

# DIPLOMA DELIVERS

ANNUAL REPORT AND ACCOUNTS  
2023







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## DIPLOMA DELIVERS

SUSTAINABLE  
QUALITY  
COMPOUNDING

Diploma is a decentralised, value-add distribution Group. Our businesses deliver practical and innovative solutions that keep key industries moving.



READ MORE ABOUT  
OUR BUSINESS  
ON PAGE 6

We are a distribution group with a difference. Our businesses have the technical expertise, specialist knowledge and long-term relationships to deliver value-add products and services that make our customers' lives easier.

## FINANCIAL HIGHLIGHTS

## Organic revenue growth

8%

Model: 5%

## Revenue growth

19%

Model: 10% +

Adjusted operating  
profit margin

19.7%

Model: 17% +

## Adjusted EPS growth

18%

Model: Double digit

## Free cash flow conversion

100%

Model: ca.90% +

## Net debt/EBITDA

0.9x

Model: &lt;2.0x

## ROATCE

18.1%

Model: High teens

## Dividend growth

5%

Model: 5%

CHAIR'S STATEMENT



# DECENTRALISED CULTURE SHARED VALUES

DAVID LOWDEN  
CHAIR

“Our success is underpinned by the characteristics of our decentralised model, which embodies entrepreneurship, autonomy and leadership.”

I am delighted to present the Chair’s statement for 2023. This year has been an exceptional year for our Group, both strategically and operationally, as you will read in this report. Our success is underpinned by the characteristics of our decentralised business model which embodies entrepreneurship, autonomy and exceptional leadership, allowing us to remain resilient and maintain strong financial success in challenging environments.

### VERY STRONG FINANCIAL PERFORMANCE AND EXCELLENT STRATEGIC PROGRESS

The Group has delivered another very strong financial performance, with 8% organic revenue growth and consistent strong operating margins translating to 18% growth in adjusted earnings per share (EPS). Our strong organic growth shows that our strategy and growth frameworks continue to produce results and remain resilient.

The Group has delivered another very strong financial performance, with 8% organic revenue growth

8%

We are also seeing growth in a number of areas aligned with positive impact, demonstrating that our businesses are embedding Delivering Value Responsibly (DVR), our ESG programme, into their commercial strategies. It has been another busy year for acquisitions, with 12 high-quality businesses joining the Group; these will accelerate our future organic growth. In particular, I am very pleased to warmly welcome our colleagues at DICSА, T.I.E. and all other businesses joining the Group during the year.

Given the challenges of the external operating environment, improving our adjusted operating margin by 80bps to 19.7% (2022: 18.9%) is a great achievement and reflects both our differentiated value-add servicing model and the hard work of colleagues across the Group.

Ensuring the sustainability of our growth is paramount, and the team has continued to build scale by investing across our businesses and the Group to ensure we can continue to deliver for customers as we grow. Throughout this, we remain financially disciplined, maintaining high-teens ROATCE of 18.1%, and a strong balance sheet, which allows us to invest in growth. I would like to thank the Executive Team and all of our businesses for another great year at Diploma.

### COLLEAGUES AND CULTURE

Our colleagues are the foundation of the Group’s success and they are central to our identity. Our culture and values play a pivotal role in supporting our colleagues’ engagement, growth, and fulfilment as valued members of the Diploma family.

We are guided by five core values that shape our every decision and action. We remain steadfastly customer-centric, ensuring that our customers’ needs remain at the forefront. We believe in doing the right thing, even when it’s challenging, because integrity is non-negotiable. Accountability is paramount, holding us responsible for our actions and decisions. We firmly believe in growing together, as it is in unity that we reach new heights. And finally, we are down to earth, maintaining a culture of humility and approachability.

It is through these values and the dedication of our colleagues that we continue to deliver excellence in all that we do. Our colleagues have been an integral part of our ongoing success.



## CHAIR'S STATEMENT CONTINUED

We are committed to developing our colleagues and fostering growth. Over the past year, we have made a concerted effort to offer apprenticeships to individuals who are eager to learn and gain practical experience. These initiatives not only allow us to discover fresh talent but also provide a valuable learning experience for new colleagues.

