, engagement is up and consistent across the Group, ranging from 75%–88%.

75%+

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

90%

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

88%

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

We've been very strong in supporting the efforts of our colleagues to lead and manage. 90% of respondents find their work meaningful, 89% of our 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 our various businesses.

Leadership style

75% +2%

2022	75
2021	73

Learning and development

70% +4%

2022	70
2021	66

Wellbeing

79% +1%

2022	79
2021	78

Learning and development and wellbeing continued to be ongoing areas of focus across the Group. We provide support and guidance to businesses on development planning and performance reviews. 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 Employee Engagement Survey.

The Employee Working Group is a mix of young and experienced staff. It includes all colleague 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 decentralized 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 our reducing incidents.

Action during 2022

For the first time, our businesses reported a positive Health & Safety score for a full financial year. They showed us, identify and act upon Group themes or risks a public and share knowledge across the Group.

All businesses have a clear hierarchy to be followed in case of an incident, including how to deal with a driving vehicle. There is a clear focus on mental health and wellbeing and a dedicated and immediate reporting process for all LTIs. These have been reflected in our annual Health & Safety Review for the year ahead.

We were pleased with our Health & Safety culture in 2022, with colleagues across the Group with 86% of employees feeling that their business takes Health & Safety very seriously. Health & Safety will continue to be a key consideration for all our directors and boards.

86%

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

Ahead of the FY22, our new Health & Safety working group with a group who are responsible for Health & Safety in their businesses and sites. Their role is to ensure these sections work to support the business in embedding the Policy and ensure a genuine working partnership in the lead up to FY23 and share our data and true between Health & Safety and Safety.

We are also the senior management team to develop a working network of Health & Safety colleagues in the network and brought Health & Safety managers together to share best practice and develop Health & Safety culture as well as sharing experiences and learnings in external notifications such as ISO and that in the business preparing for review.

The primary cause of LTI across the Group continues to be the slip, trip & fall. Our most common injury was a sprained ankle which occurred in 24 days, but time as the person could not perform the duties of their particular role.

Overall, a hazard reporting increased across the Group in FY22 for the year with improved consistency of reporting across the businesses. We will continue to focus on ensuring that staff and hazard reporting results in our bottom line.

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 the number of LIs decreased by 66%.

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 in the prior year of two in ten. This increase reflects the continued reporting across the Group and were a result of the year's severity rate of 4.3 and the number of LIs decreasing from 77 to 47.

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

During our Unconscious Bias workshops were attended by all business MDs and other members of the Senior Leadership Team. All business have resources available for unconscious bias training and support systems.

During the year we developed and published our Group DEI policy, which provides guidance on how to address our business to follow including reducing unconscious bias in recruitment. We held a consultation on the new policy with all relevant responsible for implementing DEI in their business and published our management plan for it.

During the year we reviewed the KPIs of the Policy on DEI targets and our progress for FY23. This also gave attendees the opportunity to ask questions of the best practice and to plan networks.

Gender diversity (as at 30 September)

	Male	Female	Total
Board	4	3	7
Executive team	6	2	8
SMT	46	36	82
All employees	1,008	910	1,918

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 recruits fit into the SMT being women. However, the recruitment acquisition remains a challenge with just 9% female recruitment in our first trust that joined the SMT through our recruitment 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 below 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	0	0	0	0
SMT	68	13	10	91

We have also started to measure ethnicity for the SMT. We have found that the gender gap of the SMT is not statistically significant when we consider ethnicity. We have also started to measure ethnicity for the SMT. We have found that the gender gap of the SMT is not statistically significant when we consider ethnicity. We have also started to measure ethnicity for the SMT. We have found that the gender gap of the SMT is not statistically significant when we consider ethnicity.

40%

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

% of women on SMT

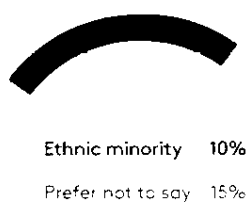
2022	27%
2021	24%

Diversity of our Senior Management Team

Gender diversity



Ethnic diversity



CASE STUDY

International Women's Day



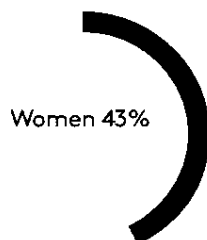
International Women's day was celebrated by businesses across the Group on 8th March 2022.

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.

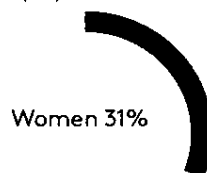
All colleagues were also given the opportunity to attend a #BreakTheBias workshop, which highlighted examples of unconscious bias and the role that we can all play in tackling it at work.

Gender diversity across the Group

Board



All employees



DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS FOR THE ENVIRONMENT

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

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

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

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

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

Sustainable Supply Chain Management

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

2022 Highlights

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

59%

of our identified key suppliers are aligned with our Supplier Code

KPI

% of identified key suppliers aligned with Supplier Code

FY30 Target

80% of key suppliers are aligned with our Supplier Code

Ongoing Focus

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

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

Percentage of identified key suppliers aligned with our Supplier Code



The standards of our Supplier Code ask our key suppliers to commit to conducting their business in line with ethical, environmental 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 their 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 our actions, share best practice and build understanding of the importance of our supply chain management on our emissions.

We will continue to build out the network and develop the knowledge of Supply Chain across 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.

Following the launch of our implementing our Supply Chain Policy and engaging our suppliers in our Supplier Code. Our business has now worked hard to engage their suppliers and ensure the alignment with the Supplier Code against a framework of supply chain expectations that was established by Group A.

During the year, our businesses have identified their key suppliers. These are categorised in the hierarchy but must fulfil an aggregate of at least 50% of our supply chain expectations. Key suppliers are defined as those suppliers who are a significant supplier of materials, components, supplier of services, or a significant supplier of

Tackling Emissions and Waste

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

2022 Highlights

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

Total Scope 1 and 2 emissions

10,615

Tonnes CO₂e

Emissions KPI

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

Waste KPI

% of total waste to landfill

FY30 Emissions Target

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

FY30 Waste Target

Less than 15% waste to landfill

Ongoing Focus

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

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

We are hugely grateful to our business partners and brilliant colleagues that have worked during the year to put innovation and driving pace at the forefront of our business, with green LED lighting introducing electricity savings that put us on track to reducing our waste.

We have worked with EucAction and Apple to support EucAction to reduce their Scope 1 & 2 emissions and set on FY30 and will submit our SBTi target a target to reduce Scope 1 & 2 by 50% by 2030.

Our carbon footprint is on track to achieve net zero emissions across our operations by 2040.

The majority of our emissions are from heating, cooling and lighting our properties with Scope 2 representing 12% of our operational emissions. We intend to achieve our target by focusing on energy efficiency, renewable electricity and renewable power generation, as well as the purchase of renewable electricity.

	FY22	FY21	FY20
Greenhouse Gas Emissions from net CO ₂ e	3,256	1,684	1,715
Scope 1 Emissions	7,359	2,171	2,638
Scope 2 Emissions	10,615	3,825	4,331

Tonnes CO₂e per £1m revenue

10.5

2022	10.5
2021	12.5
2020	8.0

Purchased electricity kWh

14,033,971

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

Gross emissions

10,615

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

DELIVERING VALUE RESPONSIBLY CONTINUED

There are some 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. Methods are reported quarterly by the businesses. Fuel related emissions, stationary combustion is estimated on a percentage of revenue basis, mobile combustion is estimated by applying the average vehicle GGEs to 'fleet of scope' vehicles, and purchased electricity is estimated on a percentage of revenue basis. Calculations are location-based.

Group emissions for existing businesses have remained relatively flat at 150 tonnes CO₂e less than FY21. Our Group Amenity estate turnover CO₂e per £1m revenue has decreased from 12.5 to 10.5, mainly driven by increased revenue. Total gross emissions for the Group were 10,615 tonnes CO₂e, of which 18,111,915 tonnes CO₂e was attributable to the UK.

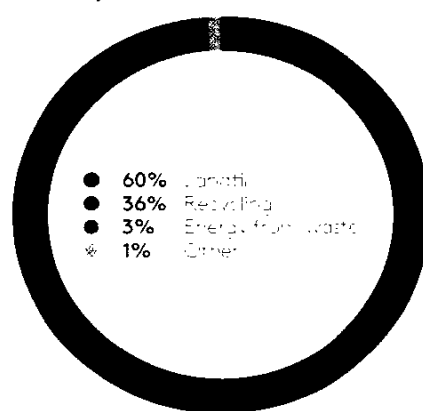
Consolidating and upgrading facilities has been particularly effective and we have seen a 30% reduction in Scope 2 emissions at our Hercules Aftermarket business in the US due to moving operations to the more energy efficient Louisville facility. We have also seen some benefit from energy efficiency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

Consumption of purchased electricity for the Group was 12,947,121 kWh of which 14,116,665 kWh 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 £1m revenue: FY22

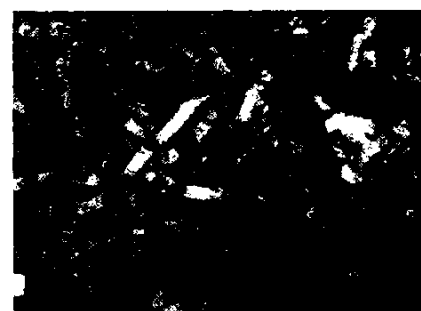
Total waste	3,736 metric tonnes
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Our businesses, including production, report their total waste and a waste by destination every quarter, an exercise that has significantly improved our understanding of waste across our businesses. There have been challenges to collecting the data, due to the complexity of local waste hauliers to measure waste, recycling infrastructure in some regions and variance of unit of measure (kg, tonnes, etc).

The push Hubs reported data on 13% metric tonnes of waste, or 10% of total tonnage.

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 defibrillators and ECG electrodes.

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

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

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

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

DELIVERING VALUE RESPONSIBLY
CONTINUED

DIPLOMA DELIVERS RESPONSIBLY



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

DVR governance

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

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

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

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

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

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

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

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

Our DVR governance structure



DELIVERING VALUE RESPONSIBLY CONTINUED

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

We recognise that climate change is an urgent global challenge, 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 (c) and (d), further work is underway to support the impact of climate-related risks and opportunities and we are planning to undertake scenario analysis during FY23. Our understanding of climate risk will be further informed by scenario analysis during FY23 in order to align with metrics and targets disclosures (a) and (b). We have disclosed our Scope 1 and 2 emissions and targets in this report as well as some of the risks (a). We present climate risk consistent with metrics and targets disclosures (a) and (b) as we have not disclosed our Scope 3 emissions. In future, however, we will engage 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 with a net-zero pathway consistent with TCFD.

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

GOVERNANCE

Click the argument in governance to find out where you can find out more.

Board Oversight

The Board is responsible for DfE climate risk, climate change and sustainability, oversight of climate-related risks and opportunities as well as our DfE strategy, climate-related governance and reporting and ensuring the Directors receive regular reports and updates on climate risk, TCFD and

- Reports on macroeconomic trends, including the risk of climate change that allow the Board to review the Group's current, new and emerging climate-related risks and opportunities.
- Quarterly risk updates.
- Training on TCFD reporting and transition (FY22)
- Annual ESG updates

DfE governance structure (page 52)

Internal Climate Risk Management (pages 80-88)

Governance (pages 90-101)

Nomination Committee Report (pages 108-113)

The Board is responsible for overseeing the integration of climate risk into the Group's overall risk management framework. Where does no expertise, we utilise the Board and engage external experts to support. As an 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 submitting near-term targets and submitting them to the SBTi in FY23.

Management's role

Management is responsible for driving and managing climate risk and opportunities. The DfE Climate Change and Sustainability Group, which is responsible for the DfE climate strategy, is responsible for setting emissions targets and reviewing performance. SBTi and TCFD have reported on the climate and sustainability disclosures and opportunities at Sector level. Our DfE TCFD disclosures, including the climate risk and opportunities, are published on page 53.

Our DfE governance structure also sets the climate risk and sustainability management objectives.

STRATEGY

Climate-related physical and transitional impacts are material to climate-related risks and opportunities for the Group's business, 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 UK facilities, with the potential to impact operations and increase costs due to damage to physical property and assets as well as supply chain disruption.

Internal controls and risk management
pages 86-88

For the purposes of assessing climate-related risk, we have adopted the following time horizons: short term (1-5 years), aligned with the time period for the Group's liability assessment; mid term (3-10 years) and long term (10+ years). Both short and mid term horizons are considered to be appropriate time horizons for assessing materiality for the purposes of 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 in the businesses. The risk is expected to increase in the medium to long term as the regularity and severity of weather events may increase. There are large variations due to the continued diversification of our customer base to reduce dependencies, continuous diversification of the customer base with low and no carbon dependencies and our intention to invest in resilience.

In the mid and 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 and a demand for lower carbon products. However, our diversified supply chain and end markets mean that we are not heavily dependent on one particular end market or product line. The ability of our products and materials to adapt means we can pivot quickly. Proactive positive impact revenue initiatives, such as the use of every business, are driving our businesses to pursue opportunities in new and emerging low carbon end markets.

We do not expect our primary impact from the risk of changing markets or customer preferences in the short to mid term as we do not expect any of the industries that we serve to decline rapidly in scale to the extent due to climate change. We do anticipate that our end markets may evolve but equally believe that our demand-led model is agile enough to evolve with them. Our low dependency on any specific industry mitigates our exposure. We are exploiting, identifying climate-related opportunities, including the opportunity to improve our product and efficiency, deliver value to our customers and suppliers by aligning with them on their net zero ambitions and our water and energy products and solutions to high growth, low carbon end markets.

During the year, the Board has considered potential risks, threats and opportunities and identified climate change and its impacts as a key 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 to assess the impact of climate-related risks and opportunities on our businesses, strategy and financial planning. Further analysis will offer our customers a better understanding of the climate-related risks and opportunities that are relevant to their Group, how it plans to manage risks and opportunities, as well as our resilience and net zero. This climate change analysis will inform our policies, actions 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 80-86

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 Senior leadership.

The Board has 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 controls are operating effectively.

METRICS AND TARGETS

Describe 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 capture in-group efforts to tackle climate change as well as our exposure to climate transition risks by making active efforts to reduce our emissions.

Environmental strategy; page 55

We measure and manage our businesses on their actual Scope 1 and 2 emissions as well as a carbon footprint ratio for Scope 1 and 2. These are reported quarterly by our businesses alongside audited financial information and progress. These metrics and our performance against these metrics can be found on page 56-57.

Governance; pages 90-141

Audit Committee Report; 102-110

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

We have announced a 50% reduction target for Scope 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, as well as our transition targets in the SBT in line with the 1.5 degree pathway. Our target for Scope 1 and 2 will enable our own contribution to the increase in global 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, we remain exposed to some transitional risks.

Our Scope 3 footprint will also help us to better understand the carbon impact of our business operations related to our value chain and transition climate-related risks.

Our policies and procedures

Anti-bribery & Corruption	The Group has a policy on anti-bribery and corruption that complies with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure continued and effective implementation in our businesses around the world. We provide online training to all of our employees through our Learning Management System, including policies on 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 Diageo 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 well-being and satisfaction, and allow us to recruit and retain a wider pool of exceptional talent.
Equal Opportunities	We create equal opportunities and strive with intent to ensure a fair mix of diversity in our jobs to effectively manage racial, ethnic, sexual, gender identity, pregnancy and maternity, religion, nationality, marital status and other protected characteristics. We comply with all applicable DE and inclusion laws, regulations and standards and apply the highest standards where regulation is inadequate. We ensure all members of Diageo refrain from discrimination or discriminatory behaviour either through their management or through our whistleblowing hotline.
Environmental Policy	Our Environmental Policy applies to our customers and asserts that they comply with the standards and requirements set out. There is no discrepancy with, or exceeding of, applicable environmental laws, understanding the risks and opportunities related to the environment and climate change and how they might impact the business. All stakeholders are required to submit data on their emissions and climate.
Health & Safety Policy	Our business leaders ensure the Health & Safety of our colleagues, visitors and partners through our commitment to the standards, good guidance and rigorous reporting of incidents. Group performance and incidents are reviewed regularly to ensure that all the standards are maintained and the Board reviews Health & Safety 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 that meet their specific risk levels.
Human Rights and Labour Practices	The Group's policies and procedures are developed in countries with strong human rights legislation, which the Group complies with in the countries in which it operates. Our customers are required to be diligent on their supply chain and all key suppliers are asked to comply with our Supplier Code, which has standards and requirements related to human rights and labour practices. 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 policy to ensure approach to slavery, including human trafficking, modern slavery and child labour. Each business undertakes an annual risk assessment to ensure compliance with the business and its principal suppliers. Group business management and control due diligence of suppliers. Based on the assessment, the principal suppliers are then by the business to counters slavery. The Board has been assured that slavery and human rights risk within the Group. Our Modern Slavery Statement is available on the Diageo website.
Whistleblowing Policy	Whistleblowing Policy is an internal policy that applies to all employees and provides procedures to comply with the Whistleblowing Policy. The Policy is designed to ensure that all employees and customers are encouraged to report internal and external confidential matters. Whistleblowing is a confidential matter and is handled by an external company and is available 24/7. All reports are handled by the Group Compliance Directors to ensure consistent and effective handling of the matter, internal and external resources, if required.

KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

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

FINANCIAL KPIs

Organic revenue growth

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

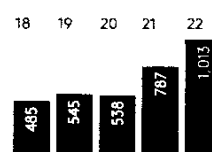
6%
Five-year average



Reported revenue growth

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

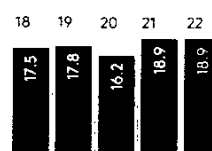
18%
Five-year compound



Adjusted operating margin

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

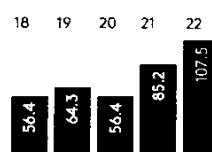
17.9%
Five-year average



Adjusted EPS

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

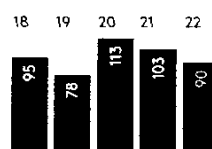
17%
Five-year compound



Free cash flow conversion

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

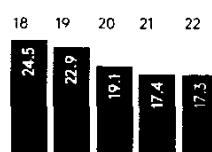
96%
Five-year average



ROATCE

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

20.2%
Five-year average



NON-FINANCIAL KPIs

OUR COLLEAGUES

Engagement index

An externally benchmarked score from our annual engagement survey

TARGET

maintain **70%+**

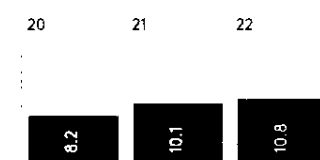


Lost time incident (LTI) rate

Number of LTIs per 1,000 employees

TARGET

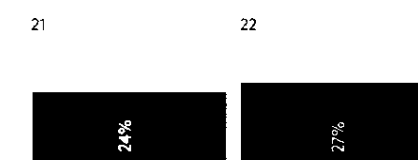
5% year-on-year reduction



% women on the Senior Management Team (SMT)

FY30 TARGET

40%+



OUR ENVIRONMENT

% key suppliers aligned with Supplier Code¹

FY30 TARGET

80%

of key suppliers aligned with Supplier Code by FY30

2022

59%

% of total waste to landfill

FY30 TARGET

<15%

waste to landfill

2022

60%

% reduction of Scope 1 & 2 emissions against FY22 baseline

FY30 TARGET

50%

reduction in Scope 1 & 2 emissions

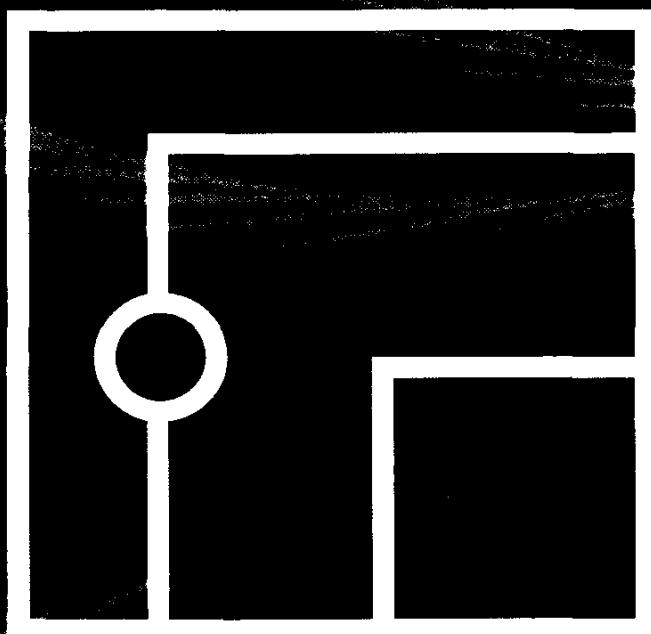
2022 (baseline year)

10,615 tonnes CO₂e

¹ Key suppliers are required to cover in aggregate at least 50% of supplier spend in the first year of partnering against this metric. 57% key suppliers were identified across the Group. Engagement on the Supplier Code is underway and 50% have been engaged and aligned with the requirements of the Supplier Code.

SECTOR REVIEW

CONTROLS SECTOR



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

Windy City Wire (WCW): 50%

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

Wire & Cable (UK): 9%

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

Interconnect: 22%

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

Specialty Fasteners: 10%

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

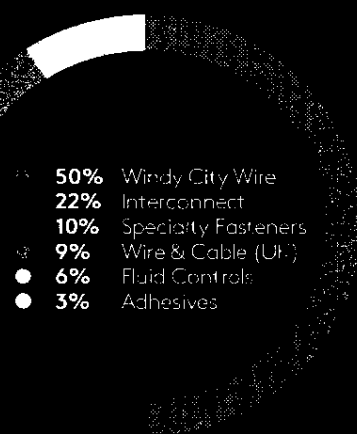
Fluid Controls: 6%

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

Adhesives: 3%

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

Revenue by segment¹



Revenue by geography¹



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

+30% p.a.

22

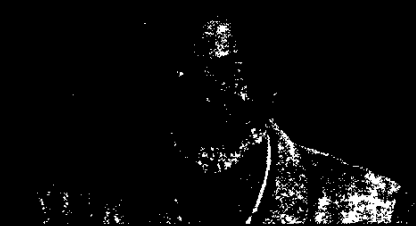
492.8

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



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

David Goode
Sector CEO, Controls



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

Rich Galgano
CEO, Windy City Wire

FINANCIAL HIGHLIGHTS

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

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

Sector financial performance

The Controls Sector delivered a very strong full year performance, with increased revenue and material margins up 44% to £492.8m (2021: £343.3m). This consisted of organic growth of £451.3m. The contribution from acquisitions and a 3% foreign exchange to wind.

Adjusted operating profit increased 46% to £105.8m (2021: £72.4m), with the adjusted operating margin 40bps higher (2021: 21.1%). Both International Controls and WCA contributed to this through excellent, with top-line benefits and performance to completion offsetting the threat of growth and mix effects.

International Controls (50% owned) revenue increased by 18% over 2021 as a result of organic revenue growth and higher margins due to a variety of factors, including an excellent performance. The increased organic revenue growth of 18% with sustained momentum to much of the year and double-digit profit growth across all business lines. Revenue growth was frustrated but volume growth was strong, driven by strong organic growth. The strong International Controls margin increase in 2022, with a strong operating leverage, with strong growth, partially offset by a significant increase in operating leverage, with strong growth and a significant increase in operating leverage.

The International Controls Wire & Cable business, Global Group, performed very well against a strong competitor. The benefits of organic revenue growth and revenue growth, with growth in new products through Acrylic Wire and in new markets, including electric vehicles, distribution, wireless data centres and renewables. The addition of £144 last year has also improved access to the electric vehicle market and creates price setting opportunities.

Double-digit organic growth of **Interconnect** reflects strength across the board, particularly in our German energy activities where organic growth was over 10%. The new products to the transmission and distribution network. Strong new growth segments include Interconnect, high speed and medical interconnect, recent US acquisition. IFA has also included excellent performance, double-digit organic revenue growth, with its new line, Arise, Elex and customer growth, with a strong market share and strong. The business is investing in new products to customer orientation. The acquisition of Wapros, a US Chemtek, a core business, with a strong market share, whose customer base has been transferred to the Interconnect business.

Specialty Fasteners delivered a strong year, with strong organic revenue growth, with a strong market share and benefiting from strong demand in the US and Europe. The segment, AFW, the US business, also delivered a strong year, with strong organic revenue growth, with a strong market share and benefiting from strong demand in the US and Europe.

SECTOR REVIEW

SEALS SECTOR



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

International Seals: 47%

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

North American Aftermarket: 23%

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

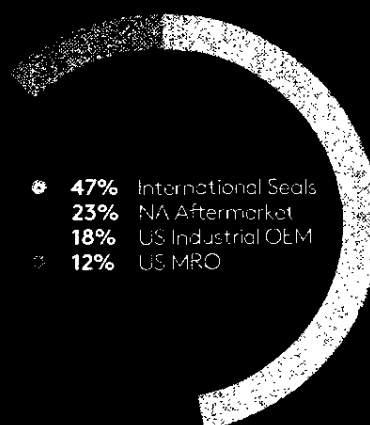
US Industrial OEM: 18%

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

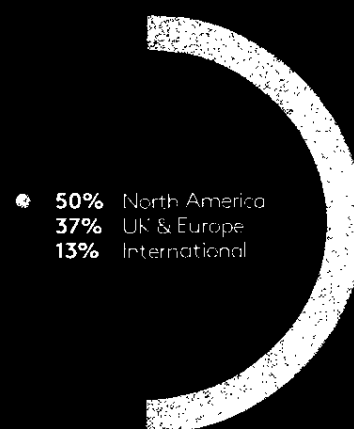
US Maintenance, Repair & Overhaul (MRO): 12%

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

Revenue by segment¹



Revenue by geography¹



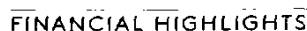
Reported revenue (£m) (compound growth over five years)

+11% p.a.

22

331.4

¹ Pre-formal revenues adjusted for acquisitions and disposals completed during the year.



Ted Messmer
Sector CEO, North American Seals

[illegible]

North American Aftermarket has long been a leader in the automotive aftermarket industry. With over 100 years of experience, we have a proven track record of providing high-quality products and services to our customers. Our commitment to excellence is reflected in our ISO 9001 certification and our ISO 14001 environmental management system. We are proud to be a part of the automotive industry and to serve our customers with the highest quality products and services.

- 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

Organic growth was the main driver in MRO driven by revenue, a combination of organic and product line and geographic growth. Investment in manufacturing and R&D, along with product line and geographic expansion, drove organic growth in the pharmaceuticals and biotechnology sectors. The pharmaceuticals and biotechnology sectors were the main drivers of organic growth in the pharmaceuticals and biotechnology sectors. The pharmaceuticals and biotechnology sectors were the main drivers of organic growth in the pharmaceuticals and biotechnology sectors.

US Industrial OEMs need to develop programs and procedures for managing a plant through a transition and a post-transition period. The transition period is characterized by changes in the roles of the plant manager and the plant engineer, and by changes in the way the plant is managed. The transition period is also characterized by changes in the way the plant is managed. The transition period is also characterized by changes in the way the plant is managed.

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

International Seals (47% of Sector revenue) had another strong year with organic growth of 13%, building on another record of resilience and consistency that reflects the business's diverse profile.

In the UK, **FPE** delivered double-digit organic growth against a strong competitor, excellent service and better stock availability has enabled the business to continue to expand in construction and the recovering oil & gas segment. The acquisition of **R&G** Apol has been transformational, materially increasing scale in the UK. Following a successful year ending R&G's organic growth performance has been strong. This is a result of excellent customer service, additional product portfolio and expanding engineering capabilities within the business to drive value from within M&A. The ongoing M&A programme has continued with another foundation acquisition since April with two completing post year end.

Elsewhere, **Kubo** has another solid year with ongoing eight-digit organic growth against a strong competitor. Moving forward, Kubo has led the growth in revenue in FY 2023, the Swiss business successfully delivered industrial better product availability versus competitors and underpinned market share gains. Double-digit growth in Austria reflects recovering end markets as well as geographic penetration gains in Germany.

Service high single digit organic growth in **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 restoration of projects at an end during the Ukraine war. The business is investing in organic growth in Germany, while the new construction pipeline is looking up following the benefit of a prolonged commercial activity in infrastructure. M Seals has recently invested in maintenance and new manufacturing capacity to drive growth in Scandinavia in 2023.

Following a slower start to the year due to the end of Covid, a period of production and distribution issues, **Australian Seals** delivered a solid year with organic growth, converting a large proportion of long-term and short-term contracts into annual contracts. A number of

Strategic progress

Delivered on our annual growth strategy

- Reverse engineered our understanding the Sector and our customers. For most businesses this reflects incremental currents from revenue diversification initiatives focused on growth by segment, geographic penetration and product extension.
- Added industry capability to the service portfolio to protect our long-term North American Aftermarket with the team successfully converting the opportunity into a new strategic plan going forward. This has also delivered greater business efficiency, more vertical integration to invest in expanding the infrastructure, increased capacity in the lead region.
- M&A to accelerate organic growth. Acquisition of R&G Apol for 2023 drove a repositioning of the UK, but the Seals Sector also makes a significant approach to market with R&G and added scale in the UK and significantly expanded the Seals product portfolio, expanding across other markets.
- Bottom up evolution of EIT industry for EIT to be a platform for our customers, national engineering and commercial control structure, through highly competitive and exciting.
- Australia Seals is well positioned to drive growth in the long term.

Building on our value added businesses

- Continued the integration of EIT into M Seals and reorganising the combined product line, reviewing ongoing activities in order to drive a coordinated commercial activity to drive growth.
- Integration of Kubo Seals and into expansion in multiple over the last three years. We have taken a new Australian Seals through product development, sales and restructuring the business into three strategic units in the European West, creating a high performing and profitable group.
- Within the Central European region, we have continued to invest in commercial investment in the region, with a focus on the maintenance and repair of new machinery and equipment, and the development of new products and services. The German and Austrian markets are strong and we are looking for further expansion in the region.
- Following the acquisition of R&G Apol, we have a strong position in the UK and are looking for further expansion in the region.
- Following the acquisition of R&G Apol, we have a strong position in the UK and are looking for further expansion in the region.

CASE STUDY

Product range extension delivering organic growth



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

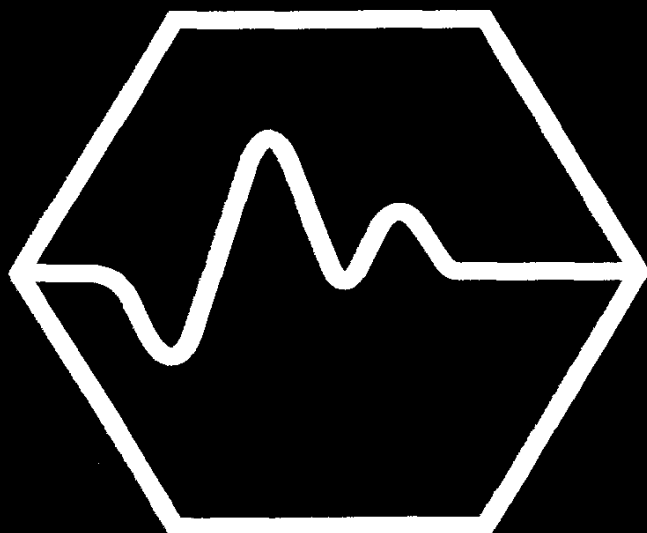


Read more

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

SECTOR REVIEW

LIFE SCIENCES SECTOR



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

Canada: 43%

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

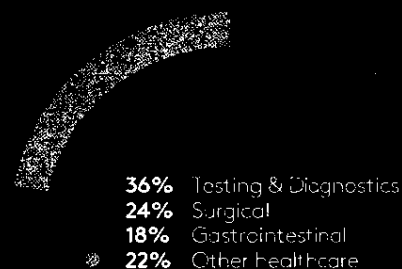
Australasia: 21%

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

Europe: 36%

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

Revenue by segment¹



Revenue by geography¹



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

+8% p.a.

22

188.6

¹ 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 all-envirosciences

Sector financial performance

sector financial performance. In 1997, 2000, and 2003, the average return on assets for the 100 largest banks was 1.18%, 1.21%, and 1.26%, respectively, with average revenue per dollar of assets of \$0.013, \$0.014, and \$0.015, respectively. Average net income per dollar of assets was \$0.004, \$0.005, and \$0.006, respectively. The average contribution from a customer and per year, \$0.004, \$0.005, and \$0.006, respectively, is the largest, reflecting the substantial after-tax return on loans and deposits and the high growth rate of new customers. The average contribution per new customer added per year was \$0.004, \$0.005, and \$0.006, respectively.

Excluding proceeds from the \$2.6 billion convertible preferred, the Secur delivered 21,000 shares to the public. Secur was also underwritten by a group of 10 banks and 100 institutional investors, including a group of 10 hedge funds.

[illegible]

testing and diagnostics

The first of these is the fact that the

Journal of the American Medical Association

 has been the only one of the major

 medical journals to publish a

 statement of the American Medical

 Association's position on the

 issue of the physician's

 duty to provide care to

 the poor. The statement

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 of the American Medical

 Association's position

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 statement that is

 clear and unequivocal.

[illegible][illegible]

1. *Journal of the American Medical Association*, 1997; 277: 1033-1037.

— $\frac{1}{2}$: "The first two are the same, the last two are different."

- YOUNG, J. F., and J. A. J. REEDER. 1992. Species

- [illegible]

CASE STUDY

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

ENGAGEMENT WITH STAKEHOLDERS AND SECTION 172 STATEMENT

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

Our business strategy is shaped and informed by the views of our stakeholders and we have always believed that stakeholder engagement is fundamental to 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 and every decision inevitably results in a positive outcome for one. Decisions will be consistent with the company purpose and ultimately promote the long-term success of the Group.

Stakeholder engagement

The Board is committed to effective engagement with its stakeholders and has established a culture that ensures this commitment is embedded within our business. Directors consider the views and interests of our stakeholders and are mindful that external stakeholders can benefit from our contribution to society through our global, local and diverse and continuing activities.

Stakeholder interaction and take on at all levels within the Group are an essential component of our strategy that we recognise the value of. Forums and others are that decisions are made at the appropriate level. The Board will sometimes engage directly with stakeholders in certain circumstances where it is the most appropriate decentralised nature of our Group and as a result, a number of our stakeholder meetings that some stakeholder engagement is more appropriate at an operational level. Our governance framework is global, but it is not one-size-fits-all, moving to the appropriate level within a defined set of parameters. This allows local and regional stakeholders to put forward their views and influence decision-making in the local context. Our stakeholder engagement team will be working with our long-term

stakeholders to ensure that our strategy is consistent with our overarching Group purpose.

The Board will review and determine the report from the Executive team, which will include a summary of our engagement with stakeholders and the interests and views of our stakeholders, and a summary of the engagement and proposals for the implementation of our stakeholder engagement plan.

The Board will also review and determine the report from the Executive team, which will include a summary of our engagement with stakeholders and the interests and views of our stakeholders, and a summary of the engagement and proposals for the implementation of our stakeholder engagement plan. The Board will also review and determine the report from the Executive team, which will include a summary of our engagement with stakeholders and the interests and views of our stakeholders, and a summary of the engagement and proposals for the implementation of our stakeholder engagement plan.

How stakeholder interests have influenced decision-making

Stakeholder interests have influenced decision-making in a number of ways. For example, the Board has considered the interests of our stakeholders in the context of the Group's strategy and has taken into account the views of our stakeholders in making decisions. The Board has also considered the interests of our stakeholders in the context of the Group's strategy and has taken into account the views of our stakeholders in making decisions. The Board has also considered the interests of our stakeholders in the context of the Group's strategy and has taken into account the views of our stakeholders in making decisions.

Through this Strategy Report, the Board has sought to demonstrate how the views of our stakeholders are embedded in how we do business, guided by our 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 service, 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, for example, on cash flow and capital investment.

OUR COLLEAGUES

Why we engage

Our most successful relationships are built on trust, mutual understanding and respect and are underpinned by shared values.

How we engage

- Annual Colleagues Engagement Survey, listening groups and engagement events, Regular business visits
- Consistent talent and performance management approach
- Internal communications through People Paper, our Group-wide internal newsletter, regular CEO updates and internal meetings
- Continuous learning and development opportunities, development, TCF governance and monitoring via the Future Forum
- Training management system
- Awards and recognition, D&I Reports, including Diversity, Equity & Inclusion, Health & Safety, and the Environment

How the Board engages

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

- Regular updates from the Group CEO
- Group-wide events and a Senior CEO
- Regular feedback from the People & Culture Engagement Survey
- Annual staff visits

Outcomes/action taken

- Culture is at the heart of our strategy
- All key engagement activities, including the Group and Board are aware of the importance of related human capital issues, including Diversity, Equity & Inclusion, in the future, including areas and about the future actions were taken
- Colleagues and our nation's, environment and overall well-being are a priority
- Training and development, the Future Forum and working closely with the business to achieve our goals
- People & Culture is a TCF Board and Senior Leadership Committee priority
- Learning and development, talent management and leadership development
- People and culture are a strategic priority, a key element of our business strategy

Our people are our most valuable asset. We will continue to support and develop our people.

OUR BUSINESSES

Why we engage

Given the time and investment we make in our business, 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 the role the Board must consider the needs of our business. They engage with them through:

- CEO Updates
- Regular updates from Senior CEOs
- Business visits
- Review of approved actions

OUR CUSTOMERS

Why we engage

Customers are key to our success, satisfaction and ongoing growth. We ensure that good service and excellent relationships lead to remain engaged with our customer base. Through feedback and listening, we improve and develop our product and services.

How we engage

- Product development services
- Customer feedback, individual businesses
- Customer satisfaction surveys and direct feedback from the customer
- Customer loyalty and trade events
- Long-term relationships

How the Board engages

As part of the role the Board must consider the needs of our customers. They remain up to date on key matters through:

- CEO reports
- Updates from Senior CEOs
- Business visits

ENGAGEMENT WITH STAKEHOLDERS AND SECTION 172 STATEMENT CONTINUED

OUR SUPPLY CHAIN

Why we engage

Our supply chain is fundamental to our impact business and we engage with our suppliers to manage and maintain a collaborative and transparent working relationship.

How we engage

- Strong, mutually beneficial partnerships
- Engage with our local and global businesses to understand the risks they face with suppliers
- Conduct annual audits and growth opportunity reviews
- Collaborate to realise innovation
- Regular engagement including audits and site visits
- Supply Chain Code of Conduct Supply Chain Policy
- Clear grievance procedures

How the Board engages

As part of the role, the Board must consider the needs of its stakeholders. They remain a key stakeholder in key matters through:

- Updates from our annual and Section 172 reports
- Supply chain reporting
- Modern Slavery Statement
- Business Impact Report

For more information on our stakeholder engagement, visit www.impactbusiness.co.uk or 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 its continued access to capital.

How we engage

- Results presentation by CEO and CFO
- One-on-one meetings undertaken by CEO, CFO and Head of Investor Relations throughout the year, including no roadshows
- Annual General Meeting
- Trading updates, regulatory news, semi-annual and full year updates
- Shareholder information on website
- ESG rating agencies
- Requested to provide investor endorsement

How the Board engages

- As part of the role, the Board must consider the needs of its stakeholders. They engage with them through:
- Attendance and engagement at the Annual General Meeting
- CEO and CFO roadshows throughout
- Engagement with the Chair and Company Secretary as appropriate
- Regular consultation with shareholders on key information and the new remuneration policy
- Shareholder enquiries and investor relations updates by the Head of Investor Relations
- Approval of the annual updates half year and full year reports and H1/3r
- Review of annual and research

ENVIRONMENT AND COMMUNITIES

Why we engage

Being responsible and doing commercial business go hand in hand. We have Engagement with our communities and industry to generate the economic business purpose that we and our stakeholders are focused on achieving. We appreciate the importance of individual business opportunities and how they relate to right impact, reducing our carbon footprint and lowering our tax and financial and reputational risk.

How we engage

- Charitable activities and fund raising
- Environmental and social and governance (ESG) Reporting
- Multi-stakeholder engagement with industry and NGOs
- Integrated environmental reporting
- Environmental and social and governance (ESG) data and metrics
- Tax and environmental and governance reporting

How the Board engages

- As part of the role, the Board must consider the needs of its stakeholders. They engage with them through:
- Updates from our annual and Section 172 reports
- ESG reporting
- Unpublished metrics by the Board and management
- Engagement with the industry and NGOs

Outcomes/action taken

As a result of the Board's engagement, Engagement with our stakeholders is a key focus. As a result of our engagement with our stakeholders, we have achieved the following:

- Reduced our carbon footprint by 10% over the last year
- Reduced our water footprint by 10% over the last year
- Reduced our energy footprint by 10% over the last year
- Reduced our waste footprint by 10% over the last year
- Reduced our greenhouse gas footprint by 10% over the last year
- Reduced our land use footprint by 10% over the last year
- Reduced our biodiversity footprint by 10% over the last year
- Reduced our social footprint by 10% over the last year
- Reduced our governance footprint by 10% over the last year

For more information on our stakeholder engagement, visit www.impactbusiness.co.uk or see page 44

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

Overview

Strategic Report

Corporate Governance

Financial Statements

Other Information

Q&A WITH OUR NEW CFO



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

Chris Davies
CFO

Q

What attracted you to Diploma?

A

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

I believe that this is a role that I can really get my teeth into. In a business with abundant opportunities for continued, profitable growth, I have been able to get a good feel for the future. Diploma is a truly an exciting environment where people matter and I think I'll 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

For a start, I'm energetic and enthusiastic to partner Diploma's continued growth and achieve the business's long-term objectives. Over my career I have managed the change of roles and experience which is a challenge in itself.

I have lots of experience of contributing to performance, strategy and robust financial performance. This has been underpinned by my previous FTSE 100 role and an thorough understanding of the Group's Chairman, Treasurer and Finance Director roles.

I've worked in many sectors across multiple geographies including in multi-national organisations. Importantly, we are really proud of the fact we don't do anything in a traditional way and I think that I know how to deliver this.

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 all the key business leaders, building great relationships and continuing to develop my understanding of the Group.

My top priority is defining performance, but my focus will be to work with the new and the senior teams 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 to evolve, mature and make our products, processes and people work to ensure that the Group continues to lead to ensure the sustainability of the business and strong robust financial controls.

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

Other Information

FINANCIAL REVIEW CONTINUED

Free cash flow conversion 90%

Free cash flow represents cash available to invest in growth through value-enhancing acquisitions or to return to shareholders. Free cash flow increased 11% in the year to £120.4m (2021: £108.8m). Free cash flow conversion for the year was 90% (2021: 103%), in line with our targeted 90%+ demonstrating the highly cash-generative nature 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: £12.5m) outflow was driven by an increase in 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 £40.8m (2021: £24.2m). On an underlying basis, group tax payments increased by 22% (2021: 17%) calculated prior to before tax credit. The effective tax rate is lower than our Group effective tax rate mainly due to the impact of group relief, which is deductible for UK tax purposes. Our total tax rate is higher than our effective rate due to tax 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 £18.4m (2021: £6.2m) largely reflecting an increase in investment in new production facilities for meat care businesses to £5.8m (2021: £2.5m), which directly supports revenue growth. Excluding this capital expenditure, increased £4.4m to £14.0m, reflecting on infrastructure and capital expenditure and capital efficiency, respectively, of £5.5m and capital expenditure of £1.1m. The net investment in new equipment during the year was £1.7m.

The Group spent £185.6m (2021: £461.0m) on acquisitions and £56.4m (2021: £13.1m) 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 Accelerance (£49.9m), as well as an additional £14.4m primarily relating to five smaller businesses. The total spend also includes £6.5m of acquisition fees and deferred consideration of £7.0m. We remain highly disciplined in our approach with only three high quality, value add acquisitions entering our sectors and continues to accelerate their organic growth and create value.

On 30 September 2022 was £170.3m (2021: £260.7m). Goodwill is assessed each year to determine whether there has been an impairment in the carrying value. It was confirmed that there was significant headroom on the valuation of intangible goodwill compared with the carrying value at the year end.

Disciplined portfolio management

The Group completed two disposals in the year – the disposal of its minority shareholding in May 2022 for proceeds of £17.4m, and the disposal of its 90% interest in Kenter in November 2021 for proceeds of £10.0m after tax expenses and Kenter generated revenues of £17.0m and £2.4m in the year respectively. The proceeds are split into working capital flow and the net proceeds of disposal of £0.8m is not included in adjusted operating profit.

Liabilities to shareholders of acquired businesses

The Group has liability to shareholders of acquired businesses at 30 September 2022 prepared by £17.7m (£37.4m (2021: £13.7m) and comprises debt obligations to purchase outstanding minority shareholder rights and deferred consideration payable to vendors of businesses acquired during the current period of year.

The liability to purchase minority shareholder rights outstanding at 30 September 2022 represents a 10% interest held in M Goods 81% interest in Terns and a 2% interest in R&G. These obligations are valued at £14m (2021: £12m) based on the 1% discount method rate of the earnings per share (EPS) of the businesses when they were initially acquired.

The liability to deferred consideration payable at 30 September 2022 was £24.0m (2021: £19.5m). This liability represents the Directors' best estimate of any outstanding amounts owed to the vendors of businesses based on the expected performance of these businesses during the measurement period. The increase in the liability is primarily due to the acquisition of R&G.

ROATCE: strong returns

ROATCE is key metric used to measure our return on created value to shareholders. As at 30 September 2022, the Group's ROATCE was 11.3% (2021: 17.4%) in line with our shareholder target. The 11.3% return rate reflects a number of moving parts with the ten primary drivers of the return calculation and its growth over time. From a value creation perspective, the return rate is supported by the strong ROATCE of the acquired businesses, the excellent ROATCE of the existing businesses.

ROATCE is calculated on an annual basis, defined in line with the industry standard financial statements.

Strong balance sheet

Strong balance sheet position is a key driver of the Group's value proposition. As at 30 September 2022, the Group's Net Debt (excluding IFRS 9) was £1.1bn, down from £1.6bn at the Group's financial year end and capital expenditure was met with cash flow, working capital and working capital of £170.3m and other funds of £41.7m.

On 3 October 2022, the Group entered into a tender offer to purchase 38.4 million common shares of the company for funds aggregated from cash on hand of £124.0m (2021: £107.0m) and proceeds from the sale of the company's common shares of £135.0m, which was increased to £151.0m during the year. The tender offer was completed on 3 October 2022.

During the year the Group's common equity of £154.0m increased to £170.3m at 30 September 2022. The £16.3m increase was primarily due to the tender offer of £124.0m and the sale of the company's common shares of £135.0m, which was increased to £151.0m during the year. The tender offer was completed on 3 October 2022. The Group's common equity of £170.3m at 30 September 2022 is supported by the strong ROATCE of the acquired businesses, the excellent ROATCE of the existing businesses, and the strong ROATCE of the Group's common equity of £170.3m at 30 September 2022.

Organic revenue growth

15%

Reported revenue growth

29%

Adjusted operating margin

18.9%

Free cash flow conversion

90%

Net debt/EBITDA

1.4x

The Group's debt portfolio is not subject to interest rate swap contracts. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$100m of \$LIBOR-linked debt. The effect of the interest rate swap was to add a floating portion to the debt liability and for the year, and the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional \$100m of debt.

At 31 August 2022, the Group's Net Debt to EDA was 1.4x. We have strong liquidity with year-end cash and equivalents of £204m. (See table 3)

Employee pension obligations

Pension payments to existing employees are funded by the Group's defined pension scheme through the funding of a scheme set on an appropriate cost basis. For 2022, this was £1.2m of £3m.

The Group's main liability is associated with defined pension plans operating in the UK. The Group's primary funding strategy is to ensure that cash contributions made for 2022 of £5.9m will meet the requirements of the Pension Act 2004.

The Group's pension plan is a defined contribution plan and is subject to contributions from employees and employers. The pension plan is managed by a third party, which is responsible for the investment of the pension plan assets. The pension plan is subject to a funding requirement, which is based on the value of the pension plan assets. The pension plan is subject to a funding requirement, which is based on the value of the pension plan assets. The pension plan is subject to a funding requirement, which is based on the value of the pension plan assets.

Table 3: Composition of net debt

Type	Currency	Amount	GBP equivalent	Interest rate exposure
Net debt	£	£370.6m	£370.6m	Fixed at 3.0%
RCE	£	£370.6m	£370.6m	Fixed at 3.0%
RCE	£	£370.6m	£370.6m	Floating
RCE	£	£370.6m	£370.6m	Floating
Net debt	£	£370.6m	£370.6m	Floating
Gross debt drawn at year end		£370.6m	£370.6m	
Less: Cash and equivalents		£204.7m	£204.7m	
Net debt at year end		£370.6m	£370.6m	

Source: Group Finance Department

Notes: RCE = Restricted Cash Equivalent

For the UK defined profit scheme, the main liability is associated with the defined pension plan. The Group's primary funding strategy is to ensure that cash contributions made for 2022 of £5.9m will meet the requirements of the Pension Act 2004. The Group's primary funding strategy is to ensure that cash contributions made for 2022 of £5.9m will meet the requirements of the Pension Act 2004. The Group's primary funding strategy is to ensure that cash contributions made for 2022 of £5.9m will meet the requirements of the Pension Act 2004.

FX tailwind and interest headwind largely offsetting

Whilst there is no absolute certainty over future interest rates and exchange rates, looking ahead to 2023, it is likely that exchange rates (especially Sterling/Dollar) will be a boost to reported earnings whilst increasing interest rates will increase costs. With around 60% of the Group's debt denominated in USD/GBP, the net effect of these changes is expected to be largely offsetting.

INTERNAL CONTROL AND RISK MANAGEMENT

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

Our risk management framework supports informed risk taking by our businesses. It sets out those risks that we are prepared to take, exposures to and those risks that we want to avoid. Together with the policies 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 to their customers and ensure we are resilient to risks we have limited control over.

Our risk management governance continues to evolve and we will continue to support the Group in going global with our strategic objectives. As our business adapts

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

Our approach

Risk is an element and oversight of opportunities and risks is central to the Group's management of control and risk. Due to the decentralised nature of our business, each of our businesses is responsible for managing risks effectively, to take advantage of opportunities. Risks and opportunities are necessarily ambiguous and hence are incorporated with

appropriate distance review and challenge from the Group. This is an integral part of our decentralised business model which encourages local accountability. The Board and our Group employees have a continuous improvement focus, including how to better identify, evaluate and manage risk and enable growth. We have continued to strengthen our risk management and governance in 2020 by developing our top down approach, horizon scanning for emerging and external risks, and enhancing officer 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 also provides the framework for the effectiveness of the internal control and management 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 its financial performance and returns to its many holders and other stakeholders is dependent upon assessing a level of risk. Our risk appetite reflects how we balance risk and opportunity in pursuit of our strategic objectives. The acceptance level of risk is observed on an annual basis by the Board, which defines its risk appetite against certain key indicators, including extent of impact of risk, likelihood of risk and ability to reduce risk through mitigation. This ensures alignment between an acceptable risk exposure and the strategic priorities of the Group.

Identifying and monitoring material risks

Each of our Group companies is responsible for identifying and reporting the aspects of their individual business reviews, evaluating new risks and opportunities and controlling whether mitigation is required and whether any further action is 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 processes are a quantitative methodology 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 residual, after mitigation. This identifies which risks require internal mitigating controls and which require further treatment. A similar exercise is then performed at Section and Group level to develop an overall bottom up picture of operational risk for the Group. This process is then repeated on a regular basis ensuring that risks are identified and monitored and that management controls are embedded in the business operations.

Risks are also monitored on a continuous basis, the result of regular meetings with the Executive team and key functions to review and update their material risks as well as to plan key areas for new disruptions. These are then reviewed and approved prior to the updated annual disruption 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 Sections. Any potential to improve evaluation or management of risks are shared with the business by the relevant Section. During the year updates from management to the Board covered all principal risks, with the exception of the Audit Committee, the Board obtained a summary of the Group's risk management and internal controls. This was accounting effectively and therefore was not a key risk area being managed in line with risk appetite.

Risk management relies on internal control activities to ensure accurate accounting and to help mitigate the financial risks of the Group. The governance process with the management ensure that the comprehensive monitoring risks and associated mitigating actions are accurately reviewed by the Executive team and also reported to the Board on a regular basis.

Emerging risk

The Board also considers potential new threats and opportunities that could impact our Group in the future. These emerging risks have no track record and are not our experience, which means there is no prior likelihood of risks and the impact is not predictable over the short to medium term performance of the Group.

The risk management team evaluate emerging risks and opportunities on the executive level and on the operational level, at the appropriate function with appropriate exposure preserved. The results are documented in the Group's annual and prepared for the full year.

The following emerging risks and opportunities are identified and monitored on a regular basis and will be monitored on a regular basis:

Emerging risk	Description
Technology evolution	The risk that Epi Group does not manage to respond to evolving technologies effectively.
Climate change	The risk that Epi Group fails to anticipate the impact of climate change, including the increase in frequency and severity of natural disasters and impact on their products and products.
Digitalisation	The risk that Epi Group fails to implement digital services, leading to a loss of added value and adaptation.

Principal risks and uncertainties

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

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

The principal risks are each classified as either major, 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 measures 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 constitute a list of the risks that the Group may face and, accordingly, are not primary (i.e. not intended to be exhaustive).

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

- Customer Concentration and Inventory Obsolescence are no longer considered to be principal risks, although will continue to be monitored and evaluated.
- Inflationary Environment has been reclassified to be a principal risk, previously being considered an emerging risk.
- Supplier Concentration, Loss of Key Suppliers and Supply Chain disruptions have been amalgamated into Supply Chain, which will also include the risk of supply chain interruption.
- Loss of Key Personnel has moved to Talent & Diversity and will also cover the risk of having a high talent attrition rate, diversity and inclusion, staff attrition and inadequate development.
- Tax Compliance has evolved into Tax Compliance with laws and regulations, which also covers our compliance with environmental regulation and the increasing international complexity of payment duties.