Our Group Colleague Engagement Survey continues to indicate excellent levels of engagement. The results and learnings from this were discussed by the Board, and each of our businesses has now developed appropriate engagement plans to ensure we continue to create and maintain optimal working environments to support the wellbeing and success of our colleagues.

#### BOARD CHANGES

After nearly nine years of service, Anne Thorburn will be stepping down from the Board and the positions of Chair of the Audit Committee and Senior Independent Director during 2024. The Nomination Committee has begun a search process and an announcement will be made at the appropriate time regarding Anne's successor.

We welcomed Jennifer Ward to the Board on 1 June 2023 as Non-Executive Director and Chair-Designate of the Remuneration Committee. Andy Smith will step down from the Board and its Committees in a few months, following nearly nine years of service, to facilitate a smooth handover of the Remuneration Committee Chair.

I would like to take this opportunity to also thank both Anne and Andy on behalf of the Board for their outstanding contribution and dedication throughout their service to the Group.

We recognise that diverse perspectives and experiences drive innovation, decision-making, and long-term sustainability. We are therefore mindful of the diversity and inclusion targets set by the FCA's listing rules for gender and ethnic diversity on the Board, as well as senior management teams. These targets are factored into our succession planning processes to ensure that we are inclusive, representative and equipped to thrive as our business grows. Further information on the composition and diversity of the Board, as well as senior management, can be found in the Nomination Committee Report.

#### DIVIDENDS

The Board has a progressive dividend policy that aims to increase the dividends per share each year, by 5%. The combination of very strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a final dividend of 40.0p (2022: 38.8p) taking the total dividend to 56.5p (2022: 53.8p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 2 February 2024 to shareholders on the register at 19 January 2024 (ex-div 18 January 2024).

**“Our colleagues are the foundation of the Group's success and they are central to our identity.”**

#### OUTLOOK

In conclusion, it has been a remarkable year for our Group. Not only have we achieved significant financial success, we have also evolved as an organisation that values its people, embraces change and remains resilient in the face of a changing world. Our commitment to our colleagues, culture, and values, along with our adaptive governance structure and sustainability initiatives position us for a prosperous and sustainable future.

On behalf of the Board, I would like to take this opportunity to thank all of our colleagues for their invaluable contribution to our success over the last year as we look forward to embarking on another exciting year of growth and transformation.

**David Lowden**  
Chair

# DEVELOPING A DIPLOMA CULTURE AND IDENTITY

Our ongoing success is driven by brilliant, effective leadership and strong colleague engagement.

Both of these are supported by our culture. As a Group, Diploma has a strong purpose, values and common cultural fundamentals that govern our actions and provide guidance across our businesses.

Our culture is a commercial and strategic advantage and reflects our decentralised model. It empowers our businesses to deliver the right solutions for their customers, in their own way.

All businesses feel a sense of belonging and allegiance to the Group thanks to our shared values, brilliant leadership teams, and intercompany networks and best practice sharing.

As part of Diploma, our businesses can leverage the additional resources, opportunities and expertise of a large, international and diversified Group to benefit their customers, colleagues, suppliers and communities.





## OUR BUSINESS

# DISTRIBUTION WITH A DIFFERENCE

### OUR PURPOSE

Our purpose is to create, innovate and deliver value-add solutions for a better future.

### OUR VALUES

#### CUSTOMER-CENTRIC

We are driven to add value and help our customers grow.

#### DO THE RIGHT THING

We are ambitious about delivering value responsibly.

#### ACCOUNTABLE

We are all empowered to succeed.

#### GROW TOGETHER

We collaborate to create success and opportunity.

#### DOWN TO EARTH

We're low on ego - our performance speaks for itself.

### WHO WE ARE

We are a dynamic, decentralised distribution Group with a core purpose and values that ensure that every colleague and every business is aligned.





**WHAT WE DO**

Through our three Sectors, we deliver practical and innovative solutions to a diverse range of critical end markets. We operate in our core geographies of North America, Continental Europe, UK and Australia.

**OUR SECTORS**

**CONTROLS**

The Controls businesses deliver wire and cabling, interconnect, specialty fasteners, specialty adhesives and industrial automation solutions for a range of technically demanding applications. Their solutions support aerospace and defence markets, key infrastructure, advances in medical devices and first-responder communications.