Principal risk

Downturn/instability in major markets

Risk category

Macro/external risk

Board risk appetite

Averse

Change in risk



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

Risk description and assessment





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

Mitigation

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

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

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

 Increase	 Decrease
 Decrease	 Key figure

Principal risk

Supply chain

Risk category

Strategic risk

Board risk appetite

Cautious

Change in risk



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

Risk description and assessment

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

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

There is also the risk of:

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

Mitigation

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

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

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

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

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

Inflationary environment

Risk category

Macro/external risk

Board risk appetite

Cautious

Change in risk



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

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

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

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

Principal risk

Unsuccessful acquisition

Risk category

Strategic risk

Board risk appetite

Tolerant

Change in risk



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

Risk description and assessment

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

The following are the key risks of an acquisition process:

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

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

Mitigation

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

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

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

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

Geopolitical disruptions

Risk category

Macro/external risk

Board risk appetite

Averse

Change in Risk



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





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

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

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

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

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

 Increase	 Decrease
 Decrease	 New risk

Principal risk

Health & Safety

Risk category

Operational risk

Board risk appetite

Averse

Change in risk



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

Risk description and assessment

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

Mitigation

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

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

Technology & cyber

Risk category

Operational risk

Board risk appetite

Cautious

Change in risk



The risk of cyber attacks remained high in 2022.

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

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

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



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





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

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

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

Business continuity plans exist for each business with ongoing testing

Principal risk	Risk description and assessment	Mitigation
Talent & diversity Risk category Operational risk Board risk appetite Cautious Change in risk  <p>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.</p>	<p>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.</p> <p>Not having the right talent or diversity at all levels of the organisation to deliver our strategy, resulting in reduced financial performance.</p>	<p>Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term.</p> <p>The Group places very high importance on planning development, motivation and reward:</p> <ul style="list-style-type: none"> - 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  <p>This risk remains at a similar level to last year.</p>	<p>There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability.</p> <p>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.</p> <p>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.</p> <p>The Group has liability insurance in place providing appropriate cover for each business.</p>	<p>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.</p> <p>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.</p>

	↑ Increase		↓ Decrease
	↓ Decrease		* Uncertain

Principal risk

Foreign currency

Risk category

Financial risk

Board risk appetite

Cautious

Change in risk



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

Risk description and assessment

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

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

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

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





Mitigation

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

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

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

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

 Increase	 No change
 Decrease	 New risk

Principal risk

Non-compliance with laws

Risk category

Operational risk

Board risk appetite

Averse

Change in risk



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

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

Risk description and assessment

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

Mitigation

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

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

VIABILITY STATEMENT – DIPLOMA PLC

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

A period of three years has been chosen for this assessment, having considered the speed and degree of change in some key assumptions influencing the Group, as well as the need of evaluation from the viewpoint of the Group, which is reflected by the Directors' ability to predict beyond the period chosen reliably. Given the pace of change in the primary and secondary markets the Group operates, the Directors believe that three years represent the most appropriate timescale over which to assess the Group's viability. This time period is consistent with the Board's strategic review, during which the prospects of our business are assessed. As part of this assessment, we are made regarding entering into new markets and geographies, but also at the rates of the existing businesses, and the potential performance of existing businesses.

The Directors confirm that the robust assessment also considers the principal risks facing the Group, as highlighted on pages 62 to 68, and the potential impact these risks would have on the Group's business model, future performance, liquidity or solvency over the assessment period. The Board confirms that the diverse nature of the Sectors and geographies in which the Group operates also significant risks might have on the Group.

The viability assessment considers severe but plausible scenarios aligned to the principal risks facing the Group, where the reduction of these risks is considered remote, taking into account the extent 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 of 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 each part of the major assumptions, namely, what are revenue growth, the operating leverage, trading impacts on the Group, and potential downturn in the end of the markets in which the businesses operate, impacting margins and unit volume working up to movements driven by further supply chain disruptions. The degree of flexibility applied in this sensitivity analysis was based on management's experience and knowledge of the Sectors in which the Group operates.

The robustness of these assumptions is aggregated to reflect a severe but plausible scenario, and used to determine whether additional uncertainties will be required during this period. The Group has significant financial resources, including banking facilities as detailed on page 57. The Group also has a large cash flow, customers and suppliers, and a diverse geographical spread, and is exposed to market entry and exit, and is able to generate new investments. The Directors believe that the Group has a robust business model and a strong financial position.

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 2023, as detailed in the Remuneration Report on page 121. The current Remuneration Policy also provides that, for directors appointed since the Policy was approved, the annual maximum pension allowance or contribution will be aligned to the maximum rate available to the majority of the wider UK workforce.

Principles of the UK Corporate Governance Code 2018

More information

Board leadership and company purpose

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

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

Division of responsibilities

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

Read more on pages 96 to 98.

Composition, succession and evaluation

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

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

Audit, risk and internal control

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

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

Remuneration

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

Read more on pages 114 to 133.



Dear Shareholder,

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

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

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

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

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

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

Board succession and evaluation

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

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

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

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

David Lowden
Chair

GOVERNANCE AT A GLANCE

Ethnic diversity



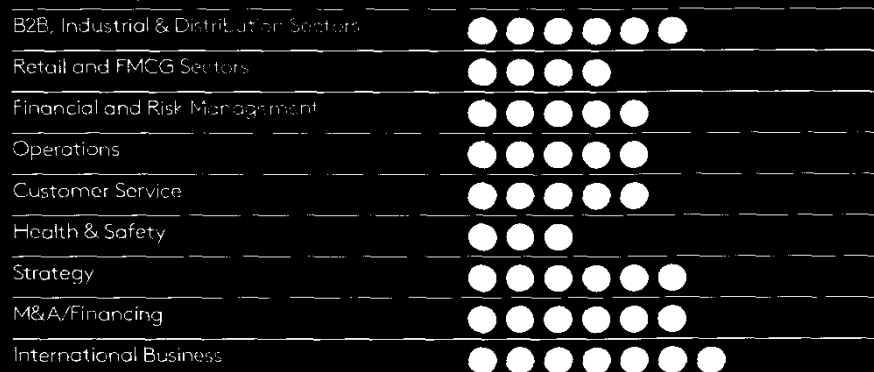
Gender diversity



Length of tenure



Skills and experience



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

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

1. Dean Finch was unable to attend the 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



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.



BOARD OF DIRECTORS





Dean Finch
Non-Executive Director

Joined
May 2021

David Lowden
Board Chair

Joined
October 2021

Anne Thorburn
Senior Independent
Director

Joined
September 2015

BOARD OF DIRECTORS SKILLS AND EXPERIENCE



David Lowden
Board Chair & Nomination Chair

Joined
October 2021

Current external appointments:

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

Relevant skills and experience:

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

Past appointments:

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



Johnny Thomson
Chief Executive Officer

Joined
February 2019

Current external appointments:

- None

Relevant skills and experience:

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

Past appointments:

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



Anne Thorburn
Senior Independent Director & Audit Chair

Joined
September 2015

Current external appointments:

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

Relevant skills and experience:

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

Past appointments:

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



Chris Davies
Chief Financial Officer

Joined
November 2022

Relevant skills and experience

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

Past appointments

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

Current external appointments

- Non-Executive Director, Metacity 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:

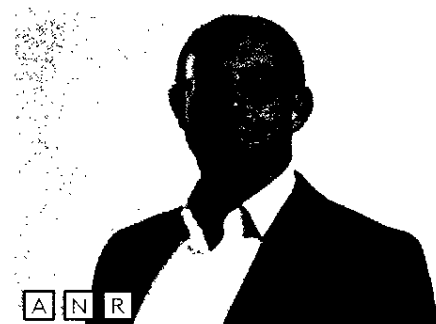
- President, Procter & Gamble, Canada

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 a 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

- Lead the Board and ensure its overall effectiveness in discharging its duties.
- Shapes the culture in the boardroom and promotes openness and 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 a group of individuals dominate the Board's decision making.
- Provide constructive challenge, give strategic guidance, offer independent advice and hold senior management to account.

Independent Non-Executive Directors meeting the independence criteria set out in the Group's compliance code are not part of Board management.

Senior Independent Non-Executive Director

- Lead the Board and ensure its overall effectiveness in discharging its duties.
- Assist the Chair with the support in the delivery of objectives where necessary with the Chair.
- Chair the Nomination Committee, lead the process for the evaluation of the Group's performance against its responsibilities to the Group and its stakeholders.
- Acts as a primary contact for shareholders, providing a means of raising concerns and queries 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 Group's operations and resources of the Group.
- Executive Director responsible for information to the Board and on all matters of Board and its independent Group management, financial and operational matters.

Members of the Board, the CEO and CFO, include managing the Group's cash flows in line with the Group's strategy, annual budget and implementation of the risk governance framework.

Group Company Secretary

- Support the Chair and ensure the Directors have access to appropriate and timely information to enable them to perform their duties.
- Act as the main point of contact with the Board and its Committees and between executive management and the Non-Executive Directors.
- Advise the Board on legal and regulatory governance matters and support the Board in complying with the Code and dealing with regulatory matters, including the regulatory and legal 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.

BOARD OF DIRECTORS BOARD ACTIVITIES

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

Strategy & strategic execution

25%

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

Finance

20%

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

Operations

10%

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

Colleagues & culture



15%

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

Risk



15%

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

Governance



15%

- Regular corporate governance and regulatory updates from the Group Company Secretary.
- Completed external review of the Board effectiveness review.
- Agreed and chaired our programme of 2023 external evaluation of the board performance.
- Approved the appointment of a new Executive Director.
- Reviewed and approved matters reserved for the Board and Terms of Reference to our Committees.
- Reviewed and approved the Company's financial reporting.

AUDIT COMMITTEE REPORT

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

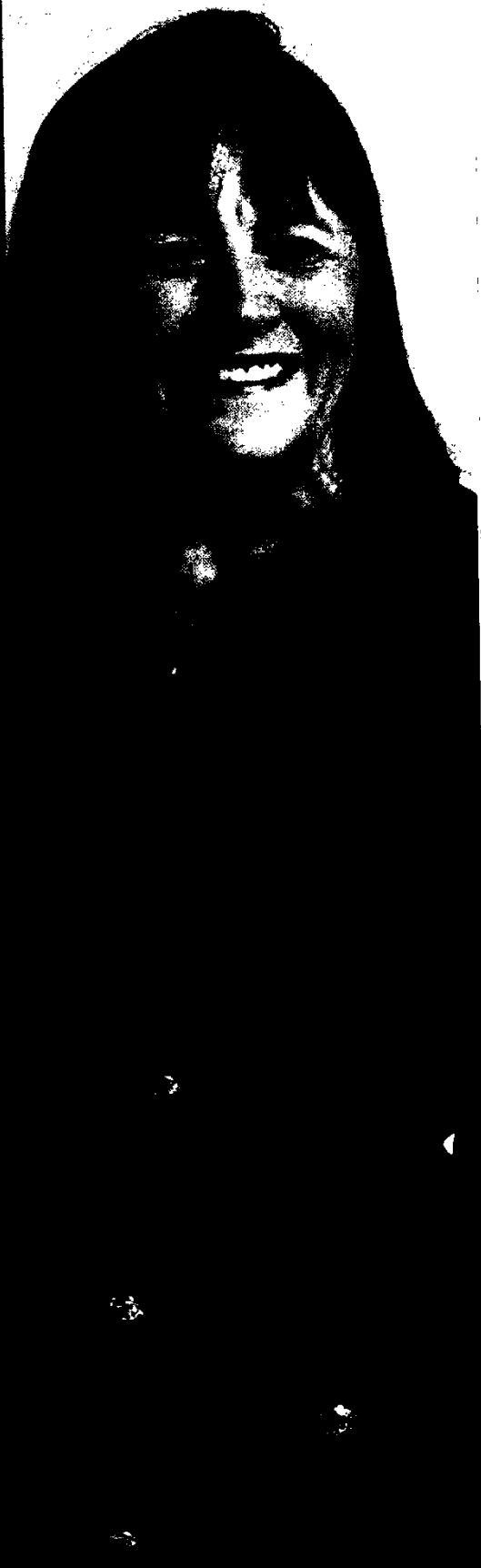
The role of the Committee

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

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

Key matters discussed

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

Audit Committee

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

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

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

Financial reporting and significant financial judgements and estimates

The Committee considered and assessed:

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

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

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

Accounting for acquisitions and disposals

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

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

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

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

Provisions for excess and slow-moving inventory

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

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

Impairment of goodwill

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

Other audit matters

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

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

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

Going Concern and Viability

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

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

Engagement of the external auditor

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

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

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

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

AUDIT COMMITTEE CONTINUED

Non-audit services

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

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

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

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

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

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

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

Risk management and internal control

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

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

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

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

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

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

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

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

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

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

Internal audit

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

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

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

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

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

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

Whistleblowing

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

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

NOMINATION COMMITTEE REPORT

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

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

The role of the Committee

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

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

Key matters discussed

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



Dear Shareholder,

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

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

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

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

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

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

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

David Lowden

Chair of the Board and Nomination Committee
21 November 2022

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

NOMINATION COMMITTEE CONTINUED

Nomination Committee

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

The Group Company Secretary acts as Secretary to the Committee.

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

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

Induction and professional development

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

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

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

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

Process for Board appointments

When making a Board appointment, we follow the five steps outlined below. We begin with the help of the search agent and any other connections we have with the industry. An End Up Report & Account, a presentation on the relation in our market and a brief induction programme are prepared for the new Director.

During the year we engaged Ruston Reynolds in connection with the recruitment of David David Ruston Reynolds as our first and only 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

NOMINATION COMMITTEE CONTINUED

Onboarding processes

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

Succession planning

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


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

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

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

Length of tenure

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

 Length of term

¹ Director in third and final term

Board evaluation

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

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

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

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

Key areas for development

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

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

REMUNERATION COMMITTEE REPORT

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

The role of the Committee

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

📄 **Terms of reference can be found on our website at www.diplomapl.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 Gibbs.

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 Gibbs, as well as all other PSP participants.

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

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

Appointment of new CFO

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

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

REMUNERATION COMMITTEE CONTINUED

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

Remuneration in the workforce

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

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

This year's Group reward guidance to the businesses focused on looking after colleagues. The first priority was focusing on colleagues affected by inflationary pressures arising from the macro-environment including energy prices and other rising costs of living. For the first time this 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 under way to develop Delivering Value Responsibly as part of the strategy and we have set some non-financial KPIs and targets (shown on page 59) but more time is needed to assure these measures before we can introduce them into variable pay. Accordingly, our proposed policy has flexibility to introduce ESG metrics during this policy period (at an appropriate point).

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

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

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

Shareholder consultation on proposed changes

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

Remuneration for 2023 – implementation Fixed pay:

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

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

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

Annual bonus:

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

PSP:

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

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

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

Non-Executive Directors and Committee evaluation

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

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

Conclusion

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

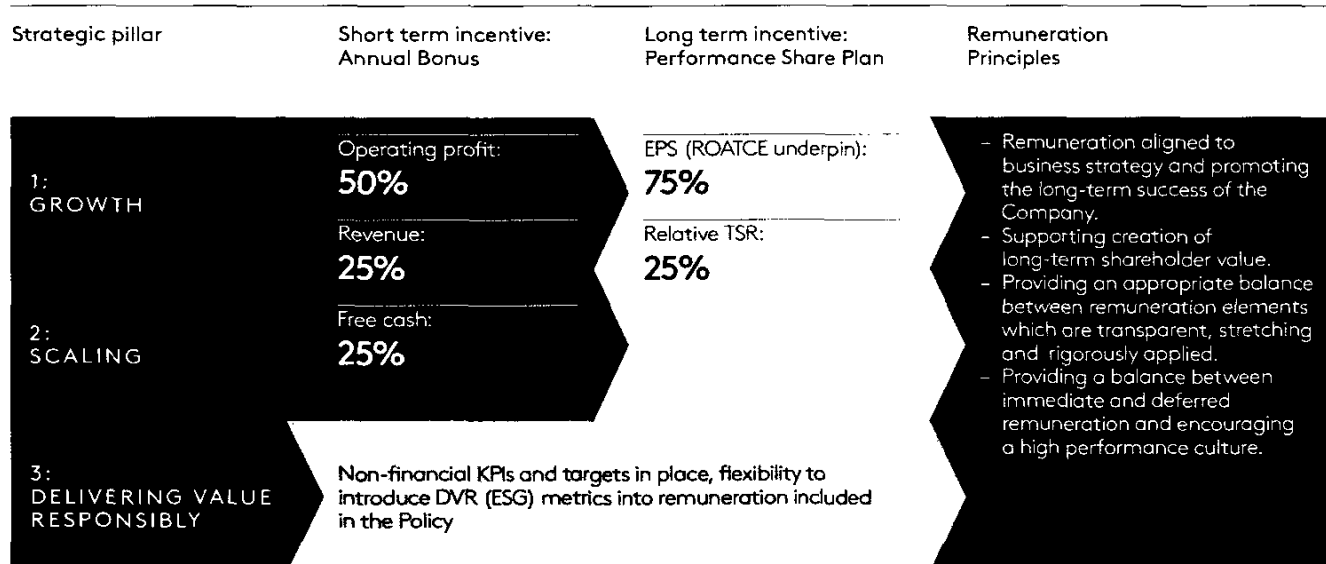
Andy Smith
Chair of the Remuneration Committee
21 November 2022

REMUNERATION AT A GLANCE: DIPLOMA'S APPROACH TO REMUNERATION

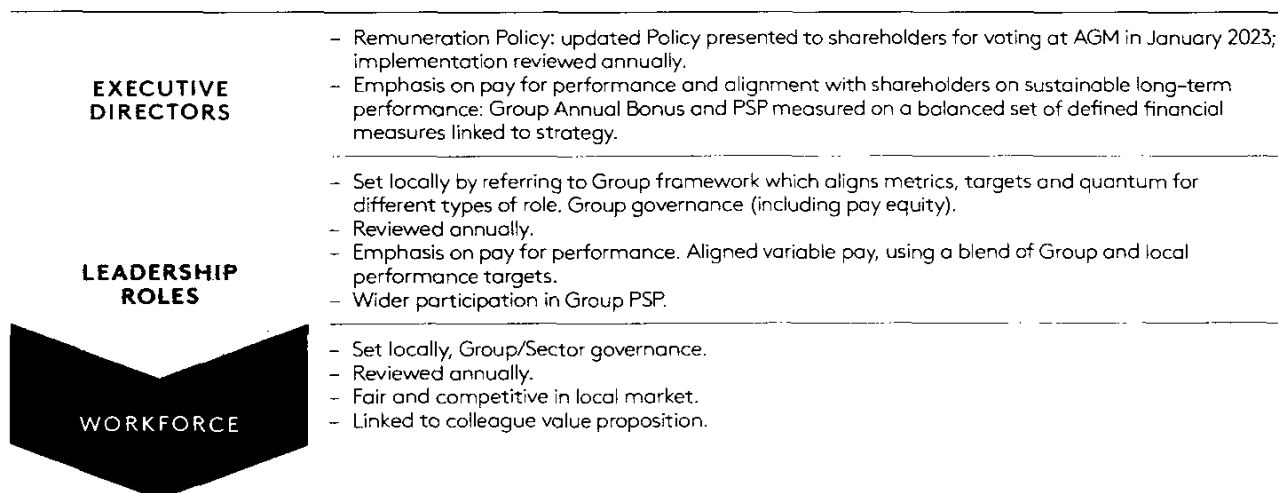
Set out below is an illustration of how remuneration aligns to strategy and how it cascades in our decentralised business model

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

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



CASCADE OF REMUNERATION IN OUR DECENTRALISED BUSINESS:



Business Performance 2022 Annual Report of Remuneration

Strategic execution

Growth

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

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

Disciplined portfolio development: disposals of Centex and all environments.

Scaling

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

DVR

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

A year of more consistent and robust reporting.

Targets set for the first time.

Performance

Adjusted operating profit

+29%

Revenue

+15%

Free cash flow

+11%

Adjusted EPS

19%

(3-year CAGR)

ROATCE:

17.3%

Relative TSR: percentile rank

91%

(3-year performance)

Engagement index

79%

(2021: 79%)

Scope 1 & 2 emissions

10,615 tonnes CO₂ e

(baseline year)

Waste to landfill

60%

(first year of measurement)

Reward

Maximum bonus payable

Maximum vesting on PSP

Flexibility to introduce DVR metrics in remuneration included in Policy.

2022 Broader Reward Priorities

Goal

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

Retain talent in the competitive talent market

Incentivise brilliant leaders on long-term success

Action

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

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

**PSP participation increased to ca. 50 participants (2021: ca. 35 participants, 2020: ca. 15 participants).
To keep pace with the growing Group variable pay structures and quantum reviewed, high pay for high performance.**

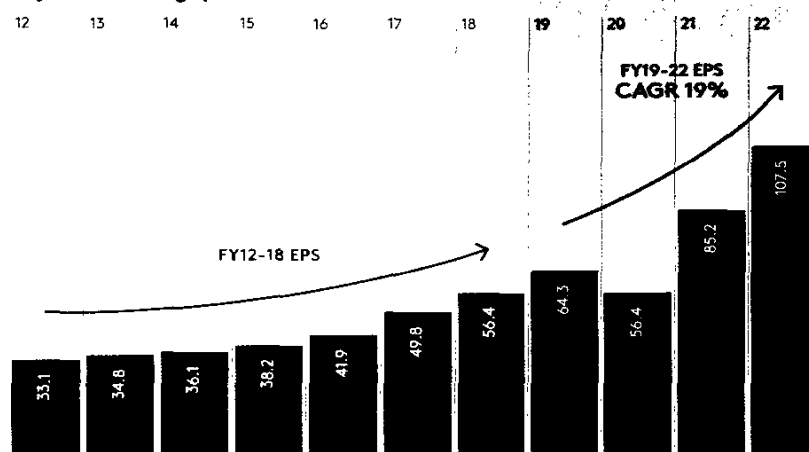
2022 Remuneration Policy Review – process

Changes to Remuneration Policy and its implementation

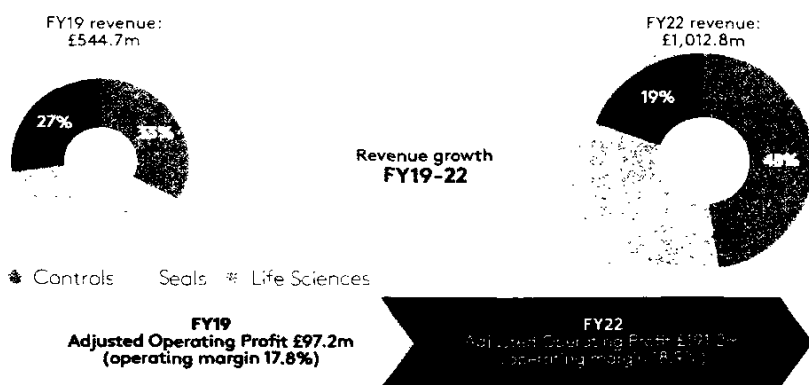
This section sets out the Directors' Remuneration Policy (the Policy) proposed for approval by shareholders at the Company's AGM on 18 January 2023. The Company's current Remuneration Policy (the Policy) was approved by shareholders at the 15 January 2020 AGM and the updated policy, subject to shareholder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

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

Adjusted earnings per share



The Group has doubled whilst improving operating margin



2. Wider stakeholder context considered during Policy review:

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

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

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

4. Shareholder consultation on proposed changes:

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

2022 Remuneration Policy proposals and rationale

Pension alignment with wider workforce

Pension contribution for CEO reduced to 4% of base pay from 10% of base pay from January 2023.
CFO pension value already aligned to wider workforce rate of 4% of base pay.

Improving the competitiveness of Executive Directors' compensation opportunity, reflecting growing business and criticality of leadership

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 the MSR for 2 years after the termination date
Chris Davies' (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. CEO's PSP award increased from 250% to 300% in November 2022. Remuneration amounts in the table above are annualised. When implemented, all his fixed and variable pay is prorated in FY23.

REMUNERATION POLICY

Remuneration Policy

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

The Committee may also make minor amendments to the arrangements for Directors described in the Policy, without shareholder approval, for regulatory, tax or administrative purposes or to take account of changes 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 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 roles generally and the competitiveness of the remuneration against comparable businesses and UK peers.
Pensions	Designed to support	Employees contribute via either a salary sacrifice arrangement or a pension taken as a separate contribution.	Maximum pension contribution will be no higher than the rate offered to the majority of UK workers for UK-based Executive Directors. Maximum pension contribution for UK-based Executive Directors will be no higher than employees in the relevant UK market.	No performance metrics.
Benefits	To provide a competitive package of benefits	Includes various cost-of-living benefits such as private medical insurance, income protection and holiday pay. The Committee may offer other additional benefits in line with the interests of the Company and its employees. Any benefits provided will be subject to applicable law and tax.	No maximum limit is prescribed but the Committee may restrict awards and overall cost of the benefit provision.	No performance metrics.

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.	<p>Eligible for opportunity for additional reward based on annual performance against target set and approved by the Committee.</p> <p>Where share and long guidelines have not been met, half of any annual bonus awarded must not be used to purchase shares on behalf of the Executive. The shares, which are beneficially owned by the Executive, and eligible for dividends and will only be released once the Executive satisfies the minimum shareholding requirement. The remaining bonus shall be paid in cash following the relevant year end.</p> <p>Malus and clawback provisions apply to bonus awards.</p> <p>The Committee may amend the terms of the scheme should it need be and reflect that of the Company's underlying performance or other external and internal factors.</p>	<p>Maximum of 125% of basic salary for the Executive Director.</p> <p>But, maximum bonus should be results in her payment. Achievement of threshold performance results in payment of 50% of base salary. Disregard for 100% of base salary and 0.</p>	<p>Performance metrics are weighted annually based on the current business objectives. The majority of the bonus will be linked to financial performance.</p> <p>Performance targets will be set for the financial year and the maximum bonus will be 125% of the bonus.</p>
Performance Share Plan (PSP)	Incentivise Executive Directors to achieve superior returns and long-term value growth.	<p>Performance awarded over rolling three-year performance periods.</p> <p>Awards are discretionary and are made up to the date of withdrawal from the plan. Immediate termination ceases during a three-year performance period awards will normally lapse except in the case of a good leaver.</p> <p>Executive Directors are required to retain shares (or shares underlying the PSP) until the fifth anniversary of grant.</p> <p>Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividend foregone or vested or both from the time of award to the time of vesting.</p> <p>Malus and clawback provisions apply.</p> <p>The Committee may amend the terms of the scheme should it need be and reflect that of the Company's underlying performance or other external and internal factors.</p>	<p>The maximum opportunity is as a percentage of annual 300% for the PSP and 100% for the Annual Performance Bonus.</p> <p>Not more than 2% of the award will be payable on financial performance.</p>	<p>Awards will be granted subsequent to confirmation of the financial and strategic measures to be achieved for the long-term strategy and the award will be a bonus of less than three years.</p> <p>Shareholders' financial interest will be protected and a maximum of 2% of the PSP.</p>

REMUNERATION POLICY CONTINUED

Chair and Non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chair and Non-Executive Directors fees	To attract and retain a Chair and independent Non-Executive Directors of the required calibre and experience.	<p>Paid quarterly in arrears and reviewed each year.</p> <p>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.</p> <p>Any reasonable business related expenses (including tax thereon) if determined to be a taxable benefit cannot be reimbursed.</p>	The Chair and Non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	No performance metrics

Selection of performance measures and targets for Annual Bonus and PSP

The Annual Bonus Plan is designed to drive the annual financial and strategic objectives of the business. Performance measures are selected aligned to the company's strategic plan and key 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 all other objectives. Performance measures are selected to align with these objectives and targets are set by reference to internal long term expectations. Any and award adjustment in the calculation of performance measures will be disclosed to shareholders in 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

Below are performance Executive Directors' potential value of 2023 remuneration packages:

Johnny Thomson

Minimum	95%	£60,000
Target	32% 19%	£2,437,000
Maximum	19% 23%	£4,063,000
Stretch	15% 18%	£3,564,000

Chris Davies

Minimum	96%	£487,000
Target	38% 23%	£1,016,000
Maximum	24% 29%	£1,087,000
Stretch	20% 23%	£1,427,000

Fixed: ● Base salary and benefits ● Pension
Variable: ● Annual performance bonus ● Long term incentives plan

1. Base salary and pension will be shown as set out on page 9.

2. Stretch is a hypothetical value based on the Maximum variable annual bonus and the 100% maximum vesting of the PSP over three years in the PSP.

New CFO Remuneration package

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2021. Chris was appointed on a salary of £480,000 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. The bonus and contribution of 4% of salary to fund with the wider UK workforce. The annual bonus provides a potential remuneration of a fully annualised base salary, pension, benefit, bonus and a 25% rise with the Remuneration Policy of the Company, including bonus and cash and non-cash incentive elements when it is determined to be in the best interests of the Company and under a plan to do this via a pension contribution awards or arrangements that Chris Davies has foregone in order to join the Group. Payments will take on a 100% basis based on the remuneration foregone including the national vesting dates and any performance related payments awarded to that remuneration and bonus plan. Chris will not exceed the executive value being forfeited.

On target then under an assumed Annual Performance Bonus Plan of 50% is the maximum for the Executive Director if it is then performance that value will be 50% of the base salary. CFO 2021 salary is £480,000. On target then under PSP award of salary is £480,000. PSP growth of 125% is a 20% and TR performance with a 20% vesting of 50% of the maximum vesting in the PSP. Maximum remuneration of assumed maximum annual performance bonus and maximum vesting of PSP awards. All of these values are assumed and are not to be taken as a guide with a detailed illustration in the stretch plan.

Consideration of shareholder views

The Committee will continue to take care to ensure consideration of any significant changes to the approved Policy. Exercise of discretion is open to date to ensure that the process is not inadequate and to understand shareholder views. Additionally, the Committee considers shareholder feedback received in relation to the AGM and guidance views expressed during the year. The Committee also reviews the Executive Remuneration in the context of published investor guidelines or other regulatory requirements. In 2022, the UK Corporate Governance Code A through consultation was conducted for this policy review as explained in page 120. In response for feedback, we interacted through EBC with regulated firms to maintain our commitment under the PLS from 2012 to 2021 for the award in 2022. In 2022, we also received feedback from shareholders, which considered the CEO base pay increase in the context of a pay for performance pay for the year. Although we did not implement any measures to align our colleagues and the overall quantum of CEO reward.

Differences in remuneration policy for other employees

The Group operates a differentiated remuneration policy for other employees. The Committee is mindful of the pay policies, incentive structures and share award participation in relevant markets and the rest of the Group when considering the remuneration of the Executive Directors.

The Board will continue to prioritise gathering the views of Directors' 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 employee focus groups to solicit feedback generally, or on a range of matters including remuneration. Feedback is passed to the Committee via the executive team.

The Company reviews remuneration management including base salaries for the wider employee population annually in line with the Group's decentralised approach, consistent with approved policy with governance and guidance provided by the Group. Salary increases for the wider population are determined based on a number of factors, including individual or business performance, level of experience, cost of replacement, 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 the relevant markets. Senior managers have incentive plans aligned with the Executive Directors, and there is a framework of remuneration which ensures a gradient of different roles. Bonus plans for the workforce are agreed annually with input from the senior management team.

Service contracts

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

REMUNERATION POLICY CONTINUED

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 Gibbs	5 Feb 2020	Rolling	1 year	1 year

1. Figures are given in sterling and rounded to the nearest £100,000. 2. As at 31 December 2019.

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 a fair and reasonable sum 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 being treated as, or is and leaves in a position 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 awards/shares under the Company's long-term incentive plan is not automatic and the Committee will retain discretion to allow partial vesting depending on the extent to which performance conditions have been met and the length of time the awards have been held. Time provisions may be dispensed if the Committee considers it appropriate, given the circumstances. Performance will normally be measured to the end of the normal performance period and the extent applicable, vest on the normal vesting date, save in exceptional circumstances when the Committee may determine that early vesting should not apply. The Committee will provide for the leader in payments required for a reasonable level of legal fees in connection with the termination agreement for a good leaver in respect of, where appropriate:

When calculating termination payments the Committee will have into account a variety of factors, including national and Company performance, the obligation for the Executive Director to undertake arrangements to mitigate loss, for example by gaining new employment, and the Executive Director's employment history.

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 provisions may be dispensed 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, misapplication of a participant's entitlement, individual gross misconduct or of corporate failure (resulting in disqualification of the appointment of directors).

The clawback arrangements permit the Committee to recover amounts paid to Executive Directors in such circumstances and to ensure 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 flexible and will be a variable package.
- The emphasis on linking pay with performance will 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 tenure of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary, it will be a series of increases to the desired pay positioning, to be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with the Group's approved Policy and will give a maximum opportunity of up to 425% of salary for the CEO and 250% for other Executive Directors. Different performance measures may be set in the first year for the CEO and for other Executive Directors, taking account of the responsibilities of the individual and the point in the financial year that the executive joins the Company.
- Bonuses will generally be provided in a structure with the approved Policy, with variation in experience an appropriate variation in approach being appropriate.
- In the case of an executive recruitment, the Committee may also offer additional cash and/or share based elements when it is considered to be in the best interests of the Company and where it is necessary to replace lost or remuneration awards or

arrangements that an individual has not given in writing to join the Group. This includes the use of awards made under section 94(2) of the 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 out-of-the-money awards awarded in relation to the previous role will be a fixed to buy out according to the terms of grant.

For all new Executive Director appointments to the mandated award holding requirement, defined criteria will be in place at the start of 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 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 all usage of awards relating to the acquisition and administration of the Plans. These include, but are not limited to:

- selecting the Executive Director participants and other employee participants; 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);
- appointing the constituents of the TSR comparator group;
- determining the extent of vesting periods on the achievement of performance;
- overriding formulae, out-of-the-money awards and amendments under the Annual Bonus Plan and for PSP awards; determine that a trigger is not a fair reflection of the underlying performance of the business or in exceptional circumstances;
- issuing or discontinuing time granting awards with leavers;
- option to waive or shorten the holding period for shares awarded 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 related matters); 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 to both the Company and the Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such external directorships.

Employee and post-employment shareholding requirements

The Committee has implemented anti-frag 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 must 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 200% of base salary, the MSB.

Vested PSP awards and deferred cash bonus payments which are linked to shares must be retained until the required shareholding requirement has been reached.

As explained in the long-term incentive award section on page 127, 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 post-cessation of employment (except where cessation is by reason of death, if there is a change of control, or the Director has exercised discretionary

in addition, a revised post-cessation anti-frag requirement will apply being 50% of the MSB at the end of year after the termination, after or if less than the MSB, the value of shares held at the cessation date). Post-cessation holding periods will not apply to shares granted under the PSP in the normal course of the 2020 Plan.

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 Nominations Committee. Appointments of the Non-Executive Directors are for an initial term of three years, subject to re-election, which depends on the first AGM following their appointment and subject to annual re-election thereafter. The terms of Appointment are set out in letters of appointment which contain the terms of any further party serving their third mandate.

Fees

The Non-Executive Directors are paid a comprehensive annual fee which is approved by the Board on the recommendation of the Chair and the Executive Director. The Chair's fee is approved by the Committee, excluding the Chair. A further fee may also be payable for chairing a Committee of the Board or acting as Senior Independent Director in a role in relation to any other material additional responsibilities taken up. Fees are reviewed annually and take account of the fees paid in other similar roles of similar scope and complexity, the responsibilities of the role and the required time commitment.

If there is a temporary vacancy situation, it is usual in that time for payments for a Non-Executive Director to be reduced to a pro rata fee on a notional basis to reflect the reduced workload.

The Non-Executive Directors are not eligible to participate in any of the Company's share plans, including long-term incentive plans and therefore are not eligible for payments in the event of a long-term incentive

REMUNERATION POLICY CONTINUED

Provision 40 table

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

Clarity

Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.

The Committee is committed to providing open and transparent disclosures to shareholders, the workforce and other stakeholders with regard to executive remuneration arrangements.

Example: the structure of the Annual Performance Bonus Plan is completely based on financial metrics which align with published accounts.

The Committee determines the Remuneration Policy and approves 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.

Our remuneration arrangements for Executive Directors, as well as those throughout the organisation, are straightforward and well understood by participants.

Example: variable pay for Executive Directors is a simple Annual Bonus Plan and a Performance Share Plan.

The structure for Executive Directors consists of fixed pay, salary, benefits, pension and variable pay (annual bonus and a long-term incentive plan, the PSP).

Risk

Remuneration arrangements should ensure reputational and other risks from excessive rewards and behavioural risks that may arise from target-based incentive plans, are identified and mitigated.

Targets are reviewed to ensure they are not unduly aggressive or risk-taking.

Example: the RAGATS, included in the PSP reduces risk of low quality earnings.

Malus and claw back provisions also apply to both the annual bonus and long-term incentive plan.

Predictability

The range of possible values of rewards to individual Directors and any other limits or restrictions should be identified and explained at the time of adopting the Policy.

Members of the Committee are provided with regular information developments and trends in Executive remuneration.

The potential value and composition of the Executive Directors' remuneration packages, as well as related target and maximum scenarios are provided in the relevant policy.

Example: variable pay maximums are set out in the policy.

Proportionality

The link between individual awards, the delivery of strategy and the medium-term performance of the Company should be clear. Outcomes should not reward poor performance.

Annual bonus payments and PSP awards will be made for performance against the leading indicators that are aligned to the Company's strategy.

Example: PSP's full budget must be achieved to trigger payment of Annual Performance Bonus PSP of budget or, results in 50% payment.

The Committee has discretion to award remuneration to ensure that they are appropriate and effective in driving performance.

Alignment to culture

Incentive schemes should drive behaviours consistent with the Company's values and strategy.

The variable incentive schemes and performance measures are designed to be consistent with the Group's overall values and strategy.

Example: one of the Discom's values is 'continuous improvement' - continuous improvement is required each year to reach remuneration targets.

ANNUAL REPORT ON REMUNERATION

The following section of this Report provides a summary of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2022. Any other 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 Gibbs ¹			
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Salary	711	590	365	340	1,076	1,330
Taxable benefits ²	25	25	19	10	44	44
Pension	71	67	15	14	86	73
Total fixed	807	682	399	364	1,206	1,447
Annual performance bonus	889	863	456	415	1,345	1,268
Long-term incentive plans – dividend equivalent	75	88	17	-	92	88
Long-term incentive plans – performance element	1,725	1,875	340	-	2,065	1,815
Long-term incentive plans – share appreciation element	262	1,815	110	-	372	815
Long-term share-based remuneration	2,062	3,578	467	-	2,529	3,578
Total variable	2,951	4,441	923	415	3,874	4,566
Single total figure	3,758	5,242	1,322	798	5,080	6,043

¹ Barbara Gibbs' remuneration includes a £100,000 bonus for 2021, which was not paid.

² Taxable benefits include a £10,000 bonus for 2021, which was not paid, and a £10,000 bonus for 2022, which was not paid.

Johnny Thomson's remuneration for 2021 includes a £100,000 bonus for 2021, which was not paid, and a £10,000 bonus for 2022, which was not paid.

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

As announced on 10 August 2022, Barbara Gibbs stepped down from her role as Group CFO and left the Company on 30 September 2022. Her remuneration for the year ending 30 September 2022 was in line with the approved Remuneration policy. Barbara will receive a payment in lieu of notice (POLIN) from the Company following her departure, which will be paid in ten monthly payments, covering the period from 30 September 2022 to 9 August 2023 and reflecting her contractual notice. The maximum POLIN is £341,757 and will be subject to reductions for tax and National Insurance contributions in the usual way and also subject to prudent financial management, including in the event of alternative employment.

Barbara was treated as non-leaver and eligible for long-term incentive awards (PSF 2020, PSF 2021) which were subject to the usual performance criteria being met for the three-year period to 30 September 2023 and 30 September 2024 respectively. These awards have been awarded for the period to 30 September 2022, two of the three years for the PSF 2020, and one of the three years for PSF 2021. Further details on her outstanding long-term incentive awards is included in this report on page 173.

Barbara will receive a contribution of up to £20,000 (excluding VAT) for outplacement counselling and up to £7,000 (excluding VAT) for travel expenses.

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 Remuneration Committee has increased the base salary for the CEO. Explanations of how the Committee has considered remuneration in the year will be in this document on page 116.

	Salary from 1 October 2022 £000	Salary from 1 October 2021 £000	Increase in salary
Johnny Thomson	754	590	£164
Barbara Gibbs	-	345	£345
Chris Davies (appointed 1 November 2022)	450	-	£450

¹ Johnny Thomson's remuneration for 2021 includes a £100,000 bonus for 2021, which was not paid, and a £10,000 bonus for 2022, which was not paid.

ANNUAL REPORT ON REMUNERATION CONTINUED

Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2021 and 2022, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan, although Thompson 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 Gibbs	4	15	4	14

Annual performance bonus (audited)

Bonus pay out for year ended 30 September 2022

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

Performance measure	Targets for 2022 ¹	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis)	Minimum: £154.0m On-target: £162.4m Maximum: £170.6m	Adjusted operating profit for FY22 was £170.6m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
50% of bonus opportunity		
Revenue (calculated on a constant currency basis)	Minimum: £805.0m On-target: £849.4m Maximum: £893.9m	Revenue for FY22 was £875.9m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
25% of bonus opportunity		
Free cash flow (reported)	Minimum: £109.0m On-target: £104.0m Maximum: £109.0m	Free cash flow for the year was £100.4m. The maximum threshold was met and the maximum award is payable.
15% of bonus opportunity		

¹ All values are in millions of pounds at constant 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	1%	63%	125%	125%	125%	889
Barbara Gibbs	365	1%	60%	125%	125%	125%	456

In line with the new Remuneration Policy, minimum employment requirement (MOR) 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 Shareholders' Policy. Johnny Thomson has met his minimum shareholding requirement, 300%, and therefore his bonus for the year will be paid in cash. The MOR will no longer apply to Barbara Gibbs since the effective date from her leave as CEO and left the Company on 30 September 2022, and therefore her bonus for the year will be paid in cash. Both terms of their employment will be subject to the Company's existing Remuneration Policy which applies for Barbara Gibbs which means that 50% of her MOR will be annual award and will be deferred for 12 months post termination.

Bonus awards for year ended 30 September 2023

In the financial year beginning 1 October 2022, the Annual Remuneration Bonus Plan will be based on the following method: 50% will be based on adjusted operating profit, 25% will be based on revenue, and the other 25% measured on a constant currency basis, and the remaining 25% will be based on free cash flow. The bonus performance will be targeted for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report. As a result, the bonus will be based on the following:

Long-term incentive awards (audited)

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

Performance conditions

Set out the principal assumptions of the performance conditions that apply to the PSP awards in respect of FY2019, 2020, 2021, 2022 and 2023. ('FY19-21').

Vesting of the awards is based 50% on growth in adjusted EPS and 50% on relative TSR performance, in order for any payment to be earned under the grant of awards, the Committee must first see that both statutory level of RAGS performance has been achieved. The RAGS performance will be measured as the RAGS in the financial year of the performance condition and as defined in note 27 to the consolidated financial statements.

For the PSP 2020, as explained in the Chair's letter on page 117, the performance condition will remain the same as the PSP 2019, with the exception of the weighting between EPS and the relative TSR performance and the EPS targets. The vesting of the awards will be weighted 30% on growth in adjusted EPS (subject to the RAGS underpin) and 20% on the relative TSR performance. The EPS target will be 6% and 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 percentage 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
3% p.a. (PSP 2021)	100
12% p.a. (PSP 2022)	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 awards will be pro-rata. 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
Top quartile	100
Median	25
Below median	Nil

Where the Company's TSR performance is between these percentage bands, vesting of the awards will be pro-rata. The FTSE 250 index was chosen because this is a recognised publicly market index of which the Company is a member.

ANNUAL REPORT ON REMUNERATION CONTINUED

Awards vesting in 2022 (audited)

The PSP award granted on 23 December 2019 (PSP (2019)) to Johnny Thomson and on 10 March 2020 (PSP (2020)) to Barbara Gibbs was subject to the performance conditions as set out in the table above and independent valuers 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)	64.3c	109.4	19.4%	14%	50%	50%

¹ The pre-FRS 102 adjusted EPS figure has been used in the purposes of assessing the vesting of the PSP (2019) award. It was disclosed in the 2020 and 2021 AFR that the pre-FRS 102 adjusted EPS figure is the total return to shareholders divided by the number of shares.

The Committee has reviewed the ROATCE outcome 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.	12.8% p.a.	8.24% p.a.	50%	50%

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

	Share price at date of grant pence	Share price at 30 Sep 2022 pence	Proportion of award vesting	Shares vested number	Performance element £000	Share appreciation element ² £000	Total £000
Johnny Thomson PSP (2019)	2,018	2,324	100%	85,481	1,721	262	1,983
Barbara Gibbs PSP (2019)	1,758	2,324	100%	19,374	346	110	456

¹ The pre-FRS 102 adjusted EPS figure has been used in the purposes of assessing the vesting of the PSP (2019) award.

² The share appreciation element is calculated as the difference between the share price at the end of the performance period and the share price at the date of grant, multiplied by the number of shares vested.

Dividend equivalent payments (audited)

Dividend equivalent payments of £4,881 (2021: £8,603), are payable to Johnny Thomson and dividend equivalent payments of £16,912 (2021: Nil) are payable to Barbara Gibbs 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 Gibbs received a grant of the PSP 2021 award on 29 November 2021 in the form of restricted shares. This award was based on a share price of £3.78p, 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 Gibbs was 75% of base salary.

Under normal circumstances, the award will not become exercisable until the performance conditions are achieved at 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 ends on the date on which the 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 in 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 share value of £25.00, at base salary to Johnny Thomson and a face value of 175% PSP (2021) and PSP (2020) and 50% PSP (2019) at base salary to Barbara Gibbs. PSP (2019) being the granted award for time served, including as CEO, the award for awards which vest unless the performance conditions set out on page 131 are satisfied.

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and compensation committee for the year ended 30 September was as follows:

The Non-Executive Directors received a base annual fee of \$94,500. During the year and additional fees are paid to \$10,000, \$100,000, \$12,000, for chairing a Committee of the Board, for a Sub-Committee, for acting as Senior Independent Director, for chairing a fee for chairing a Committee of the Board, 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 Directors fee to £112,500 and a 5% increase to the Chair's fee to £268,750 per annum. The additional fee for chairing a Committee of the Board is increased 4% and for acting as Senior Independent Director to £10,500 per annum. The additional fee for chairing a Sub-Committee is £12,000 per annum. There were no tax or other significant benefits for Non-Executive Directors in 2022 and 2021.

ANNUAL REPORT ON REMUNERATION CONTINUED

Executive Directors' interests (audited)

In options over shares

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

If the Executive Directors choose not to exercise their 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 ¹	Options unexercised as at 30 Sep 2022	Exercise price ²	Earliest normal exercise date	Expiry date
Johnny Thomson	2021	122,801	122,801	-	-	£1	Nov 2021	Feb 2024
	2022	-	-	85,481	85,481	£1	Nov 2022	Nov 2029
Barbara Gibbs	2022	-	-	19,374	19,374	£1	Nov 2022	Mar 2030

1. The number of nil-cost options that vested during the year was 144,982 (2021: 122,801). The number of nil-cost options that were exercised during the year was 122,801 (2021: 122,801). The number of nil-cost options that were forfeited during the year was 0 (2021: 0). The number of nil-cost options that were cancelled during the year was 0 (2021: 0). The number of nil-cost options that were outstanding at the end of the year was 85,481 (2021: 0). The number of nil-cost options that were outstanding at the start of the year was 122,801 (2021: 122,801).

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	31,146	122,801	100,188
Barbara Gibbs	5,082	19,374	24,030	1,649	-	48,113

In the new Financials set out on page 101, the Group has increased the MSR of 300% (previously 250% for the CEO and other at 250% for other Executive Directors). As at 30 September 2022, Johnny Thomson's shareholding was 503% of salary and therefore he has met his MSR.

MSR no longer applies to Barbara Gibbs and her current holding of 80% of MSR (which is disclosed against the existing holding as 200% of base salary) for 12 months and, as meaning that Barbara should hold 100% of base salary in shares for 12 months post cessation of employment. PSR awards must be held until the 10th anniversary of the PSR grant. By adhering to the five-year holding rule, Barbara Gibbs complies with the post-cessation MSR. The shareholding calculation is set out in line 16 of the Company's Shareholding Policy and includes shares from vested PSR 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 Llewellyn	2,500	-
John Smith	9,045	1,045
Andy Smith	7,545	7,145
Anne Thorburn	5,045	5,145
Geraldine Hume	2,045	2,145
Deirdre Ennis	640	-

As at 21 November 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 ratio 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 (LQ), median (Mdn) and upper quartile (UQ) UK employees. Option A has been used as it is the most statistically appropriate method considered permitted 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 payroll data. The approach used was the same as the single total figure method used, with the exception that non-UK entities were used and colleagues with working time were converted to full time equivalent and those who worked part of the year were pro-rated.

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	128:1	98:1	76:1
2020	Option A	121:1	85:1	72:1

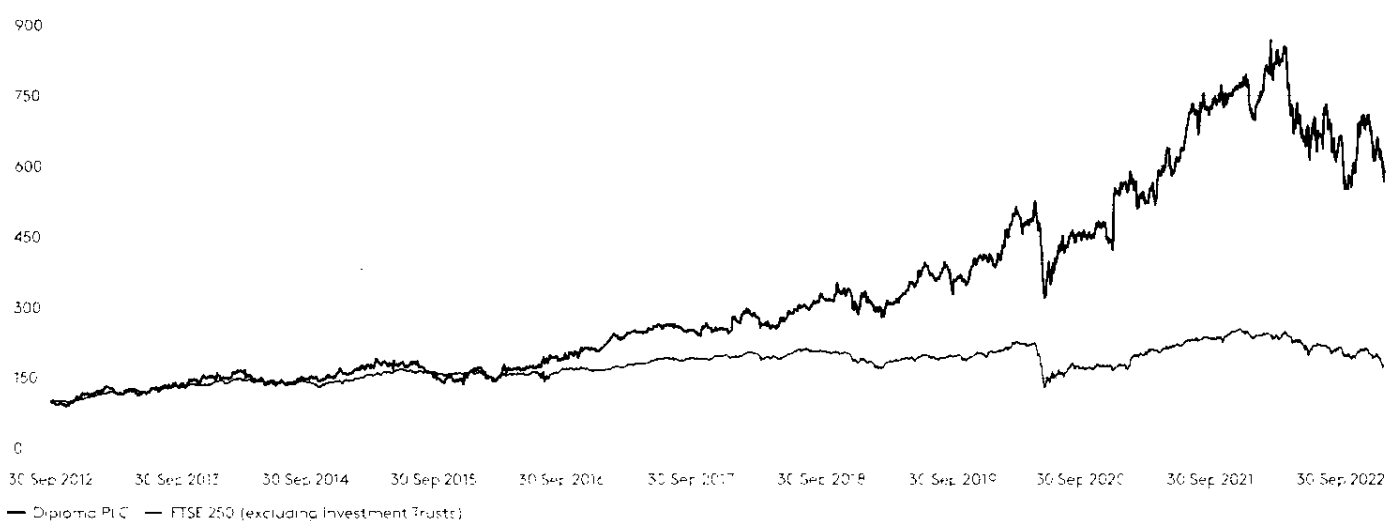
	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£7,100	100%	£7,758,000
75th percentile	£52,631	74%	£24,390
Median	£27,040	38%	£29,074
25th percentile	£34,050	48%	£40,016

The median pay ratio for employees represents the Group's principal short-term workforce remuneration. A significant proportion of the CEO's remuneration is delivered through variable pay, which awards are linked to financial performance and share price movements over the longer term. This means that the ratio will depend on variable pay outcomes and may fluctuate from year to year. The CEO's 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: £29,035), with the addition of just 400 new employees from UK acquisition. 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's benchmark 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 a performance measure which an investor who obtained from holding a share in the company over the period would have received if they held the share in the company and other payments to the investor were taken into account.

ANNUAL REPORT ON REMUNERATION CONTINUED

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	5,042	100%	80%	+32%
2020	Johnny Thomson	669	21%	-	+34%
2019	Johnny Thomson	1,019	72%	-	+20%
2019	John Nicholas	61	-	-	+20%
2018	John Nicholas	14	-	-	+36%
2016	Richard Ingram	235	-	-	+36%
2018	Bruce Thompson	3,542	100%	89%	+36%
2017	Bruce Thompson	1,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,779	51%	25%	1%
2014	Bruce Thompson	1,646	65%	61%	+8%
2013	Bruce Thompson	2,407	37%	100%	+42%

1. The figures above are based on the annual total remuneration of the CEO as disclosed in the annual report. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

Relative importance of Executive Director remuneration (unaudited)

	2022 £m	2021 £m	Change £m
Total employee remuneration	177.5	125.9	40.6
Total dividends paid	56.2	51.9	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 defined as up to a 130 individuals. The 130 individuals are senior managers for pay purposes and 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 given on a full-time basis to show the inter-annual movement.

	Base salary/fee change (%)			Pension change (%)			Taxable benefits change (%)			Bonus change (%)		
	2022 vs 2021	2021 vs 2020	2020 vs 2019	2022 vs 2021	2021 vs 2020	2020 vs 2019	2022 vs 2021	2021 vs 2020	2020 vs 2019	2022 vs 2021	2021 vs 2020	2020 vs 2019
Executive Directors												
Johnny Thomson	+3	No change	+5	-18	+17	+3	+2	+4	No change	+3	+30%	+4
Barbara Gibbs	+7	No change	n/a	+7	No change	n/a	+2	+7	+3	+7	+30%	n/a
Non-Executive Directors												
David Edwards	n/a	No change	n/a									
John Nicholas	-69	No change	+2									
Andy Smith	+3	No change	No change									
Anna Ingram	+6	+11	+3									
Sandra Hulse	+3	No change	+1									
Sean Phipps	+185	+1	+1									
Employees of the Parent Company												
	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	+17	0%

1. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

2. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

3. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

4. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

5. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

6. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

7. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

8. The figures are based on the annual total remuneration of the CEO as disclosed in the annual report.

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 this 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. All 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
RSF 2019	2,015p	586	30 Sep 2022	34,006	–	29,546	4,460	–
RSF 2020	2,306p	1,141	30 Sep 2023	49,472	–	–	9,612	39,860
	3,105p 2,574p							
RSF 2021	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 North is elected as Chairman. In January 2022 and was replaced by David Bowden. The remaining members, Anne Thorburn, Dean Frier and Geraldine Muscatelli, are due 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 short-term elements and includes performance related elements which are transparent, stretching and ambitious; and
- provides an appropriate balance between immediate and deferred remuneration, and
- encourages high performance culture by ensuring performance related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout to opportunity cost of outstanding results.

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

Key duties and focus in 2022

The Committee agreed to carry out the Board's aspects of the remuneration of the Executive Directors and agreed the strategy, direction and policy framework for the remuneration of the senior executives who have a significant 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 procedure in place to review potential conflicts of interest.

The Committee's role 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 Diomed PLC's website at www.diomedplc.com/governance/institutional-investors.

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

- Approved remuneration Committee work programme for 2022
- Reviewed the AGM 2022 votes
- The Committee extensively consulted on the new Remuneration Policy and its implementation
- Approved bonus performance targets and the subsequent bonus awards for 2022
- Approved new RSF awards. Executive Directors and confirmed the performance conditions for such awards
- Determined the weighting percentages for the RSF 2019, which are used in 2022
- Reviewed Executive Directors' salaries, awards and benefits
- Considered the new target bonus for the CEO and remuneration arrangements for the new CEO
- Reviewed the fees of the Chair and two Executive Directors, including a significant non-Executive Director, in line with the applicable remuneration policy
- Reviewed remuneration of senior management and senior management in the subsidiary companies
- Reviewed the remuneration of non-executive directors
- Approved the 2022 Remuneration Committee Report

ANNUAL REPORT ON REMUNERATION CONTINUED

Services from external advisors (unaudited)

The Committee has continued to receive its remuneration advice from WTM 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	12,375

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	
Voted for	60,708,041	79.98%	61,036,465	79.26%
Voted against	15,209,903	20.02%	7,504,991	9.74%
Abstained	21,745,026	-	206,632	-

At the AGM in January 2022, the 2021 DRP was approved with 93.16% of votes in favour. Given the positive voting outcome, there was no immediate need for shareholders' feedback. Extensive consultation was conducted during 2022 on the new Policy and the 2022 DRP. 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 incorporated in England and registered in England and Wales under Company Number 3894948. At the date of this report there were 124,675,542 ordinary shares of 1p each in issue, most 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) was held at 990 Llanion, Wednesday, 18 January 2023 in The Chamberhouse, Chamberhouse Square, London EC1M 6AN. The notice of the AGM, which is a separate document, is sent to all shareholders and will be published on the Diploma PLC website.

Substantial shareholdings

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

	Percentage of ordinary shares (September 2022)	Percentage of ordinary share capital (November 2022)
Mayer Investment Management Limited	9.5%	12.1% change
Capital Research Global Investors	12.1%	17.0%
Royal London Group	4.9%	No change
The Vanguard Group Inc	3.4%	No change
Mohorrian Investment Partners Limited	3.1%	No change
BlackRock Inc	8.0%	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 DTR up to the date of this report.

Share capital

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

Shareholders

Shareholders are entitled to attend and speak at general meetings of the Company, and to appoint one or more proxies or corporate representatives. 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 in 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 properly and 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 shares. Transfers of uncertificated shares must be carried out using CREST and the Directors may refuse to register a transfer of an uncertificated share.

Participants in the Company's Performance Share Plan (PSP), who have yet to meet shareholding requirements, have vested PSP shares held in trust until the earlier occurrence of them meeting their shareholding 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 notional bonus held in shares until the earlier occurrence of them meeting their shareholding requirement or five years.

Share allotment

A general allotment power and limited power to allot shares in specified circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolution and approved at the AGM of the Company held on 19 January 2007.

Authority to make market purchases of own shares

Authority to make market purchases of up to 10% of the issued share capital of the Company was given to the Directors by 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

In the past year 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 any proceedings brought against them in the circumstances permitted by the Companies Act. In addition, Directors and officers of the Company and the underwriters have been, and will continue to be, covered by Directors and Officers Liability Insurance.

DIRECTORS' REPORT
CONTINUED

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 9.8.4D.

	Listing Rule
The Trustees of the Diploma & Co Employee Benefit Trust would exercise this power.	9.4.12 and 9.8.13.4

Non-financial information

The Company has chosen, in accordance with section 414(f) of the Companies Act 2006, to include certain information 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 found in the section on 'Delivering Value Responsibly' (pages 34 to 57) and includes:

- Entrepreneurial mindset
- Health & Safety
- Greenhouse gas emissions
- Human rights
- Business ethics, corruption and bribery
- Modern slavery
- Cyber security

Ergebnisse werden in der Zusammenfassung dargestellt.

- Saw Nell in page 14 to 15
- Page 16 links and how they are interpreted in the poem.
- Page 51 to 58
- Nell's final day, performed one last dance - page 64
- Emilia's engagement - page 36 to 37
- Stoker's engagement - pages 74 to 75

Financial

Results and dividends

[illegible]

The first direction of the proof is the easy one. Suppose α is a
 statement of order 2^k . The procedure for the first step is
 to show that α is true.

Independent Auditors

[illegible]

Prévalence du C. agens L.F. PwC had expressed its willingness to continue its role as independent auditor and its resolution to report on PwC's role prior to the AGM to be held on 16 January 2013.

Directors' assessment of going concern

The Director continued to point out the going concern basis in preparing the Annual Report's Accounts. Their discussion ended with the going concern basis as set out in the note 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, and that the Directors have prepared the Group financial statements in accordance with International Accounting Standards as interpreted by the members of the Company. The Art 209 of the French Commercial Code requires the Directors to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards as comprising FRS 101 Reduced Disclosure Requirements) and applicable law. Additionally, the Financial Conduct Authority requires disclosure of a Transparency Register, requiring the Directors to disclose the Group financial statements in accordance with United Kingdom adopted International Financial Reporting Standards.

It is important to note that the results of the analysis of the two-dimensional data alone may be somewhat misleading due to the fact that the data are not independent. For example, the data for the first and second comparisons are not independent, as the subjects in the Group for the second comparison are a subgroup of the subjects in the Group for the first comparison.

- [illegible]

The following are some of the factors to be considered in the
development of a program for the improvement of a
community, which is one of the main objectives of the
program.

[illegible]

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

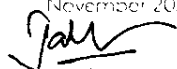
The Directors consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Parent Company's position and performance, business model and strategy. Each of the Directors, whose names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

Overview

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Revenue	23	1,012.8	787.4
Cost of sales		(638.3)	(474.0)
Gross profit		374.5	313.4
Distribution costs		(25.9)	(23.9)
Administration costs		(204.3)	(160.2)
Operating profit	2	144.3	129.3
Financial expense, net	3	(14.8)	(17.7)
Profit before tax		129.5	111.6
Tax expense	6	(34.1)	(26.9)
Profit for the year		95.4	84.7
Attributable to:			
Shareholders of the Company		94.7	84.8
Minority interests	20	0.7	0
		95.4	84.7
Earnings per share			
Basic earnings	8	76.1p	67.1p
Diluted earnings	9	75.9p	66.9p

ALTERNATIVE PERFORMANCE MEASURES¹

	Note	2022 £m	2021 £m
Operating profit		144.3	129.3
Adjusted operating profit	23	191.2	168.7
Adjusted profit before tax		179.6	170.6
Adjusted earnings per share	8	107.5p	91.1p

¹ These measures are not defined by any regulatory body and are not independently verified. They are not intended to replace any financial measure.

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	59.7
Items that will not be reclassified to the Consolidated Income Statement			
Exchange gain on the profit and loss translation of overseas	24	10.6	7.4
Deferred tax on items that will not be reclassified	6.2	(2.8)	(1.8)
		7.8	5.6
Items that may be reclassified to the Consolidated Income Statement			
Exchange difference on translation of the consolidated		76.8	74.2
Financial fair value of available for sale	16	4.5	0.4
Net changes to fair value of available for sale transferred to the consolidated income statement	18	(0.4)	0.1
Deferred tax on items that may be reclassified	6.2	(1.1)	(0.1)
		79.8	74.6
Total Other Comprehensive Income		87.6	80.2
Total Comprehensive Income for the year		183.0	60.9
Attributable to:			
Shareholders in the Group		182.2	60.6
Minority interests		0.8	0.3
		183.0	60.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 2020		6.3	188.4	18.3	0.7	304.1	527.0	0.7	530.7
Total Comprehensive income		-	-	16.2	0.2	76.6	60.8	0.2	60.5
Share based payments	4	-	-	-	-	1.8	1.8	-	1.8
Tax on items recognised as equity	4	-	-	-	-	1.0	1.0	-	1.0
Net share purchases of own shares		-	-	-	-	(0.5)	(0.5)	-	(0.5)
Acquisition of business	11	-	-	-	-	-	-	0.9	0.9
Minority interest distribution		-	-	-	-	(0.9)	(0.9)	-	(0.9)
Minority interest issued		-	-	-	-	-	-	0.7	0.7
Dividends	10	-	-	-	-	(52.9)	(52.9)	0.3	(53.2)
At 30 September 2021		6.3	188.4	34.5	0.9	329.1	536.3	4.7	541.0
Total Comprehensive income		-	-	76.7	3.0	101.5	182.2	0.8	183.0
Share based payments	4	-	-	-	-	2.8	2.8	-	2.8
Tax on items recognised as equity	4	-	-	-	-	0.4	0.4	-	0.4
Net share purchases of own shares		-	-	-	-	(2.8)	(2.8)	-	(2.8)
Acquisition of business	11	-	-	-	-	-	-	2.5	2.5
Dividends paid	10	-	-	-	-	-	-	(1.3)	(1.3)
Minority interest distribution		-	-	-	-	(1.9)	(1.9)	-	(1.9)
Minority interest distribution		-	-	-	-	1.2	1.2	-	1.2
Minority interest issued	17	-	-	-	-	-	-	0.3	(0.3)
Dividends	10	-	-	-	-	(56.2)	(56.2)	0.0	(56.4)
At 30 September 2022		6.3	188.6	88.8	3.2	375.1	662.0	6.2	668.2

The above figures have been audited and are subject to the audit opinion of the auditor.

Approved for issue by the Board on 10 October 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2021

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	9	372.3	260.1
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	117.6
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)	(19.7)
		(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	168.6
Transition reserve		88.8	12
Hedging reserve		3.2	0.2
Retained earnings		375.1	329.7
Total shareholders' equity		662.0	536.8
Minority interests	20	6.2	4.2
Total equity		668.2	541.0

The consolidated financial statements on pages 42 to 45 have been approved by the Board of Directors on 29 November 2021 and signed on its behalf by:


JD Thomson
 Chief Executive Officer


C Davies
 Chief Financial Officer

The statement on page 46 forms part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Operating profit		144.3	134.3
Adjustment related to other charges		46.9	44.4
Financial items and other		18.1	9.8
Change in working capital		(28.7)	12.6
Cash flow from operating activities	10	180.6	145.9
Interest paid, net of loan origination fees		(15.0)	(5.6)
Tax paid		(40.6)	12.2
Net cash from operating activities		125.0	152.5
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	11	(173.0)	451.4
Deferred consideration paid	12	(7.1)	6.6
Proceeds from sale of business (net of cash disposed)		13.7	11.0
Purchase of property, plant and equipment	13	(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)	(445.4)
Cash flow from financing activities			
Proceeds from issue of share capital (net of fees)		–	(0.6)
Dividend payments to shareholders	14	(56.2)	52.9
Dividend payments to minority interests	15	(0.2)	(0.3)
Receipts from minority interests	16	–	0.7
Acquisition of minority interests	17	(0.3)	–
Purchase of own shares by Employee Benefit Trust		–	–
Net cash purchase of own shares on exercise of share option		(2.8)	(0.6)
Proceeds from borrowings	18	154.8	115.3
Repayment of borrowings	19	(20.0)	11.4
Financing 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	(190.6)
Cash and cash equivalents at beginning of year		24.8	106.8
Effect of exchange rates on cash and cash equivalents		(0.6)	(0.6)
Cash and cash equivalents at end of year		41.7	14.6

ALTERNATIVE PERFORMANCE MEASURES¹

	Note	2022 £m	2021 £m
Free cash flow	20	120.4	108.8
Adjusted Earnings²	21	133.9	105.7
Free cash flow conversion %	22	90%	93%

¹ The Alternative Performance Measures (APMs) are not defined in the IASB framework and are not subject to audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

1. General information

Upstream 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 Chiltern House Square, London EC0M 6EE. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and were authorised by the Directors for publication on 2 November 2022. These statements are presented in UK sterling with all values rounded to the nearest 100,000, except where otherwise indicated.

On 1 September 2021, 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. Upstream PLC transitioned to UK-adopted international Accounting Standards in its consolidated financial statements on 1 October 2021. This change in accounting framework, however, there is no impact on recognition, measurement or disclosure in the periods 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 these standards. The financial statements of the Parent Company, Upstream 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 181 to 189.

2. Business Sector analysis

The 'True Operating Performance' (TOPM), for the purposes of FRS 9 is the CEO. The financial performance of the business is reported in the TOPM and, in addition, this information is presented as a separate result in the consolidated financial statements.

For management reporting purposes, the Group is organised into three major reportable business segments: Life Sciences, Specialty Chemicals and Energy. These segments are the Group's operating segments as defined by FRS 9 and form the basis of the primary reporting information disclosed herein. The TOPM reviews discrete financial information on the operating segment level. The primary financial features of these segments are described in the Strategic Business pages 60 to 70. Segment revenue represents revenue from external customers of the segment. Segment revenue (excluding assets) and intangible assets include items directly attributable to the segment and which therefore form part of the segment's identifiable intangible assets.

Tangible assets include non-current tangible assets, deferred tax assets, retirement benefit assets and other non-current assets. The primary reporting information on the segment level includes the business Segment level assets and liabilities. The primary reporting information on the segment level includes deferred tax assets and liabilities, intangible assets and other non-current assets. The primary reporting information on the segment level includes deferred tax assets and liabilities, intangible assets and other non-current assets. The primary reporting information on the segment level includes deferred tax assets and liabilities, intangible assets and other non-current assets.

	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	80.4	294.4	163.7	481.9	343.3	–	–	954.3	587.4
Revenue – production	10.6	–	37.0	–	10.9	–	–	–	58.5	–
Revenue	188.6	80.4	331.4	163.7	492.8	343.3	–	–	1,012.8	587.4
Adjusted operating profit – existing	39.7	43.1	57.0	41.5	104.0	121.4	(18.2)	13.4	182.5	148.7
Adjusted operating profit – production	1.3	–	5.6	–	1.8	–	–	–	8.7	–
Adjusted operating profit	41.0	43.1	62.6	41.5	105.8	121.4	(18.2)	13.4	191.2	148.7
Adjustment related to other charges	1.5	4.6	(16.6)	(9.7)	(30.5)	(30.1)	(1.3)	–	(46.9)	(44.4)
Operating profit	42.5	47.7	46.0	31.8	75.3	49.3	(19.5)	13.4	144.3	104.3
Operating assets	74.0	57.1	207.5	134.4	211.5	164.8	–	–	493.0	350.4
Goodwill	106.2	87.4	125.2	60.0	140.9	119.3	–	–	372.3	260.7
Acquisition intangible assets	74.9	4.0	100.2	63.4	279.9	247.3	–	–	455.0	344.9
	255.1	148.5	432.9	244.8	632.3	531.4	–	–	1,320.3	956.0
Unamortised patent	–	–	–	–	–	–	–	–	–	–
- Deferred tax assets	–	–	–	–	–	–	0.2	0.4	0.2	0.4
- Cash and cash equivalents	–	–	–	–	–	–	41.7	34.8	41.7	34.8
- Available for sale assets	–	–	–	–	–	–	1.8	–	1.8	–
- Retirement benefit assets	–	–	–	–	–	–	6.4	–	6.4	–
- Corporate assets	–	–	–	–	–	–	8.6	1.1	8.6	1.2
Total assets	255.1	148.5	432.9	244.8	632.3	531.4	58.7	1.4	1,379.0	987.4
Operating liabilities	(41.7)	(30.2)	(103.3)	(58.4)	(92.6)	(58.3)	–	–	(237.6)	(186.7)
- Provisions	–	–	–	–	–	–	–	–	–	–
- Deferred tax liabilities	–	–	–	–	–	–	(38.4)	(22.3)	(38.4)	(22.3)
- Retirement benefit provision	–	–	–	–	–	–	–	(4.9)	–	(4.9)
- Acquisition related liabilities	–	–	–	–	–	–	(31.4)	(27.7)	(31.4)	(27.7)
- Corporate liabilities	–	–	–	–	–	–	(32.8)	(28.6)	(32.8)	(28.6)
- Borrowings	–	–	–	–	–	–	(370.6)	(306.0)	(370.6)	(306.0)
Total liabilities	(41.7)	(30.2)	(103.3)	(58.4)	(92.6)	(58.3)	(473.2)	(384)	(710.8)	(441.4)
Net assets	213.4	118.3	329.6	186.4	539.7	473.1	(414.5)	(282.6)	668.2	546.0

Acquisition related production charges are £41.6m (2021: £44.4m) and comprise £42.4m (2021: £33.1m) of amortisation of production rights. Expenses of £0.6m in production in 2022 are set off against income of £0.6m (2021: £0.6m) in other charges net gain in the goodwill impairment calculation. In 2022, production and production construction costs of £1.3m are related with the production 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	1.7	3.7	0.5	2.7	–	0.9	0.3	15.3	1.2
Depreciation and amortisation	2.9	1.1	3.5	0.9	4.6	4.1	0.2	0.7	11.2	5.9
Revenue recognition										
Commercial revenue	176.4	80.4	315.6	163.7	492.8	343.3	–	–	984.8	587.4
Other revenue	12.2	–	15.8	–	–	–	–	–	28.0	–
	188.6	80.4	331.4	163.7	492.8	343.3	–	–	1,012.8	587.4

Annual income recognition of £12.2m (2021: £0.0m) and deferred revenue recognition of £13.5m (2021: £0.0m) are included in the other revenue. Expenses of £15.8m (2021: £0.0m) and trade and other payables of £10.0m (2021: £0.0m) are included in the other revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022
CONTINUED

3. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets		Trading capital employed		Capital expenditure	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
United Kingdom	209.7	147.5	21.0	10.9	193.6	80.5	202.2	53.4	3.4	0.5
Rest of Europe	166.7	125.5	29.3	31.9	169.1	115.3	179.8	140.3	1.7	0.8
North America	561.0	401.8	129.5	94.7	519.2	443.7	614.2	445.1	8.9	4.1
Rest of world	75.4	55.5	11.4	11.6	57.1	41.8	62.3	53.7	1.3	0.8
	1,012.8	730.4	191.2	148.7	939.0	681.3	1,058.5	792.5	15.3	6.2

1. Non-current assets may include deferred tax assets and other assets that will be recovered in the future.

4. Group employee costs

Average number of employees

	2022	2021
Life Sciences	423	453
Seas	1,174	1,055
Centrais	981	827
Corporate	36	31
Number of employees – average	2,614	2,366
Number of employees – year end	2,909	2,455

Group employee costs, including key management

	2022 £m	2021 £m
Wages and salaries	154.8	143.5
Social security costs	13.3	12.6
Other personnel costs	6.6	5.5
Share-based payments	2.8	1.8
	177.5	163.4

Key management short-term remuneration, including Directors

	2022 £m	2021 £m
Salaries and short-term emoluments	5.0	5.4
Compensation to directors for loss of office	0.4	-
Pension costs	0.2	1.0
On-pre-vested payments	2.4	1.5
	8.0	7.9

The Group's directors' remuneration is disclosed in A1.24 Related Party Disclosures, to be the Directors of the Company and the members of the Executive team.

The Executive Directors' remuneration and the remuneration payable to the Chairman are given on pages 114 to 116 in the Remuneration Committee Report. The on-pre-vested payments of £2.4m (2021: £1.5m) related to the Group's RPR 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, finance and administration fees	(1.0)	0.5
Interest income on short-term deposits	0.1	–
Interest expense on bank borrowings	(7.9)	4.7
Interest expense on the defined benefit pension scheme (note 24)	–	0.1
Amortisation of up-takes on borrowings	(0.2)	(0.3)
Interest expense on leases	(2.6)	(3.8)
Net interest expense and similar charges	(11.6)	1.0
Acquisition-related finance charges	(3.2)	(0.9)
Financial expense, net	(14.8)	0.1

Acquisition-related finance charges includes fair value remeasurements of debt acquired for future financial purposes of £1.4m (Sept 2021: £0.1m) and fair value of debt acquired and issued on 1 April 2021 of £0.4m (Sept 2020: £0.1m) and £1.4m (Sept 2021: £0.1m) (note 6). The amortisation of up-takes on borrowings of £0.2m (Sept 2021: £0.3m) has been included in the above.

6. Tax expense

	2022 £m	2021 £m
Current tax		
The tax charge is based on the profit for the year and mainly on:		
UK corporation tax	10.0	5.5
Overseas tax	30.8	21.5
	40.8	27.0
Adjustments in respect of prior years		
UK corporation tax	(0.2)	0.1
Overseas tax	0.1	0.3
Total current tax	40.7	27.4
Deferred tax		
The net deferred tax credit is based on the originator and reversal of timing differences, mainly on:		
UK corporation tax	(3.1)	1.0
Overseas tax	(3.5)	0.8
Total deferred tax	(6.6)	1.8
Total tax on profit for the year	34.1	29.2

In addition to the current tax, the deferred tax included in the Group's income tax statement is net of current tax charges relating to the retirement benefit scheme and cash flow hedges of £3.6m (note 24) and £0.9m (note 24) respectively. In the consolidated Statement of Comprehensive Income, a further £0.4m was credited to the Group's income statement in exchange for the Group's making current tax of £0.4m (2021: £0.8m) with the deferred tax in the current year (2021: £0.2m) and the prior year (note 24) (note 24) (note 24).

Factors affecting the tax charge for the year

The difference between the total tax charge calculated by applying the effective rate of UK law to the tax on the profit before tax of £109.5m and the amount set out above is as follows:

	2022 £m	2021 £m
Profit before tax	129.5	91.6
Tax on profit at UK effective and nominal tax rate of 19% (2021: 19.0%)	24.6	17.4
Effects of:		
Higher tax rates on overseas earnings	6.7	4.7
Adjustments in respect of prior years	(0.1)	0.5
Adjustments to the rate of tax on foreign income	–	1.0
Overseas tax credits	2.9	1.7
Total tax on profit for the year	34.1	29.2

The Group would also not include the UK and overseas. The Group's primary financial reporting is in the UK and the UK is the main tax jurisdiction. The Group's primary financial reporting is in the UK and the UK is the main tax jurisdiction. The Group's primary financial reporting is in the UK and the UK is the main tax jurisdiction.

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At 30 September 2022, the Group had outstanding tax liabilities of £11.6m (2021: £17.6m) of which £1.9m (2021: £0.7m) related to UK tax liabilities and £9.9m (2021: £13.3m) 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 drafts 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	30.6	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 35.6p per share (2021: 30.6p) which will be paid on 3 February 2023 subject to approval by shareholders at the Annual General Meeting (AGM), on 15 January 2023. Final total dividend for the current year subject to approval of the final dividend, will be 53.6p per share (2021: 42.5p).

The Diploma PLC Employee Benefit Trust holds 71,037 (2021: 95,640) shares which are eligible for a dividend.

8. Earnings per share

Basic and diluted earnings per share

Basic earnings per ordinary £1 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 ordinary shareholders of £94.7m (2021: £84.6m). Basic earnings per share is 12.6p (2021: 68.1p). Diluted earnings per share is 11.5p (2021: 65.9p) and is based on the average number of shares in issue during the year which includes any potentially dilutive shares of 124,555,007 (2021: 124,794,473).

Further description of the Group's share capital is set out in note 6 to the parent Company's financial statements for the year ended 30 September 2022.

Adjusted earnings per share

Adjusted EPS (which is defined in note 27) is 107.5p (2021: 88.2p).

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			129.5	98.6
Tax expense			(34.1)	(26.9)
Minority interests			(0.7)	0.1
Earnings for the year attributable to shareholders of the Company	76.1	50.7	94.7	71.8
Adjustments related to other charges and production related finance charges net of tax	31.4	10.1	39.2	7.3
Adjusted earnings	107.5	55.1	133.9	65.7

9. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 30 September 2021	60.0	60.8	38.8	159.0
Acquisitions	1.4	6.8	8.7	17.6
Disposals	0.2	-	-	(3.8)
Reclassification of revaluation	-	4.7	-	(4.7)
Exchange differences	1.0	1.4	1.4	(7.4)
At 30 September 2022	62.4	69.3	49.9	260.7
Impairments	19.1	16.8	5.0	81.0
Exchange differences	0.6	8.4	16.4	30.6
At 30 September 2022	102.1	94.5	71.3	372.3

The Group tests goodwill for impairment at least once a year. For the purposes of impairment testing, goodwill is allocated to cash generating units (CGUs) within the three operating sectors Life Sciences, Seals and Controls. This represents the lowest level within the Group at which goodwill is monitored by management. At the end of the reporting period, the Group's goodwill is allocated to three cash generating units (CGUs) representing its three main divisions. The impairment test requires a comparison of the cash flows from the CGUs with the carrying amount of the cash flows from the CGUs. The cash flows are based on the cash flows from operations and other operating activities of the CGUs. The impairment test requires a comparison of the cash flows from the CGUs with the carrying amount of the cash flows from the CGUs. The impairment test requires a comparison of the cash flows from the CGUs with the carrying amount of the cash flows from the CGUs.

The key assumptions used to prepare the cash flow forecasts relate to operating margins, revenue growth rates, working capital requirements and the discount rate and impairment tests focused on an initial high level assessment which will be further refined in FY2022. The impairment models are assumed to remain sustainable, which is supported by historical experience. Revenue growth rates generally align to the average rates for the markets in which the business operates, unless there are particular factors relevant to businesses such as start-up working capital movements and are projected to remain consistent as a percentage of average. The cash flow forecasts use the reported figures for 2022, and then the three year strategy cash flows for the next two years. From year four onwards, a consistent growth rate of 2% is applied.

The discount rates are discounted to determine a current valuation using market derived pre-tax discount rates. Life in years 13.9, 12.0, 12.4, 12.0, 12.0, 12.0, 12.3, and 12.0 for FY2021, FY2022, FY2023, and FY2024 to FY2028 respectively. The rates are based on the characteristics of revenue streams, their risk, market position, business strategy, generally in well-developed markets and geographies and with substantial operating history.

Based on the prior assessment 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 what could reasonably be expected to happen if any of these assumptions would result in an impairment of goodwill. The analysis indicates that a reasonably plausible 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	182.8	29.5	2.9	183.2	7.6
Acquisition	-	-	-	-	1.4
Amortisation	(24.4)	(1.0)	(4.4)	306.8	0.2
Disposals	(1.5)	(1.0)	(1.1)	(3.6)	(0.9)
Revaluation on the acquisition	(6.9)	-	-	(6.9)	(0.4)
Exchange adjustments	(14.4)	(0.3)	(1.7)	(16.8)	(0.3)
At 30 September 2021	395.4	28.8	4.5	462.7	7.6
Acquisition	-	-	-	-	1.0
Amortisation	(96.2)	-	(3)	99.9	0.8
Disposals	-	-	-	-	(1.1)
Exchange adjustments	(69.3)	(0.1)	(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	76.4	20.7	2.9	96.0	4.6
Acquisition	14.6	-	4	18.7	-
Charge to the year	(12.7)	(1.1)	-	14.4	0.7
Disposals	(1.5)	(1.0)	(1.1)	(3.6)	(0.7)
Revaluation on the acquisition	(5.4)	-	-	(5.4)	(0.1)
Exchange adjustments	(2.0)	(0.3)	-	(2.3)	(0.3)
At 30 September 2021	60.8	8.3	5.0	117.8	4.2
Acquisition	(3.6)	-	(0.4)	4.0	-
Charge to the year	(11.0)	(1.8)	(4.5)	38.4	0.8
Disposals	-	-	-	-	(0.4)
Exchange adjustments	(3.7)	(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 1 October 2020	306.8	8.8	2.9	318.5	3.4

Acquisition of intangible assets is undertaken through business combinations, which are fair valued and amortised over their useful economic lives.

	£m	£m	£m	£m	£m
Goodwill	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Intangible assets	455.0	455.0	455.0	455.0	455.0
Total intangible assets	1,455.0	1,455.0	1,455.0	1,455.0	1,455.0

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Other identifiable direct and/or indirect computer software is also separately identified from "Equipment and computer software" needs.

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	17.6	8.4	30.7	11.8	68.5
Additions	—	0.5	1.4	2.0	4.9
Acquisitions of businesses	—	2.3	19.1	0.4	21.8
Disposals	3.3	(0.2)	(2.7)	(0.4)	(1.6)
Reclassification to held for sale	(8.0)	—	0.6	—	(7.4)
Exchange adjustments	(0.6)	(0.2)	1.8	—	(1.0)
At 30 September 2021	5.7	10.8	46.9	13.6	77.0
Additions	—	2.1	6.3	6.8	15.2
Acquisitions of businesses	—	0.3	2.7	—	3.0
Disposals	—	(1.4)	(3.0)	(1.4)	(5.8)
Exchange adjustments	(0.2)	—	0.8	—	0.6
At 30 September 2022	5.5	11.7	53.7	19.0	89.9
Depreciation					
At 1 October 2020	1.3	3.0	10.6	6.1	21.0
Charge for the year	0.4	—	1.3	1.8	3.5
Disposals	1.6	(0.1)	(3.1)	(0.2)	(0.6)
Reclassification to held for sale	(2.0)	—	1.4	—	(0.6)
Exchange adjustments	(0.2)	(0.1)	0.7	—	(0.6)
At 30 September 2021	0.4	2.8	9.7	7.6	20.5
Charge for the year	0.1	—	1.1	2.2	3.4
Disposals	—	(0.3)	(2.1)	(0.1)	(2.5)
Exchange adjustments	(0.1)	0.3	0.0	0.8	0.9
At 30 September 2022	0.4	2.8	8.7	10.5	22.4
Net book value					
At 30 September 2022	5.1	8.9	45.0	8.5	67.5
At 30 September 2021	5.3	8.0	37.2	6.0	56.5

Labor included in the year ended December 31, 1987 was approximately \$50 million. Labor costs were \$6.6 million.

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The following information is provided for the purpose of assisting the Department in its review of the proposed project. It is not intended to be a substitute for the information that the applicant must provide in the application for the project. The information is provided for the purpose of assisting the Department in its review of the proposed project.

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10. *Journal of the American Statistical Association*, 1997, 92, 1023-1032.

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	34.0	1.6	3.3	0.8	38.9
Additions	14.9	0.1	1.6	0.3	26.9
Disposals	(1.2)	–	(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	45.7	1.6	4.3	1.1	61.6
Additions	19.6	0.2	4.4	0.6	25.4
Disposals	(17.7)	–	(0.9)	–	(2.0)
Exchange adjustments	(0.7)	–	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	1.8	0.1	1.0	0.1	7.3
Charge for the year	1.0	0.1	1.2	0.3	10.8
Disposals	(0.5)	–	(0.2)	–	(0.8)
Reclassification to held for sale	(0.4)	–	0	–	(0.5)
Exchange adjustments	(0.1)	–	–	–	(0.1)
At 30 September 2021	2.1	0.1	1.7	0.4	16.7
Charge for the year	11.1	0.1	1.5	0.4	12.7
Disposals	(0.5)	–	(0.8)	–	(1.3)
Exchange adjustments	(0.4)	–	–	–	1.4
At 30 September 2022	25.3	0.3	3.0	0.9	29.5
Net book value					
At 30 September 2022	55.8	0.5	5.3	0.8	62.4
At 30 September 2021	40.0	0.4	1.9	0.7	44.9

Right-of-use assets represent those assets held under leases which fulfil the definition set out above.

During the year, a property in Switzerland was sold and the proceeds from the sale were used to settle the lease liability on that property. The lease liability was settled at 15 years. Cash proceeds of £9.0m have been received and a gain of £1.0m has been recognised within administrative costs.

Lease liabilities

The movement on the lease liability is set out below.

	2022 £m	2021 £m
At 1 October	48.3	32.7
Additions	26.6	26.4
Disposals	(0.9)	(0.9)
Lease payments	(13.5)	(11.7)
Interest on lease liability	2.6	1.8
Reclassification to held for sale	–	(0.3)
Exchange adjustments	6.0	(0.5)
At 30 September	69.1	48.3

	£m	£m
Financial liability – lease liability	12.7	6.7
Financial liability – other lease liability	56.4	41.6

Lease liabilities are classified as current liabilities if the lease term is less than 12 months or if the lease liability is due to be settled within 12 months. Lease liabilities are classified as non-current liabilities if the lease term is greater than 12 months and the lease liability is not due to be settled within 12 months. The lease liability is classified as non-current liabilities if the lease term is greater than 12 months and the lease liability is not due to be settled within 12 months.

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13. Deferred tax

The movement on deferred tax is as follows:

	2022 £m	2021 £m
At 1 October	(21.9)	(29.9)
Credit for the year (note 1)	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)	(12.7)
Exchange adjustments	(1.4)	0.6
At 30 September	(38.2)	(55.9)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to 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)	(42.0)	(42.0)	(42.0)
Retirement benefit assets and liabilities	-	1.2	(1.0)	-	(1.0)	2.2
Inventories	3.1	2.8	(0.1)	(0.1)	3.0	2.6
Share-based payments	1.4	-	-	-	1.4	-
Trading assets	-	-	-	-	-	-
Leases	1.2	1.9	-	-	1.2	0.8
Other temporary differences	5.1	3.7	(0.2)	(0.2)	4.9	3.4
	10.9	11.0	(49.1)	(47.9)	(38.2)	(36.9)
Deferred tax offset	(10.7)	(10.7)	10.7	10.7	-	-
	0.2	0.4	(38.4)	(38.6)	(38.2)	(36.9)

As deferred tax has been provided on unremitted earnings of overseas subsidiaries of the Group, should the dividend payable of its subsidiaries, Unremitted Earnings, prove liable to overseas withholding tax, there will be a negative impact on the Group's profits if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been provided 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	172.8

Inventories are stated net of impairment provisions of £14.3m (2021: £11.8m). During the year £4.0m (2021: £1.0m) was recognised as a charge against cost of sales, comprising the write-down of inventories to their net realisable value.

15. Trade and other receivables and assets held for sale

	2022 £m	2021 £m
Trade receivables	158.9	117.2
Less: provision	(7.2)	(7.6)
	151.7	109.4
Other receivables	9.8	3.6
Prepayments and other assets	8.4	5.8
	169.9	117.8

Assets held for sale

There were no assets held for sale at 30 September 2022 (2021: £10.5m). Assets held for sale at 30 September 2021 included the operating facility whereby the freehold property was sold and leased back to the business during the year ended 30 September 2022. The lease was a lease of 10 years and was classified as a lease during the year ended 30 September 2021.

The maximum expected credit loss for trade receivables at 31 September 2022 is as follows:

	2022 £m	2021 £m
At 1 January	41.3	24.3
Net changes	70.1	46.4
Transferred to other	12.6	8.9
Expiry	18.0	11.4
Other	16.9	10.0
	158.9	100.0

The maximum expected credit loss for trade receivables at 31 September 2021 is as follows:

	2022 £m	2021 £m
At 1 January	124.9	12.9
Expiry	26.8	10.5
Receivables impaired	7.2	3.6
	158.9	27.0

The ageing of trade receivables is simplified by part due and not modified (as follows):

	2022 £m	2021 £m
Not due more than 30 days	20.7	11.4
Between 31 days and 60 days (part due)	4.5	2.4
Between 61 days and 90 days (part due)	1.6	—
Over 90 days (part due)	—	—
	26.8	13.8

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

	2022 £m	2021 £m
At 1 January	3.6	1.2
Discharged against credit limit	3.4	1.0
At 31 September	0.6	2.2
At 1 January	(0.4)	1.4
At 31 September	7.2	3.6

There are no known credit risk with respect to trade receivables and are very limited reflecting the Group's history of successful sales with a diverse customer base and a low level of customer insolvency in respect of trade receivables. Management is satisfied that the credit allowance taken into account is a fair and prudent estimate and is based on the Group's historical experience and forward looking expected credit losses in line with EFRS 9 Financial Instruments.

16. Trade and other payables

	2022 £m	2021 £m
Trade payables	96.4	74.5
Other payables	25.8	11.0
Trade and other payables due	11.0	6.6
Accruals and other payables	56.3	31.7
	189.5	123.8

The maturity analysis of trade and other payables at 31 September 2022 is as follows:

	2022 £m	2021 £m
At 1 January	24.1	21.5
At 31 September	50.2	31.1
At 31 December	0.8	1.5
Due	14.1	14.1
Over	7.2	1.1
	96.4	47.2

There are no known credit risk with respect to trade payables.

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17. Cash and cash equivalents

	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2022 Total £m	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2021 Total £m
Cash at bank	15.2	7.1	2.3	7.8	6.4	38.8	8.5	7.5	0.5	5.5	3.8	25.8
Short-term deposits	–	0.1	1.8	–	1.0	2.9	–	0.4	3	–	1.6	7.2
	15.2	7.2	4.1	7.8	7.4	41.7	8.5	7.9	3.5	5.5	5.4	33.0

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 sensitivity to the risk is set out below.

a) Credit risk

Credit risk is the risk of financial loss to the Group from default on any counterparty to a financial instrument held to maturity or contractual obligation. This arises principally from the Group's trade and other receivables from customers and other counterparties, and, to a lesser extent, from cash and cash equivalents.

The Group is exposed to credit risk arising from government-backed agencies and large public and private well-known and well-established businesses, and the Group and its subsidiaries are very thorough about the world. Trade receivables are subject to credit risk arising from the operational risk of where they are sold or used in its operations, and are not as deemed appropriate for each customer.

The Group establishes a credit policy which requires its estimate of potential losses in respect of specific trade and other receivables, where it is deemed that a recovery is not probable, see below, and considers factors which may impact on its credit risk. Where doubtful, the Group will establish a provision for the value of the receivable. When the Group has determined the credit risk, the provision is transferred to the Group's general reserve. During the year, the Group had a significant increase in the trade receivables.

Exposure to counterparty credit risk with financial institutions is controlled by the Group treasury team which establishes and monitors counterparty credit limits, in respect of all credit-related contracts with counterparties where credit rating is A4 or better. There is no significant concentration of credit risk. There has been no increase or expected credit loss on cash and cash equivalents.

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

	Carrying amount	
	2022 £m	2021 £m
Trade receivables	151.7	108.4
Other receivables	9.8	7.1
Cash and cash equivalents	41.7	33.0
	203.2	148.5

There is no material difference between the book value of the financial assets and the fair value at each reporting date. An analysis of the exposure to currency, interest rate and foreign exchange risk 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 has adopted the IFRS 9 expected credit loss model approach to measuring expected credit losses, which allows for the expected credit loss on trade receivables and other receivables.

The expected credit loss is determined by the present value of the expected cash flows over a period of 12 months ended 30 September 2022, plus the present value of the expected cash flows over a period of 12 months ended 30 September 2022. The expected credit loss is determined by the present value of the expected cash flows over a period of 12 months ended 30 September 2022, plus the present value of the expected cash flows over a period of 12 months ended 30 September 2022.

The Group has adopted the IFRS 9 expected credit loss model approach to measuring expected credit losses, which allows for the expected credit loss on trade receivables and other receivables. The Group has adopted the IFRS 9 expected credit loss model approach to measuring expected credit losses, which allows for the expected credit loss on trade receivables and other receivables. The Group has adopted the IFRS 9 expected credit loss model approach to measuring expected credit losses, which allows for the expected credit loss on trade receivables and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

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Management considers that the most significant foreign exchange risk is related to the US dollar, Canadian dollar and Euro. The Group is sensitive to a 10% strengthening in UK sterling against each of these currencies with all other variables held constant 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	1.4
Euro/UK sterling	1.7	1.0
Decrease in total equity at average 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 its 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 at 30 September 2022 was £89.6m (2021: nil). The net fair value of interest rate swap contracts used to hedge at 30 September 2022 was a net asset of £221.0m and is included within Trade and other receivables on the balance sheet. The amount recognised from Other Comprehensive Income and taken to the Consolidated Income Statement in finance costs during the year was £12.7m. The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £3.3m (credit £111.0m).

A cash deposit held in the UK and a forward purchase contract for a short-term bank of financing rate in sterling entered into in the relevant UK base rate period. Interest rate surplus funds are designated in the currency of the bank that meet the credit criteria used by the Group for periods of between one and six months at rates that are generally fixed or linked to the relevant UK base rate or euro zone rate.

An increase of 1% in the interest rate would have had an effect of £1.1m (2021: £1.0m) on profit or loss after taxation. The impact of interest rate movements has been incorporated against the prior year due to the fact interest rate swap contracts entered into in the year.

e) Fair values

There are no material differences between the book value of the group's assets and liabilities and their fair value. The accounting principles for values are detailed above.

Derivatives

Forward exchange contracts are designated as level 2 assets or liabilities in the fair value hierarchy and are valued at year end at fair value, adjusted for the forward points to the contracts' strike rate with consideration given to the credit quality of the counterparty, which is greater than 18 months from the year end.

For hedges of foreign currency transactions, the Group enters into hedging contracts using the notional terms of the hedging instrument matched with the terms of the hedged transaction. The Group also enters into foreign exchange contracts for other purposes than what was originally intended, which is a change in the use of the derivative contracts.

Interest rate swap contracts are designated as level 2 assets or liabilities in the fair value hierarchy and are valued at year end at the net present value of the contract using a present forward rate and interest rates with given credit adjustments.

The Group enters into interest rate swaps that hedge a proportion of the risk of the hedged item in an off-balance sheet agreement with a maturity or a notional amount. The Group has entered into a hedge of its 10% interest rate swap portfolio to hedge the underlying risk of the interest rate swap identified in the hedged risk in its portfolio. The hedge method used is based on the difference between the cash flows of the hedged item and the hedging instrument, either in currency when credit risk is not a significant factor or in the value of the swap when credit risk is a significant factor.

Trade and other receivables/payables

At the year end, all balances have a remaining life of no more than 12 months and are expected to reflect their fair value.

Borrowings

The fair value of the borrowings is approximately equal to the book value.

Other liabilities

The carrying amount represents a discounted value of the expected cash flows of the liability, which is not materially different from the value designated as level 2 assets or liabilities in the fair value hierarchy.

f) Capital management risk

The Group has no restrictive covenants in the interest-bearing finance facilities in its portfolio. The Group has no other financial instruments that are subject to restrictive covenants. The Group's capital management policy is to ensure that it has sufficient resources to meet its obligations to its stakeholders and to maintain a strong financial position.

to be able to further adjust the capital structure, the group may change the amount of dividends paid to shareholders and its capital to include minority shareholdings and other bank borrowings.

19. Other liabilities

	2022 £m	2021 £m
Future purchases of minority interests	7.4	6.0
Deferred consideration	24.0	16.5
	31.4	22.5
Amount due		
Due in 12 months	19.0	11.5
Due after 12 months	12.4	11.0

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

	2022 £m	2021 £m
At 1 Oct	5.2	4.0
Minority interest put option arising on acquisition	1.9	1.9
Minority interest put options removed on disposal	(1.2)	-
Foreign exchange movements	0.1	-
Foreign exchange measurements	1.4	1.0
At 30 September	7.4	6.9

At 30 September 2022, the Group's minority interests retained put opt and to sell their minority interest, £4.1m in MGCs, £1.1m in Tech Energy, £1.0m in R&B Fluid Power Group Limited (R&B) following its acquisition and described in note 7. The acquisition in R&B was a cash transaction and so put option liability on acquisition of £1.9m.

During the year, the Group decided to reduce the liability for future purchase of minority interests, independent of the other liabilities recognised of £1.2m.

At 30 September 2022, the estimate of the liability to include the expected outstanding minority shareholding with E.ON Energy Distribution on their current estimate of the future performance of these businesses and to settle the liability on 30 September 2022. This led to a remeasurement of the liability and the liability increased by £1.4m (2021: £1.0m increase) reflecting a review of the estimate of the future performance of these businesses and in aggregate £1.4m (2021: £1.0m) increase added to the liability reported in the Statement in respect of this remeasurement of the liability.

Details of the movement in the liability are as follows:

	1 Oct 2021 £m	Additions £m	Discount unwind £m	Revaluation £m	Payments £m	Foreign Exchange £m	30 Sep 2022 £m
Others	1.0	-	-	-	1.0	-	-
EA	1.3	-	-	-	1.3	-	-
W&A	3.6	-	-	0.1	3.7	-	-
EAH	2.0	-	-	-	2.0	-	-
EAH	1.7	-	-	0.2	1.9	-	-
EAH (net)	0.4	-	-	-	0.4	-	0.3
EAH (net)	6.4	-	0.2	-	-	0.2	5.4
EAH	1.0	-	0.1	-	-	-	1.2
EAH	4.0	-	0.1	-	-	0.2	4.9
R&B	-	8.7	-	-	-	-	8.6
EAH (net)	-	0.6	-	-	-	-	0.5
EAH (net)	-	1.6	-	-	-	-	0.5
EAH	-	2.3	-	-	-	-	2.3
EAH (net)	-	1.7	-	-	-	-	0.3
	18.5	12.3	0.4	(0.6)	(7.1)	0.5	24.0

On 30 September 2022, the Group's liability for R&B is £8.6m, £1.5m is attributable to the acquisition of R&B Fluid Power Group Limited, £7.1m is attributable to the acquisition of R&B Fluid Power Group Limited.

CONTINUED

External client feedback on Assessment Management / External client feedback on the quality of the service / External client feedback on the quality of the service / External client feedback on the quality of the service

21. Acquisitions and disposals of businesses

Acquisition of R&G Fluid Power Group Limited

$$\lim_{n \rightarrow \infty} \frac{1}{n} \sum_{k=0}^{n-1} f\left(\frac{k}{n}\right) = \int_0^1 f(x) dx$$
$$\frac{1}{\Gamma(\alpha)} \int_0^t (t-s)^{\alpha-1} f(s) ds = \frac{1}{\Gamma(\alpha)} \int_0^t (t-s)^{\alpha-1} f(s) ds + \frac{1}{\Gamma(\alpha)} \int_0^t (t-s)^{\alpha-1} f(s) ds = \frac{1}{\Gamma(\alpha)} \int_0^t (t-s)^{\alpha-1} f(s) ds + \frac{1}{\Gamma(\alpha)} \int_0^t (t-s)^{\alpha-1} f(s) ds$$

*Kredit, der nicht auf die oben bezeichnete Aktivseite der Bilanz der AG 1995 konvertiert wird, ist nicht geltend zu machen. Bei der Bilanzierung der AG 1995 ist der Betrag der Aktivseite der Bilanz der AG 1995 zu berücksichtigen.

7. *Phragmites australis* (Cav.) Trin. ex Steud.

$$\frac{d}{dt} \left(\frac{\partial L}{\partial \dot{x}} \right) = \frac{\partial L}{\partial x} \quad \text{and} \quad \frac{d}{dt} \left(\frac{\partial L}{\partial \dot{y}} \right) = \frac{\partial L}{\partial y}$$

Other acquisitions

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α β γ δ ϵ ζ η θ ι κ λ μ ν ξ \omicron π ρ σ τ υ ϕ χ ψ ω Ω Θ Υ Φ Ψ Ξ Λ Σ Γ Δ ϵ δ γ β α ω ν μ λ κ ι θ η ζ ϵ δ γ β α Ω Θ Υ Φ Ψ Ξ Λ Σ Γ Δ ϵ δ γ β α

represent the fair value of the intangible assets acquired excluding goodwill. Intangible assets related to the acquisition of 100% of Livingston have amounted to £1.0m. Fair value adjustments on intangible assets have increased the carrying amount of the £10.0m.

The following table summarises the consideration paid for the acquisitions completed in the period and fair value of assets acquired and liabilities assumed with the acquired entities and a corresponding comparison of their valuation. Given the time lapse between the acquisition and the giving of the fair value for the acquisition of acquired assets and liabilities, particularly for intangible assets and working capital, it is not possible to compare at the date of these financial statements.

During the year an additional £1.6m was paid in respect of the completion of the acquisitions in previous financial years.

	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
Adjustment intangible assets	–	47.6	–	11.1	–	11.1	–	98.2
Deferred tax	(0.7)	(12.8)	–	4.3	–	(11.7)	(0.7)	(18.5)
Property, plant and equipment	8.1	8.9	0.7	0.7	0.1	0.1	6.7	6.7
Inventories	14.4	3.8	4.7	4.0	9.0	8.1	28.2	26.1
Trade and other receivables	14.4	14.3	5.6	5.3	2.8	2.7	22.7	22.3
Trade and other payables	4.4	21.0	5.1	17.9	17.6	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	–	11.1	–	15.9	–	11.2	–	80.6
Minority interests	–	2.5	–	–	–	–	–	(2.5)
Consideration paid		47.4		37.1		31.8		178.3
Good acquired		1.1		3.1		1.1		(6.1)
		0		24.0		11.4		172.2
Deferred consideration		7.4		–		3.6		11.0
Total investment		99.1¹		49.9		34.2		183.2

¹ This figure includes the consideration paid for the acquisition of the 100% shareholding in Livingston in 2012, which was £127.0m. This figure also includes the consideration paid for the acquisition of the 100% shareholding in Livingston in 2012, which was £127.0m. This figure also includes the consideration paid for the acquisition of the 100% shareholding in Livingston in 2012, which was £127.0m.

1. The above table is based on the information provided by the management of the companies acquired.

Acquisitions revenue and adjusted operating profit

From the date of acquisition to 31 October 2012, the following businesses contributed to the following Group revenue and operating profit.

	Acquisition date	Revenue £m	Adj. £m	Pro forma revenue £m	Operating profit £m	Adj. £m	Pro forma operating profit £m
LIP	1 February 2011	1.6	1.4	16.2	8	0.6	2.1
R&G	8 April 2011	34.3	34.3	38.6	4.8	4.9	5.1
Accuscience	10 May 2011	10.6	7.8	19.0	1.3	0.0	3.3
Hydrophosphaite	17 May 2011	1.6	0.8	4.1	0.4	0.6	1.0
LMG	9 May 2012	0.5	0.9	1.4	0.1	0.2	(0.3)
LMT	24 July 2012	1.4	1.4	3.6	1.1	1.6	1.6
Summe Structures	5 Oct 2012	1	1.1	2.2	1.1	0.8	1.6
		58.5	65.8	124.3	8.7	10.9	19.6

1. The above table is based on the information provided by the management of the companies acquired.

Disposals

In October 2012, the Group sold its 100% shareholding in Livingston Chemicals Limited ("Livingston Chemicals") for £10m. A large volume of work on the production of the chemical was transferred to the existing plant at the Livingston site, which is the subject of the following table.

On 3 May 2012, the Group sold its 100% shareholding in Livingston Chemicals Limited ("Livingston Chemicals") for £10m. A large volume of work on the production of the chemical was transferred to the existing plant at the Livingston site, which is the subject of the following table.

1. The above table is based on the information provided by the management of the companies acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2022 £m	2022 £m	2021 £m	2021 £m
Operating profit		144.3		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 and other intangible assets and leased right-of-use assets	23.9		20.7	
Share-based payments expense (note 4)	2.8		1.8	
Defined benefit pension scheme payments in excess of interest	(0.6)		(5.8)	
Profit on disposal of assets	(1.6)		(2.6)	
Acquisition and disposal expenses paid	(6.5)		(4.2)	
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)		(13.8)	
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 detailed below:

	1 Oct 2021 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	30 Sep 2022 £m
Cash and cash equivalents	14.8	11.1	0.2	-	41.7
Borrowings	(370.7)	11.7	(10.5)	(1.2)	(370.6)
Net debt	(355.9)	22.8	(9.3)	(1.2)	(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	14.8	12.5	0.6	-	24.2
Borrowings	(308.7)	11.4	1.8	(1.5)	(295.4)
Cash funds/(net debt)	(293.9)	23.9	2.4	(1.5)	(271.2)

The following table shows the breakdown of the movements in cash funds and net debt during the year, including the impact of foreign exchange movements.

On 13 December 2021, the Group entered into a debt swap in premium form, which renounced a fixed commitment for an aggregate principal amount of \$136.0m, and a committed credit line amount of \$136.0m, for an aggregate principal amount of \$136.0m, which was increased to \$185.0m during the previous financial year.

During the year, the Group has amended the SFA to increase the limit for its debt. As at 30 September 2022, the SFA comprised a committed multi-currency revolving facility of \$185.0m, an aggregate principal amount of \$136.0m, and a committed credit line of \$136.0m, for an aggregate principal amount of \$136.0m, and a committed credit line of \$136.0m, for an aggregate principal amount of \$136.0m. The SFA is subject to a review in December 2024 and may be subject to extension for a further 12-month period.

The Group's debt facilities are subject to interest rate risk. To manage the risk, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$136.0m of the SFA. The interest rate swap contracts are subject to a review in December 2024 and may be subject to extension for a further 12-month period.

As at 30 September 2022, the Group's net debt is \$328.9m, of which \$136.0m is due to the SFA.

As at 30 September 2022, the term loans and revolving credit facilities available to the Group are \$136.0m, of which \$136.0m is due to the SFA. The term loans are \$136.0m, of which \$136.0m is due to the SFA. The revolving credit facilities are \$136.0m, of which \$136.0m is due to the SFA. The term loans are \$136.0m, of which \$136.0m is due to the SFA. The revolving credit facilities are \$136.0m, of which \$136.0m is due to the SFA.

As at 30 September 2022, the Group has a committed credit line of \$136.0m, of which \$136.0m is due to the SFA. The term loans are \$136.0m, of which \$136.0m is due to the SFA. The revolving credit facilities are \$136.0m, of which \$136.0m is due to the SFA.

Total net debt is \$328.9m (2021: \$295.4m). The Group's cash funds are \$41.7m (2021: \$24.2m). The Group's cash funds are \$41.7m (2021: \$24.2m). The Group's cash funds are \$41.7m (2021: \$24.2m). The Group's cash funds are \$41.7m (2021: \$24.2m).

24. Retirement benefit asset and obligations

The Group maintains two pension arrangements which are accounted for under A519 'Retirement Employee Benefits'. The principal arrangement is the defined benefit pension scheme in the UK maintained by Diploma Holdings PLC and held at the Diploma Holdings PLC UK Pension Scheme (the Scheme). This Scheme only provides benefit to closed-in final salary and length of service in retirement (leaving service in death and may be closed to further accrual since 9 April 2000).

The second and smaller pension arrangement is operated by Kuba, a business based in Switzerland and provides benefits on retirement (leaving service in death) for the employees of Kuba in accordance with Swiss law. This Kuba pension scheme is a defined contribution based scheme which for technical reasons is included under IFRS to be accounted for in all companies with A519 'Retirement'.

The amount of pension asset which is used in the Consolidated Statement of Financial Position in respect of these two pension arrangements is:

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

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

	2022 £m	2021 £m
UK Diploma Holdings PLC UK Pension Scheme	–	(0.3)
Kuba Pension Scheme	(0.5)	(0.5)
All funds charged to the Consolidated Income Statement	(0.5)	(0.8)

Defined contribution schemes operated by the Group are excluded and not included in these disclosures.

Diploma Holdings PLC UK Pension Scheme

The Scheme is subject to a Statutory Funding Requirement under the Pensions Act 2004 which requires that the Trustee of the Scheme to conduct at least once every three years to determine whether the Statutory Funding Requirement is met. As part of the process, the Trustee must agree with the Trustees of the Scheme the contributions to be made, agreed in advance of the Statutory Funding Requirement. The most recent triennial actuarial valuation carried out as at 30 September 2019 reported that the Scheme had a funding deficit of £9.9m on defined assets which covered 70% of its liabilities at that date. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2021 and the results of the valuation will be reported in the 2023 Annual Report & Accounts. There were no Scheme administration payments or settlements during the year.

On 14 September 2018, the Trustees completed a buy-in of the pension liabilities in the scheme with a deferred entry into the Scheme of a Deferral to Joint Retirement Limited on 18 September 2018 to fund 95% of the buy-in premium and a further payment on 21 September 2018 to fund the remaining 5% of the premium. The impact of this transaction has been estimated in the period end financial statements below.

The Scheme is managed by a set of Trustees appointed in part by the Company and in part by the external administrators 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 makes 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 a drop in funding to be required in the short term.
- Interest rate risk.** The Scheme's liabilities are expressed using market yields on an annual basis, therefore a drop in interest rates will increase the value of the assets and liabilities and will increase the value of the assets.
- Inflation risk.** A significant proportion of the benefits under the Scheme are linked to inflation. The Scheme's assets are expected to provide a good hedge against inflation over the long term, however movements over the short term do not always reflect funding deficits or surpluses.
- Mortality risk.** In the event that members live longer than assumed, a funding deficit may be required in the future.

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FOR THE YEAR ENDED 30 SEPTEMBER 2022
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a) Pension surplus / (deficit) included in the Consolidated Statement of Financial Position

	2022 £m	2021 £m
Market value of Scheme assets:		
Equities	20.7	21.0
Bonds	3.9	3.7
Buy-in policy	7.3	10.1
Cash	—	0.2
	31.9	35.0
Present value of Scheme liabilities	(25.5)	41.0
Pension scheme net asset / (deficit)	6.4	—

1. Quoted market value on active market.

2. The Buy-in policy was issued on the same basis as the underlying pension liability.

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
Charge to operating profit	—	—
Interest on liabilities	(0.8)	0.2
Interest on assets	0.8	0.2
Charge to financial expense, net of tax	—	—
Amounts charged to the Consolidated Income Statement	—	0.4

c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2022 £m	2021 £m
Investment surplus on Scheme assets in excess of interest	(6.5)	8.0
Effect of changes in financial assumption on Scheme liabilities	15.4	0.1
Effect of changes in demographic assumption on Scheme liabilities	0.3	1.4
Effect of actuarial gains on Scheme liabilities	(0.7)	—
Actuarial gain credited in the Consolidated Statement of Comprehensive Income	8.5	4.5

The cumulative impact of actuarial losses recognised in the Consolidated Statement of Comprehensive Income is the net amount of £6.5 million in 2021/22.

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

	2022 £m	2021 £m
Deficit as at 1 October	2.7	—
Amounts charged to the Consolidated Income Statement	—	0.4
Contributions paid by employer	(0.6)	0.0
Transfer in from supplements of Scheme assets and liabilities	(8.5)	4.2
(Asset) / deficit as at 30 September	(6.4)	—

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

	2022 £m	2021 £m
At 1 October	41.0	41.5
Effect of changes in financial assumption on Scheme liabilities	0.7	—
Interest on liabilities	0.8	0.1
Effect of changes in actuarial assumption on	(15.7)	0.0
Benefit paid	(1.3)	—
At 30 September	25.5	41.6

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	0.6
Return on investments	(6.5)	6.0
Contributions paid in by members	0.6	5.9
Benefits paid	(1.3)	1.0
At 30 September	31.9	41.6

The annual return on the Scheme assets, calculated on the basis of assets during the year, was 1.1% (2021: 22.1%) for equity.

Assets

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

	2022 %	2021 %
North American equities	28	25
UK equities	12	10
European equities (incl. UK)	11	10
Asia-Pacific incl. Emerging Markets equities	12	11
Bonds	14	14
Blackrock cash	23	33

Principal actuarial assumptions for the Scheme at balance sheet dates

	2022 %	2021 %	2020 %	2019 %
Inflation rate (RPI) (used for CPI)	3.6	3.4	1.0	3.4
Expected return on pension assets (RPI)	3.2	3.0	1.0	1.4
Expected return on pension assets (RPI)	3.2	3.0	1.0	1.4
Discount rate	5.3	1.0	1.5	1.8

The volatility in bond yields in the period leading up to, and after the Group year end meant there was a significant favourable impact on the present value of the Scheme's liabilities. This volatility also had an adverse impact on the valuation of the scheme's equity-linked investments and could have had a negative impact on the value of the assets. The Scheme had 14% of its assets in equity-linked at 30 September 2022, with an exposure of £1.2m.

Demographic assumptions

Mortality table used	SPFA
Rebasing mortality table and projection	CMP 2021
Allowance for mortality improvement	rebased on recent experience with a long-term improvement rate of 1%
Allowance for the future pensionable salary and pensionable retirement	Members are assumed to age 100 and high premium pensioners based on current contribution factors
The weighted average period of service for pensioners is around 15 years.	

Sensitivities

The sensitivities of the 2022 pension liability to the principal assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	2% (base rate + 0.5%)	1.1	0.1
Inflation	3.0% (base rate + 0.5%)	1.4	0.1
Expected return on assets	3.0% (base rate + 0.5%)	1.4	0.1

Risk mitigation strategies

When setting the investment strategy for the Scheme, the Trustees consulted with the employees' representatives about the risks to the Scheme. The Trustees have a policy of diversification and do not invest in selected or defined pensioners. An active policy is followed to ensure that investments are not over-concentrated in any one area and that the Scheme has not overexposed its portfolio for retirement since 2018.

In addition to the pensionable salary, the Trustees have a policy of providing a lump sum payment on retirement to all pensioners. In 2018, the Trustees agreed to the Trustees' policy of providing a lump sum payment on retirement to all pensioners. The Trustees have a policy of providing a lump sum payment on retirement to all pensioners.

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FOR THE YEAR ENDED 30 SEPTEMBER 2022

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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 £0.6m 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 2022 (one-off contribution of cca. £5.0m).

The Kubo Pension Scheme (the Kubo Scheme)

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

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

	2022 £m	2021 £m
Assets of the Kubo Scheme	13.5	11.4
Actuarial liabilities of the Kubo Scheme	(13.5)	14.2
Pension scheme net deficit	-	2.8

1. The assets of the Kubo Scheme are held in part of the ASGA Pensionskasse, a Swiss ASGA Pensionskasse.

b) Amounts charged to the Consolidated Income Statement

	2022 £m	2021 £m
Service cost	(0.5)	0.1
Amount charged to operating profit in the Consolidated Income Statement	(0.5)	0.1

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	0.1
Contributions paid by the Group	(0.5)	(0.8)
Net effect of the red valuations of Kubo Scheme assets and liabilities	(2.1)	3.1
Exchange adjustments	(0.1)	0.1
At 30 September	-	2.8

d) Amounts recognised in the Consolidated Statement of Comprehensive Income

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

	2022 £m	2021 £m
Investment gain/(loss) on Scheme assets (excluding 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	-	0.1
Experience adjustments on Scheme liabilities	(0.4)	0.1
Adjustment in respect of PA 014	(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 return on investable	0%	0%
Expected rate of salary increase	1.0%	1.0%
Discount rate	2.3%	0.1%
Interest credit rate	1.0%	0.1%
Mortality	BVG2020	BVG2020

Sensitivities

The sensitivities of the 2022 net pension liability to changes in the principal assumptions are:

Factor	Assumption	Impact on pension liabilities Estimated increase %	Estimated increase £m
Discount rate	Decreased to 1.0%	1%	0.1
Life expectancy	Increased to 80	1%	0.1

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[illegible]

The exchange rates used to translate the results of the survey are shown in Table 1.

27. Alternative performance measures

2.7. Alternative performance measures

The Group has set a number of alternative financial measures (referred to as "GAAP" financial measures) which are not defined within IFRS. The Directors use these measures for internal management reporting and to provide information to the Board and the Shareholders on the operational performance of the Group. A comparison of each against the Group's IFRS financial performance is set out in the table below. The Group's accounting policies do not differ significantly from those of the companies included in the FTSE 100 Index and the above measures are consistent with the IFRS measures. The following table shows GAAP measures which are referred to in the Financial Report and Accounts.

2.7. Adjusted operating profit and adjusted operating margin
Adjusted operating profit is defined as operating profit before an allocation of a proportion of group office and other general goods and services revenue that accrues to the intermediate and/or ultimate shareholders of the Group, and is subject to the following conditions: (i) no allocation of office and other general goods and services revenue to the intermediate and/or ultimate shareholders of the Group; and (ii) no allocation of office and other general goods and services revenue to the Group. The Group will use the adjusted operating profit as an important measure of the operational performance of the Group. A further supporting margin, the Group's adjusted operating profit, is based on the Group's revenue.

27.2 Adjusted profit before tax

Adjusted pretax income before tax is calculated as earnings before interest and taxes, plus or minus the change in deferred tax. The difference is a fact-adjusted pretax income, which is then multiplied by the statutory rate to arrive at the adjusted pretax income.

Adjusted profit before tax 177.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27.3 Adjusted earnings per share

Adjusted earnings per share (adjusted EPS) is calculated as the total of adjusted profit before tax, excluding minority interests, but including the tax impact on the items included in the calculation of adjusted profit less profit, applicable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 124,533,061 (2021: 124,466,212). The Directors believe that adjusted EPS provides an important measure of the earning capacity of the Group.

	2022 pence per share	2021 pence per share	2022 £m	2021 £m
Profit before tax			129.5	96.8
Tax expense			(34.1)	(26.9)
Minority interests			(0.7)	0.1
Earnings for the year attributable to shareholders of the Company	76.1	55	94.7	69.9
Acquisition related and other charges and acquisition related finance charges net of tax	31.4	29.7	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 acquisitions, capital and investments including any other acquisition related items such as pension or tax settled post acquisition, and proceeds from financial disposals, but excluding received on fund disposals and dividend paid to minority shareholders and the Company's contribution to 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	142.5
Adjusted cash paid to shareholders		56.2	55.4
Dividend paid to minority interests	21	0.2	0.3
Adjusted cash received from minority interests	20	0.3	—
Proceeds from minority interests	21	—	0.4
Adjusted net of business and payments on the acquisition debt take term net of cash provided		177.6	491.4
Acquisition and related expenses paid	21	6.5	4.2
Proceeds from sale of business net of expenses	—	(13.7)	11.1
Proceeds from sale of share capital net of fees		—	0.6
Deferred consideration paid	21	7.1	5.6
Proceeds from repayment of bank loan net	23	(131.3)	220.6
Free cash flow		120.4	775.8
Adjusted earnings		133.9	106.1
Free cash flow conversion		90%	727%

27.5 Trading capital employed and ROATCE

The net book value of trading capital employed is defined as net assets less cash and cash equivalents, non-current financial assets, non-current receivables, other non-current liabilities, retirement benefits obligations, deferred tax and provisions, adjusted in respect of intangible assets, other non-current assets and deferred consideration. Adjusted trading capital employed is reported as net trading capital employed, less goodwill, and includes non-related charges and provisions written off, net of deferred tax on goodwill, intangible assets, and retirement benefits 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 a meaningful measure of the return on capital in the Group.

	2022 £m	2021 £m
Net assets	668.2	617.0
Goodwill		
- Deferred tax net	38.2	21.9
- Retirement benefits obligations	(6.4)	2.9
- Acquisition related liabilities/assets net	29.6	13.7
Net debt	328.9	181.1
Reported trading capital employed	1,058.5	772.9
Intangible assets and acquisition related charges, net of deferred tax and currency movements	99.6	98.4
Adjusted trading capital employed	1,158.1	871.3
Adjusted operating profit	191.2	148.7
Pro forma adjustments	9.7	8.7
Pro forma adjusted operating profit	200.9	157.4
ROATCE	17.3%	18.1%

Notes: 1. Net assets exclude non-current financial assets, non-current liabilities and provisions.

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, after 12-month depreciation and amortisation of intangible and other intangible assets, the share of adjusted EBITDA attributable to minority interests, and the annualisation of EBITDA for acquisition and disposals made during the financial year and to remove the impact of non-recurring costs. The Directors believe that this metric is a meaningful measure of the Group's financial position.

	Note	2022 £m	2021 £m
Cash and cash equivalents	13	41.7	14.9
Borrowings	23	(370.6)	(196.4)
Retirement benefits obligations		23.1	0
Net debt (average exchange rates)		(305.8)	(181.5)
Adjusted operating profit	271	191.2	148.7
Depreciation and amortisation of intangible and other intangible assets	10.11	11.2	14.9
RASG charges		1.2	1.5
Minority interest share of adjusted EBITDA		(1.1)	(0.5)
Disposals and acquisitions		10.2	6.7
EBITDA		212.7	169.4
Net debt to EBITDA		1.4x	1.1x

Notes: 1. Net debt excludes cash and cash equivalents, non-current liabilities and provisions.

27.7 Dividend cover

Dividend cover is defined as the dividend paid in the year divided by the total dividend for the year, after minority interest share.

	Note	2022	2021
Adjusted operating profit	2	107.5	87.1
Total dividend in the year, after minority interest share		53.8	46.5
Dividend cover		2.0	1.9

GROUP ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 SEPTEMBER 2022

1.1 Basis of preparation

1.1 Basis of preparation

The consolidated financial statements have been prepared on a consistent basis from year end to year end in order to provide cost convention, except for derivative financial instruments which are measured at fair value.

On 31 December 2020, IFRS 9 is adopted in the European Union at that date was brought into UK law and therefore changes being international Accounting Standards with future changes being subject to endorsement by the UK Endorsement Board. IFRS 9 is subject to endorsement by the UK Endorsement Board and Accounting Standards Board (ASB) in October 2021. The ASB has confirmed that it will endorse IFRS 9 in October 2021. However, the change constitutes a change in accounting framework. Therefore, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Going concern

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's future activities, together with the factors likely to affect its future development performance and position are set out in the Strategic Report on pages 20 to 29. The principal risks and uncertainties facing the Group are described in the Financial Review on pages 71 to 79 and on pages 86 to 106 under the heading "Key Risks & Uncertainties". In addition, the Group has adopted a number of strategies for managing its cash, financing and investing activities and its exposure to credit, liquidity and solvency.

[illegible]

Liquidity and financing position

Liquidity and financing position

The Group's liquidity and financing position at 31 December 2019 was satisfactory and the Group's cash and cash equivalents at 31 December 2019 were €23.5 million. The Group's cash and cash equivalents at 31 December 2019 were €23.5 million. The Group's cash and cash equivalents at 31 December 2019 were €23.5 million.

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 10. התאמה - התאמה בין המצב

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 of debt. At the end of the year the interest rate debt was \$14.0m of 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.

As of September 2022, the Gravitheo Dec 18-22 rate is 14, calculated as follows:

[illegible]

As at 30 September 2001, under the IAS the Group had a gross
term loan with an aggregate principal amount of \$198.7 million,
and a liability of \$198.7 million from the bank, demand term loan.
Sustentel's 2001 year-end financial position, demand term loan

Two undated 1998 (or 1999) letters from the [redacted] to the [redacted] dated [redacted] and [redacted] are also in the [redacted] file. The [redacted] dated [redacted] is a letter from the [redacted] to the [redacted] dated [redacted] and the [redacted] dated [redacted] is a letter from the [redacted] to the [redacted] dated [redacted].

Financial modelling

Financial modelling

The Group has modelled above and below the line costs as a percentage of gross profit. The model has been driven by the Group's assessment of gross profit and operating leverage. The model has been based on budgeted information and is subject to change. The model is based on the assumption that the Group's operating leverage will be 1.0. The model is based on the assumption that the Group's operating leverage will be 1.0. The model is based on the assumption that the Group's operating leverage will be 1.0.

THE BOARD OF DIRECTORS OF THE COMPANY HAS REVIEWED THE FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 31ST MARCH 2019 AND HAS APPROVED THEM FOR RELEASE TO THE SHAREHOLDERS.

Going concern basis

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1.2 Basis of consolidation

1.2 Basis of consolidation

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

1.7 Foreign currencies

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

a. Reporting foreign currency transactions in functional currency
Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

1. 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. Non-monetary items measured at historical cost in a foreign currency are not retranslated.
2. 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.
3. Translation from functional currency to presentation currency
When the functional currency of a Group entity is different from the Group's presentation currency, its results or financial position are translated into the presentation currency, but only:
 1. Assets and liabilities are translated using exchange rates prevailing at the balance sheet date.
 2. Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not appropriately represent the exchange rate at the date of the transaction, in which case the transaction rate is used.
 3. 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.
4. 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 appropriate financial statements of the reporting entity. In the foreign operation's accounts, exchange differences are initially recognised in Other Comprehensive Income and a separate component of equity and, on disposal, are recognised in the Consolidated Income Statement in respect 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 neither 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 is at the end 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 include, in particular, the revaluation of the net position in the Group's financial statements, where the difference between deferred tax liabilities and/or a deterioration and the increase in the net position, where such a liability against net assets is not deductible for taxation purposes. However, deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill, from the initial recognition of an intangible asset, from the initial recognition of an asset or liability that, at the time of its recognition, is not deductible for tax purposes, or from the initial recognition of a liability that, at the time of its recognition, is not deductible for tax purposes.

Deferred tax is calculated using the enacted tax rates and temporary differences are measured at the balance sheet date. Except where the Group is able to control the timing of the reversal of a difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax is recognised in the consolidated earnings or losses, including the Group's share of the subsidiary's profits or losses.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is recognised in the Consolidated Income Statement, except where the temporary difference arises on the initial recognition of an asset or liability that, at the time of its recognition, is not deductible for tax purposes, or from the initial recognition of a liability that, at the time of its recognition, is not deductible for tax purposes. In such cases, deferred tax is recognised in equity. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilise the asset in the periods concerned. Tax provisions and other liabilities, where there is a legal or constructive obligation to settle current tax, are recognised against current tax liabilities, and when the deferred tax liability is in the consolidated profit or loss.

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 of assets directly incurred in bringing the asset into use. A repair or other maintenance expenditure is charged to the Consolidated Income Statement in the period in which it is incurred.

Accumulated depreciation or other forms of previously accumulated impairment begins when the asset is available for use and is charged to the Consolidated Income Statement as a straight-line amount to write off the cost less residual value of the asset over the 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 Tangible assets between 3 and 5 years Fixtures and fittings between 3 and 5 years
Leasehold improvement	5 years

The depreciation method applied to each value and estimated useful life are reviewed and, if needed, changed if a major change in the nature of the asset or its use or other factors are identified. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, where it differs over the term of the relevant lease. An asset's remaining useful life, or the amount of its remaining useful life, is reviewed when the asset's carrying amount is greater than its estimated recoverable amount. Repairs and maintenance are disclosed and determined by the Group's policy proceeds with carrying an amount in the Consolidated Income Statement.

1.10 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical form. An intangible asset that has an indefinite useful life or value at the reporting date is not subject to impairment. All other intangible assets are tested for impairment at least annually.

a) Research and development costs

Research expenditures are initially recognised. Development costs are initially recognised only if they are forecasted to be successful and probable to generate probable future cash flows. Development costs are initially recognised only if they are forecasted to be successful and probable to generate probable future cash flows. Development costs are initially recognised only if they are forecasted to be successful and probable to generate probable future cash flows.

b) Computer software costs

Software purchased for internal use is recognised as an intangible asset if it meets the criteria for recognition as an intangible asset. Amortisation begins when the software is available for use and is charged to the Consolidated Income Statement as a straight-line amount to write off the cost less residual value of the asset over the estimated useful life as follows:

c) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination are recognised as intangible assets if they are identifiable and have a useful life. Intangible assets that are acquired as a result of a business combination are recognised as intangible assets if they are identifiable and have a useful life. Intangible assets that are acquired as a result of a business combination are recognised as intangible assets if they are identifiable and have a useful life.

For intangible assets that are acquired as a result of a business combination, the intangible assets are recognised as intangible assets if they are identifiable and have a useful life. Intangible assets that are acquired as a result of a business combination are recognised as intangible assets if they are identifiable and have a useful life.

d) Goodwill – business combinations

Goodwill arising on the acquisition of a subsidiary is recognised as the excess of the aggregate of the fair value of the identifiable intangible and tangible assets and not of the identifiable intangible assets of the subsidiary. Goodwill is initially recognised as an asset and is subsequently tested for impairment. Goodwill is not subject to depreciation or amortisation. Goodwill is not subject to depreciation or amortisation.

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 cash-generating unit exceeds its recoverable amount.

The recoverable amount is the maximum of the asset's fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit, discounted at a rate that reflects current market assessments of the risks specific to the asset and the risks specific to the cash-generating unit. The recoverable amount is the maximum of the asset's fair value less costs to sell and its value in use.

a) Impairment of goodwill

Goodwill is impaired if the carrying amount of the cash-generating unit exceeds its recoverable amount. Goodwill is not subject to depreciation or amortisation. Goodwill is not subject to depreciation or amortisation. Goodwill is not subject to depreciation or amortisation.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is recognised as a goodwill impairment loss. The goodwill impairment loss is recognised as a goodwill impairment loss. The goodwill impairment loss is recognised as a goodwill impairment loss.

b) Impairment of other tangible and intangible assets

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

1.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the basis of the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs of disposal.

For inventory that is slow-moving or obsolete, the carrying amount is reduced to the lower of cost and net realisable value. For inventory that is slow-moving or obsolete, the carrying amount is reduced to the lower of cost and net realisable value.

1.13 Financial instruments

Financial assets and liabilities are classified as financial assets and liabilities. Financial assets and liabilities are classified as financial assets and liabilities. Financial assets and liabilities are classified as financial assets and liabilities.

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTINUED

a) Trade receivables and loss allowance

Trade receivables are initially measured at fair value, do not carry any interest and are reduced by a charge for impairment for estimated irrecoverable amounts. Such impairment losses are recognised in the Consolidated Income Statement, calculated under IFRS 9, see note 12(a).

b) Trade payables

Trade payables are short 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 are 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 is taken to be acquired under options held by minority shareholders in the Group's subsidiaries and calculated by reference to the estimated profitability of the relevant subsidiary at the time of the acquisition, using a multi-period formula. The net present value of the estimated future payments under these put options is shown as a liability on the balance sheet. The liability and derivative are recognised in Equity as a deduction against retained earnings. At the end of each period the estimate of the subsidiary's profitability is reassessed and any change in value is recognised in the Consolidated Income Statement as part of the operating expenses. Where the liability is a liability of the subsidiary, it is included in the value of the subsidiary resulting from the acquisition, and is included in the consolidated financial statements.

e) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments in the form of forward foreign exchange contracts to hedge foreign exchange risks, currency and interest rate swaps to hedge foreign currency interest rates. These derivative are recognised as cash flow hedges. The Group uses a hedge accounting policy to hedge accounting in accordance with IAS 39, see note 12(a).

Derivatives are initially recognised at fair value on the date of acquisition and are subsequently measured at fair value at the end of each period. Derivatives which are designated and effective as cash flow hedges of foreign exchange risk are initially recognised at fair value in the hedging instrument. Other derivatives are initially recognised at fair value and are subsequently measured at fair value. Changes in the fair value of the derivative are recognised in the Consolidated Income Statement.

The Group also uses derivative financial instruments in the form of foreign exchange contracts to hedge foreign exchange risk. These derivatives are initially recognised at fair value in the hedging instrument. Other derivatives are initially recognised at fair value and are subsequently measured at fair value. Changes in the fair value of the derivative are recognised in the Consolidated Income Statement.

Derivatives are initially recognised at fair value on the date of acquisition and are subsequently measured at fair value at the end of each period.

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 balance sheet 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 are classified under IFRS 9 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 Group 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 the commencement date.

Lease liabilities are recognised 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 the same type and with the same economic environment with a similar term and other conditions.

Right-of-use assets are depreciated on a straight-line basis over the lease term, less any residual value.

Interest is recognised on the lease liability, including any optional financed part in the earlier years of the lease term.

Lease payments relating to low value assets, including IT equipment, are recognised as an expense on a straight-line basis over the lease term. Short-term leases and those with low initial cost are also recognised as an expense on a straight-line basis over the lease term.

1.16 Other liabilities

Other liabilities are recognised when the Group has a present obligation as a result of a past event, the amount of which can be reliably measured. The Group will be required to settle the obligation if the expenditure is probable and can be reliably measured. The Group will be required to settle the obligation if the expenditure is probable and can be reliably measured.

1.17 Dividends

The dividend payable is not recognised until it is approved by the AGM. Dividend payable is recognised in the Consolidated Income Statement.

1.18 Share capital and reserves

Ordinary shares are classified as equity and are initially recognised at the nominal value of the shares. The Group's share capital is divided into ordinary shares and preference shares. The Group's share capital is divided into ordinary shares and preference shares. The Group's share capital is divided into ordinary shares and preference shares.

Ordinary shares are classified as equity and are initially recognised at the nominal value of the shares. The Group's share capital is divided into ordinary shares and preference shares. The Group's share capital is divided into ordinary shares and preference shares.

Ordinary shares are classified as equity and are initially recognised at the nominal value of the shares. The Group's share capital is divided into ordinary shares and preference shares. The Group's share capital is divided into ordinary shares and preference shares.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

	Note	2022 £m	2021 £m
Fixed assets			
Investments	c	297.2	297.2
Debtors: amounts falling due within one year			
Amounts owed by Group undertakings		35.8	-
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		-	(34.7)
Net assets		333.0	262.5
Capital and reserves			
Called up share capital	c	6.3	6.3
Share premium		188.6	188.6
Profit and loss account		138.1	67.6
Total shareholders' equity		333.0	262.5

1. Financial statements for year ended 30 September 2022

The financial statements of Diploma PLC and the notes on 176 to 178, form part of these financial statements. Company number 3859848, were approved by the Board of Directors on 7 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	d	-	-	69.6	69.6
Dividends paid	f	-	-	(52.9)	(52.9)
Settlement of LTIF awards	e	-	-	0.5	0.5
At 30 September 2021		6.3	188.6	67.6	262.5
Total Comprehensive Income	d	-	-	125.5	125.5
Dividends paid	f	-	-	(56.2)	(56.2)
Settlement of LTIF awards	e	-	-	1.2	1.2
At 30 September 2022		6.3	188.6	138.1	333.0

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

a) Accounting policies

a.1) Basis of accounting

The parent Company financial statements and financial statements have been prepared on a going concern basis, which is the Company's A+2021 and A+2022 Reduced Disclosure Framework. The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly the going concern assumption is appropriate in preparing the financial statements. The financial statements which are prepared on a going concern basis are presented in UK sterling and all values are rounded to the nearest 0.0001 except when otherwise indicated.

Financial statements are drawn up in compliance with the provisions incorporated in the UK legal position and registered in England and Wales and listed on the London Stock Exchange. The address of the registered office is 100 Chancery Lane, Salisbury, Wiltshire SP1 1AG. The financial statements have been authorised by the Directors for publication on 21 November 2022.

UK Accounting Standards have not been provided as required by FRS 101.

- a) Cash flow statement and related notes;
- a) Comparative value reconciliation for share capital;
- a) Disclosures in respect of transactions with wholly owned subsidiaries;
- a) Disclosures in respect of capital management;
- a) The efforts of new but not yet effective IAS;
- a) Disclosures in respect of the compensation of key management personnel as required.

The Company has also taken the exemption under FRS 101 and is not in respect of the requirements of paragraph 14 of FRS 101. The exemption is in respect of the disclosure of share-based payments of the Company, as required by paragraph 14 of the Company's financial statements within the Remuneration Committee Report.

a.2) Total Comprehensive Income

Total Comprehensive Income for the period is presented in the consolidated statement of comprehensive income, which is included in the consolidated financial statements and is available to the shareholders of the Company.

a.3) Dividend income

Dividend income is recognised when received. Final dividend distributions are recognised in the consolidated 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

Details of the Diploma PLC Employment Benefit Trust and the Trust are stated at cost and approved financial statements are available to the shareholders of the Company. The Trust is approved by FRS 101. Shareholders of the Trust are not eligible for the Trust's shares and the Trust's shares and options have been exercised by the participants.

a.5) Auditors' remuneration

Fees payable in the quarter for the audit of the Company's financial statements for 2021/22 are £100,000 (2020/21: £100,000) and are included in the consolidated financial statements.

b) Directors' and employees' remuneration

Information is provided directly by the Company in relation to the Directors' remuneration, which is included in the consolidated financial statements and the remuneration of the shareholders of the Company are set out in the Remuneration Committee Report on page 148. Directors' remuneration is included in the Consolidated Financial Statements on page 148. The Company has no employees (2021: none).

c) Company profit and loss account

The parent Company's 408 of the Company's A+2021 financial statements profit and loss account is included in the consolidated financial statements and is available to the shareholders of the Company. The parent Company's 408 of the Company's A+2021 financial statements profit and loss account is included in the consolidated financial statements and is available to the shareholders of the Company.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022
CONTINUED

d) Investments

	2022 £m	2021 £m
Shares in Group undertakings held at cost		
At 30 September	297.2	297.2

A full list of subsidiary and other related undertakings is set out on pages 167 to 189. Investments in subsidiaries are reviewed annually to test 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 50p each				
At 30 September	124,616,170	124,616,170	6.3	6.3

During the year 72,212 ordinary shares in the Company (2021: 27,914) were transferred from the Trust to participants in an option scheme to cash in some of their options. Exercise of options in respect of awards which had vested under the 2015 Long Term Incentive Plan is set out in the Remuneration Committee Report.

At 30 September 2022, the Trust held 11,033 (2021: 30,640) ordinary shares in the Company representing 0.01% of the called up share capital. The market value of the shares at 30 September 2022 was £1.7m (2021: £2.6m).

f) Dividends

Data in respect of dividends proposed and paid during the year by the Company are included in note 10 to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

in conclusion

- Diploma PLC's Group financial statements and its various temporary financial statements, the financial statements, give a true and fair view of the state of the Group and of the parent Company's affairs as at 30 September 2022 and of the Group's affairs and the Company's affairs as at the relevant periods.
- the Group's financial statements have been properly prepared in accordance with UK adopted international financial reporting standards.
- the Parent Company's 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 not disallowed by the FRC.
- 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 included a declaration of the group's 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 are outlined in paragraph 19 and further described in the Auditors' responsibilities to 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 have declared our independence of the Group in accordance with the ethical requirements that are relevant to our audit, which are a statement 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.

In the context of our knowledge and belief, we declare that no significant services prohibited by the FRC's Ethical Standard were provided.

Other than those disclosed in note 25, we have not provided any other services to the Parent Company or its subsidiaries, as well as taking in the period under audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

Our audit approach

Overview

Audit scope

- The Group is split into three Sectors: Life Sciences, Food, and Contract, and we have conducted audit work across all of them. Through our full scope component audits, audit of the Consolidation and additional audit procedures performed at a Group level, we have achieved coverage of 100% (2021: 100%) of Group profit before tax and 100% (2021: 100%) of Group revenue.

Key audit matters

- Valuation of the intangibles for the R&D and Acquisition acquisitions (Group).
- Carrying value of investments in subsidiaries (Parent).

Materiality

- Overall Group materiality: £6.2m (2021: £4.8m) based on approximate 5% of profit before tax.
- Overall Parent Company materiality: £3.3m (2021: £3.0m) based on 1% of total assets.
- Performance materiality: £4.7m (2021: £3.6m) (Group) and £2.5m (2021: £2.2m) (Parent Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were at most significant 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 have 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, along with comments we made on the results of our procedures, therefore, 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 conclusion 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&D and Acquisition acquisitions (Group) are now key audit matters in our financial statement audit for the 2022/23 period. R&D and Acquisition for the World City Wine acquisition (Intangible valuation) (Group) which was a key audit matter last year are no longer included because of the reduced impact of COVID-19 on the industry in which the Company operates and therefore no longer being impacted by the ongoing accounting for impairment on the World City Wine intangibles.

Key audit matter

Valuation of the intangibles for the R&G and Accuscience acquisitions (Group)

Note to page 115 Significant accounting estimates and critical judgements: Acquisition accounting (and note 31: Acquisitions and disposals of businesses) within the Group consolidated financial statements

The Group acquired R&G and Accuscience during second half 2021, for a consideration of £142.1m

A goodwill intangible asset of £80.7m was identified and recognised as a result 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 likelihood of customer attrition rates. In considering such assumptions, there is an inherent level of estimation uncertainty and subjectivity

How our audit addressed the key audit matter

Procedures undertaken to address the significant risk identified in respect of the valuation of the acquired intangibles include:

We validated the mathematical application of management's model and assumptions used to determine the fair value and engaged to determine the fair values with support from our internal valuation experts

We obtained an understanding of the assumptions used to determine the fair value and compared the fair value key assumptions

In respect rates, we engaged our valuation experts to corroborate the reasonableness of the discount rates using comparable market data, for example a 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 business post acquisition. In addition, we compared the forecasts used in the valuations to the Group published budgets for the year ended 31 March 2022

- Customer attrition rates in respect of the customer relationship intangible assets: We corroborated the customer attrition rate assumptions and forecasted attrition. We compared the assumptions in respect of forecast attrition rates to historical customer data. We engaged our valuation experts to assist in the evaluation of the methodology used by management

Finally, our procedures were in line with management's estimate of the fair value of the acquired intangibles and goodwill

Carrying value of investments in subsidiaries (Parent Company)

At the reporting 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 1 with the Parent Company financial statements

We have reduced our audit efforts on this as once given the significant extent of 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 carrying subsidiary investments, we do not consider the valuation of these investments to be at a high risk of material misstatement. It is subject to a significant valuation impairment judgement, however, however, due to the immateriality in the context of the Parent Company financial statements as a whole, this judgement is of the opinion with the most audit effort is focused on the Parent Company

We checked that the net assets in the financial statements of the subsidiary investments were in excess of the carrying value of the Parent Company investment in the subsidiaries, indicating that they perform well through the audit period, and that there is no impairment indication regarding the carrying value of these investments at the reporting date. We have reduced to report in respect of this risk

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the risks in which they operate.

The Group is focused on three core Sectors: Life Sciences, Seeds and Controls, with operations primarily designed and located in Australia, Canada, the USA, the UK, and Continental Europe. Within the aforementioned Sectors, are a number of business units, 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 statements. We took into account the 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 71% 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 and certain UK, USA and Canada advisers and discussed the audit approach and audit findings with reporting component teams. Our attendance at the clearance meetings, review of the component team reporting, and review and discussion of the audit working papers at component level, together with the additional procedures performed at Group level, gave us the evidence we needed to form an 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 in each acquisition, UK tax and other financial procedures. The Group engagement team also performed the audit of the Parent Company and the UK component.

As part of our audit, we made enquiries of management to understand the process they have adopted to select the external financial reporting component information to include in the Group and Parent Company financial statements. Management confirmed that the reporting component changes does not give rise to a material financial statement impact due to the Group's distributed and diverse nature and its ability to adjust to changing external events. We used our knowledge of the Group to evaluate management's statement. We performed procedures to identify change risks, including impact the assumptions made in the forecasts prepared by management and the financial reporting and accounting estimates and judgements. We discussed with management the ways in which a material change in any of the above could affect the Group's ability to develop its response to the impact of a material change. We also considered the nature, timing and extent of internal control, internal audit and other information within the Group Report to the financial statements and how it could affect our audit.

Materiality

The overall audit strategy identified a number of areas of materiality. We set certain audit objectives that we aim to achieve. They include the audit objectives considered and helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures, including the audit of financial reporting elements and disclosures and in evaluating the effectiveness of internal controls and in aggregating the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as follows:

	Financial statements - Group	Financial statements - Parent Company
Overall materiality	£6.0m (2021: £4.8m)	£1.3m (2021: £1.0m)
How we determined it	Approximately 5% of Profit before tax	5% of total assets
Rationale for benchmark applied	An appropriate measure for the Group and one of the key measures used in the financial statements to assess the statutory performance of the Group	An appropriate measure for the Parent Company and one of the key measures used in the financial statements to assess the statutory performance of the Parent Company

Based on our professional judgement, we determined materiality for the financial statements as follows:

For each component, we identified the scope of our Group audit, we also tested a materiality threshold for each component. The highest materiality threshold for a component was £1.4 million for the Parent Company. Certain components were considered to be of greater risk, and thus subject to a higher audit threshold and more materiality.

We also performed materiality tests to ensure that the overall materiality for the Group was not exceeded. We used the component materiality thresholds to determine the nature, timing and extent of our audit procedures, including the audit of financial reporting elements and disclosures. We also performed materiality tests for the Group's financial statements, amounting to £4.7m (2021: £3.6m) for the Group's financial statements and £1.3m (2021: £1.0m) for the Parent Company financial statements.

We used the overall materiality for the Group as a benchmark for the overall materiality for the Group's financial statements.

We used the overall materiality for the Parent Company as a benchmark for the overall materiality for the Parent Company's financial statements.

under the 2006 Companies Act (the 2006 Act) and the 2006 Regulations (the 2006 Regulations) as well as the statements of the directors and the company's auditors on the going concern basis.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group and the Parent Company's ability to continue to operate the going concern basis and the going concern basis:

- Relies on management's going concern assessment and that it was based on the Board approved forecasts and that the cash flow projections were consistent with our understanding of the outlook for the Group's business and the going concern basis.
- Relies on the management's assessment of the going concern basis.
- Our going concern assessment is based on the information provided to us by the directors and the management.
- Our going concern assessment is based on the management's assessment of the going concern basis and the going concern basis.
- Our going concern assessment is based on the management's assessment of the going concern basis and the going concern basis.
- Our going concern assessment is based on the management's assessment of the going concern basis and the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, if they occurred, would cast significant doubt on the Group and the Parent Company's ability to continue to operate the going concern basis for a period of at least twelve months from when the financial statements are authorised for issue.

In preparing the financial statements, we have concluded that the directors' use of the going concern basis is appropriate in the preparation of the financial statements for the period.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group and the Parent Company's ability to continue to operate the going concern basis.

In relation to the directors' responsibility for the financial statements, the directors and the Parent Company have nothing to disclose in relation to the financial statements or the financial statements about whether the directors have taken any steps to ensure the going concern basis is appropriate.

Our conclusion is that the directors' use of the going concern basis is appropriate in the preparation of the financial statements.

Reporting on other information

The other information comprises all the information in the Annual Report other than the financial statements and our audit report thereon. The directors are responsible for the other information. We have not audited the other information and we do not provide any assurance on it. The other information does not cover the other information in the financial statements and the other information in the financial statements does not cover the other information in the financial statements.

In connection with our audit of the financial statements, we are required to read the other information and, in doing so, consider whether the other information is consistent with the financial statements or our knowledge obtained in the audit. If there are apparent inconsistencies, we have not identified any material inconsistencies or material misstatements and we are required to perform procedures to resolve whether there is a material misstatement of the financial statements or a material misstatement of the other information. In the course of the audit, we have not identified any material misstatements or material misstatements of the other information.

We have identified the Strategic Report and the Directors' Report as the disclosures required by the UK Companies Act 2006 to have been included.

Based on our work performed, we have concluded that the Company's 2006 Regulations require us to report certain disclosures in relation to the Strategic Report.

Strategic Report and Directors' Report

In our opinion, the Strategic Report and the Directors' Report are consistent with the financial statements and the financial statements are consistent with the Strategic Report and the Directors' Report.

In our opinion, the Strategic Report and the Directors' Report are consistent with the financial statements and the financial statements are consistent with the Strategic Report and the Directors' Report.

Directors' Remuneration

In our opinion, the Strategic Report and the Directors' Report are consistent with the financial statements and the financial statements are consistent with the Strategic Report and the Directors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concerns, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement and other information are described in the Reporting and 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 assumptions and other assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was a statutory requirement and was limited to a review of the disclosures and the supporting directors' statement, and we are not expressing an opinion on the statement's 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 the other information disclosed 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 confirm the Annual Report taken as a whole is fair, balanced and understandable, and that 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 provides a review of the Group's and Parent Company's performance against its strategy; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our review of the directors' statement relating to the Parent Company's compliance with the Corporate Governance Code specified for our review, and we have nothing to report in relation to the Listing Rules or review of the audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

CONTINUED

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information or a explanation we require for our audit or
- adequate accounting records have not been kept by the Parent Company or returns required 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 report of the Remuneration Committee Report to the auditors 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 11 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 2013 to 30 September 2022.



Christopher Burns (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 November 2020

SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*		Registered office address*
Seals			
HB Sealing Equipment Ltd	D	Hose & Hydraulic Group Limited (H&H)	A
H&H Ltd	E	Grindley Hydraulic Services Limited (GHS)	A
HTD Seals Ltd	C	Pneumatic Services Limited (PNS)	A
USP Pneumatics Ltd	C	AMG Brighouse Limited (AB)	A
HB Sealing Products Limited	G	Millennium China Company Limited (MCC)	A
M Seals & Co. Ltd	M	Fluid Power Products Limited	A
M Seals Abrasives Ltd	N	Industrial Hose & Pipe Fittings Limited (IH&P)	A
M Seals UK Limited	A	Millennium Engineering 2012 Limited	A
East Seals and Accessories Limited	A	Anti Corrosion Technology Ltd (ACT)	A
Diploma Trading Trading Co. Limited	V		
Diploma DCA Limited	A		
FPE Seals Limited	A		
DMR Seals Holdings Limited	A		
DMR Coresets Limited	A		
DMR Seals Limited	A		
Adi Seals Limited	A		
Silver Seals Aberdeen Limited	A		
FPE Seals BV	J		
Fluid Tech AG	K		
Fluid Tech China	L		
Fluid Tech Australia Pty Limited	B		
Fluid Tech Brazil Australia Pty Limited	S		
Fluid Tech New Zealand Ltd	U		
Fitt Management Pty Limited	AB		
Fitt Resources Pty Limited	AB		
Fitt Trading Pty Limited	AB		
Metaltech Limited (UK)	A		
R&S Investments Limited (UK)	A		
Oil Seal Europe Limited (UK)	A		
Heaton Hoses & Hydraulics Limited (UK)	A		
Heaton Hoses & Hydraulics Limited (France)	A		
Exeter Hoses & Hydraulics Limited (UK)	A		
North Devon Hoses & Hydraulics Limited (UK)	A		
Freston Hoses & Hydraulics Limited (UK)	A		
Somepool Hoses & Hydraulics Limited (UK)	A		
West Devon Hoses & Hydraulics Limited (UK)	A		
Reynolds Hoses Ltd (UK)	A		
Harris Sealtech Limited (UK)	A		
Fluidex Europe Limited	A		
GHS Europe Limited	A		
Fluidex Hydraulic Services Limited (UK)	A		
Fluidex Petroleum Services Limited	A		
Fluidex International Ltd	A		
Fluidex Australia Pty Limited	A		
Fluidex Germany	A		
Fluidex India Pty Limited	A		
Fluidex Japan Pty Limited	A		
Fluidex Korea Pty Limited	A		
Fluidex Mexico Pty Limited	A		
Fluidex New Zealand Pty Limited	A		
Fluidex Singapore	A		
Fluidex South Africa Pty Limited	A		
Fluidex Taiwan Pty Limited	A		
Fluidex Thailand Pty Limited	A		
Fluidex USA Pty Limited	A		
Fluidex Vietnam Pty Limited	A		
Fluidex China Pty Limited	A		
Fluidex India Pvt. Ltd.	A		
Fluidex Korea Pvt. Ltd.	A		

SUBSIDIARIES OF DIPLOMA PLC

CONTINUED

	Registered office address*		Registered office address*
Controls		Life Sciences	
S Raycast Limited	A	Somagen Diagnostics Inc.	A
S. Mottersport Inc.	C	AMT Electrosurgery Inc.	A
Amfast Limited	A	Vortago Endoscopy Inc.	A
Clarendon Specialty Fasteners Limited	A	Big Green Surgical Components Pty Limited	A
Clarendon Specialty Fasteners Asia Limited	X	Diagnostic Solutions Pty Limited	A
Clarendon Specialty Fasteners Inc.	B	Sonera Surgical Pty Limited	A
Clarendon Engineering Supplies Limited	A	Aspire Surgical Pty Limited	B
Clarendon Specialty Fasteners GmbH	X	Big Green Surgical NZ Limited	-
Coated Interference Transmittent Systems Limited	A	Technic Path Distribution Limited	A
Sonider GmbH	C	Adabus dx Pty Limited	A
Fluor Electronics GmbH	H	Adabus dx Limited	-
Artix SAS	C	Simonsen and Weil AG	AG
Greiner SAS	C	Simonsen and Weil AB	AB
Greiner UK Limited	A	Kungshuset Mediciska AB	AB
Greiner GmbH	-	Artis Science Ireland Limited	AB
Asulim SAS	C	Medline Solutions Pty Limited	AB
Collecraff Limited	A		
Black Valley Plastic Limited	A		
Kneipfast Limited	A		
Britplast Limited	A		
Hawco Limited	A		
Appexant Limited	A		
HA Warrington Limited	A		
Hawco Refrigeration Limited	A		
Hawco Inc.	C		
Modanorm UK Limited	A		
S Group Europe Limited	A		
Spezialtyl Einheiten Limited	-		
Spezialtyl Einheiten & Co. GmbH Limited	A		
ESL Ltd Limited	A		
ESL Capex Limited	A		
ESL GmbH Limited	A		
Capex Limited	A		
Unio Group Limited	A		
Spezialtyl Warrington Australia Limited	A		
Medec Limited Limited	A		
Tecol Limited Limited	A		
Guenev Medical Limited	A		
Tecol Australia Limited	C		
WCV Medicals Hong Kong Ltd	C		
WCV Medicals Hong Kong & P.R. China Ltd	C		
WVF Electronics Ltd	AB		
Bio-Delecta Corporation Limited	AB		

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

Q1 Trading Update released	18 January 2023
Annual General Meeting 2023	18 January 2023
Half Year Results announced	11 May 2022
Q3 Trading Update released	21 July 2023
Interim Results announced	20 November 2023
Annual Report posted to shareholders	5 December 2023
Annual General Meeting 2024	17 January 2024

Dividends (provisional dates)

Interim announced	18 May 2023
Paid	5 June 2023
Final announced	20 November 2023
Paid (if approved)	February 2024

Annual Report & Accounts

Details can be obtained from the Group Company Secretary at the address shown on page 10.

Share Registrar

Computershare Investor Services PLC

The Pavilions
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its website for shareholders enquiries is
www.computershare.co.uk

Shareholders' enquiries

If you have any enquiries about the Company's business or about something affecting your shareholding, other than questions dealt with by Computershare Investor Services PLC, you are invited to contact the Group Company Secretary at the address shown on page 10.

Group Company Secretary and Registered Office

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Registered in England and Wales, number 2899648

Website

D'innova's website is www.dinnova.com

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Corporate Stockbrokers

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London EC4A 3DF

FIVE YEAR RECORD

Year ended 30 September	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	1,012.8	781.4	519.4	322.7	488.1
Adjusted operating profit	191.2	148.7	57.1	67.2	84.4
Net interest and similar charges	(11.6)	(1.5)	(2.7)	(1.7)	(3.1)
Adjusted profit before tax	179.6	147.2	54.4	65.5	81.3
Acquisition related and other charges	(46.9)	(44.4)	(1.2)	(1)	(11.1)
Fair value adjustments	(3.2)	(0.9)	(3.4)	(0.1)	(0.2)
Profit before tax	129.5	99.9	50	64.4	70
Tax expense	(34.1)	(26.9)	(6.4)	(10.7)	(8.7)
Profit for the year	95.4	69.7	43.6	53.7	61.3
Capital structure					
Equity, shareholders' funds	662.0	536.8	507.0	517.3	271.2
Minority interest	6.2	4.7	3.7	3.3	3.1
Additional debt, cash and cash equivalents	(41.7)	(24.8)	(206.8)	(17.0)	(35.0)
borrowings	370.6	356.2	-	(40.1)	-
pension and benefit assets, obligations	(6.4)	(4.9)	(8.3)	(1.8)	(11.5)
net assets in related parties	29.6	(3.7)	(1.5)	(1.2)	(1.6)
deferred tax net	38.2	(11.9)	(1.5)	(8.3)	(6.4)
Reported trading capital employed	1,058.5	772.9	301.7	277.8	281.8
Adjustments for acquisition related charges, net of deferred tax and currency movements	99.6	(29.6)	(94.4)	(84.3)	(54.6)
Adjusted trading capital employed	1,158.1	743.3	41.3	193.5	227.2
Net increase/decrease in net assets, total funds	(113.8)	308.8	(114.0)	(11.1)	(1)
Additional proceeds from: acquisition of subsidiaries (including minority interest net of discounts)	177.8	480.1	(4.9)	(8.7)	(11.6)
proceeds from sale of non-current assets (net of tax)	-	(0.6)	(40.8)	(1)	(1)
Free cash flow	120.4	(18.8)	(2.5)	(1.3)	(4.1)
Per ordinary share (p)					
Basic earnings	76.1	58.7	40.5	(4.7)	(47.8)
Adjusted earnings	107.5	85.2	(6.4)	(4.7)	(15.4)
Free cash flow	96.7	(7.4)	(4.0)	(1.1)	(3.1)
Dividends	53.8	40.6	(30.0)	(2.1)	(1.0)
Total dividend per share	532	427	(427)	(264)	(247)
Dividend cover	2.0	(1.1)	(1.6)	(0.2)	(0.5)
Ratios	%	%	%	%	%
Return on adjusted trading capital employed (ROATCE)	17.3	11.4	(15.1)	(21.4)	(24.1)
Working capital turnover	15.6	15.8	16.0	14.5	13.1
Adjusted operating margin	18.9	18.9	11.2	16.8	17.0

1. Adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

2. Adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

3. Return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

4. Dividend cover is calculated as adjusted earnings divided by dividends.

5. Working capital turnover is calculated as adjusted earnings divided by working capital.

6. Adjusted operating margin is calculated as adjusted earnings divided by adjusted operating profit.

7. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

8. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

9. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

10. The dividend cover is calculated as adjusted earnings divided by dividends.

11. The working capital turnover is calculated as adjusted earnings divided by working capital.

12. The adjusted operating margin is calculated as adjusted earnings divided by adjusted operating profit.

13. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

14. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

15. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

16. The dividend cover is calculated as adjusted earnings divided by dividends.

17. The working capital turnover is calculated as adjusted earnings divided by working capital.

18. The adjusted operating margin is calculated as adjusted earnings divided by adjusted operating profit.

19. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

20. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

21. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

22. The dividend cover is calculated as adjusted earnings divided by dividends.

23. The working capital turnover is calculated as adjusted earnings divided by working capital.

24. The adjusted operating margin is calculated as adjusted earnings divided by adjusted operating profit.

25. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

26. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

27. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

28. The dividend cover is calculated as adjusted earnings divided by dividends.

29. The working capital turnover is calculated as adjusted earnings divided by working capital.

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31. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

32. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

33. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

34. The dividend cover is calculated as adjusted earnings divided by dividends.

35. The working capital turnover is calculated as adjusted earnings divided by working capital.

36. The adjusted operating margin is calculated as adjusted earnings divided by adjusted operating profit.

37. The adjusted trading capital employed is the reported trading capital employed, adjusted for acquisition related charges, net of deferred tax and currency movements.

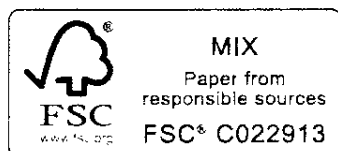
38. The adjusted earnings is the reported earnings, adjusted for acquisition related charges, net of deferred tax and currency movements.

39. The return on adjusted trading capital employed (ROATCE) is calculated as adjusted earnings divided by adjusted trading capital employed.

40. The dividend cover is calculated as adjusted earnings divided by dividends.

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