→  
 READ MORE ABOUT  
 OUR CONTROLS SECTOR  
 ON PAGE 24

**SEALS**

The Seals businesses supply sealing solutions and fluid power products to support aftermarket repairs, OEM partners and maintenance, repair and overhaul projects. Whether machining parts for emergency repairs, working with customers to specify material compounds and design, or preventing fugitive emissions or fluid leaks, our Seals Sector solutions have mission-critical applications.

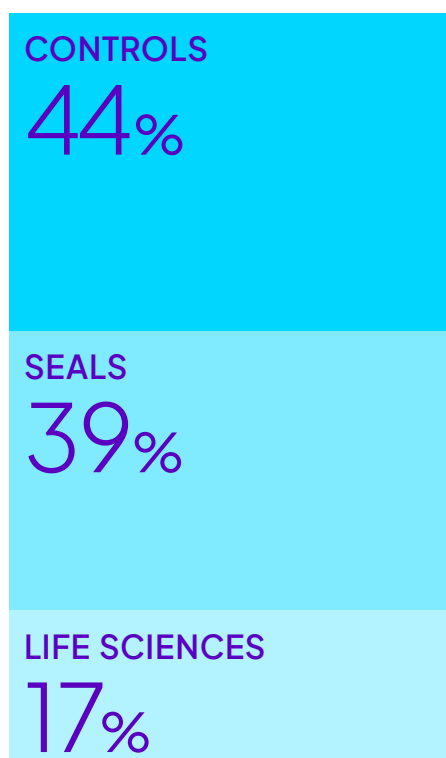
→  
 READ MORE ABOUT  
 OUR SEALS SECTOR  
 ON PAGE 28

**LIFE SCIENCES**

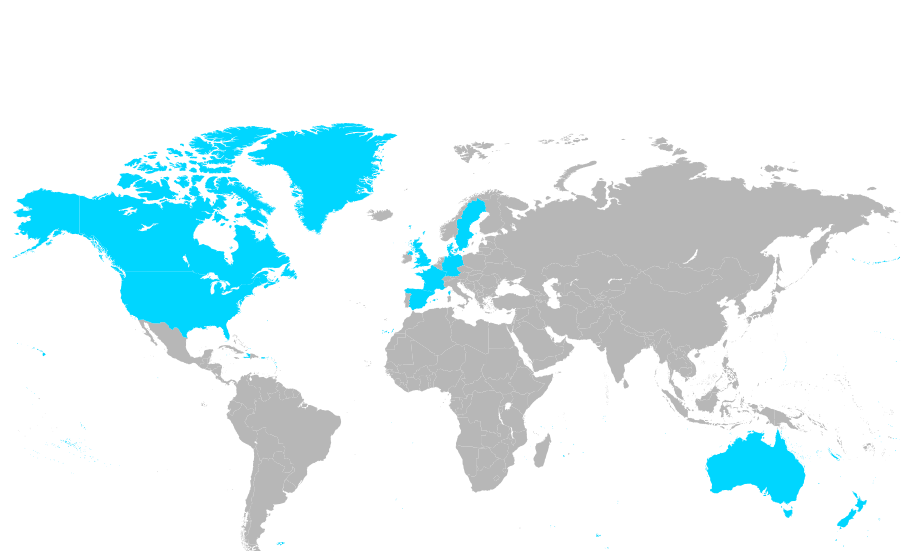
The Life Sciences businesses supply and service equipment, consumables and instrumentation for surgery, diagnosis of disease, and critical care support. They work side-by-side with surgeons, pathologists, laboratory scientists and other healthcare professionals to navigate a complex regulatory environment and deliver innovative, market-leading solutions.

→  
 READ MORE ABOUT  
 OUR LIFE SCIENCES SECTOR  
 ON PAGE 32

**REVENUE BY SECTOR\***



**REVENUE BY GEOGRAPHY\***



42% US  
 10% Canada  
 17% UK  
 22% Continental Europe  
 9% Australia/other

\* Pro forma revenue is stated after total adjustments of £75.6m to Reported revenue for acquisitions and disposals completed during the year.

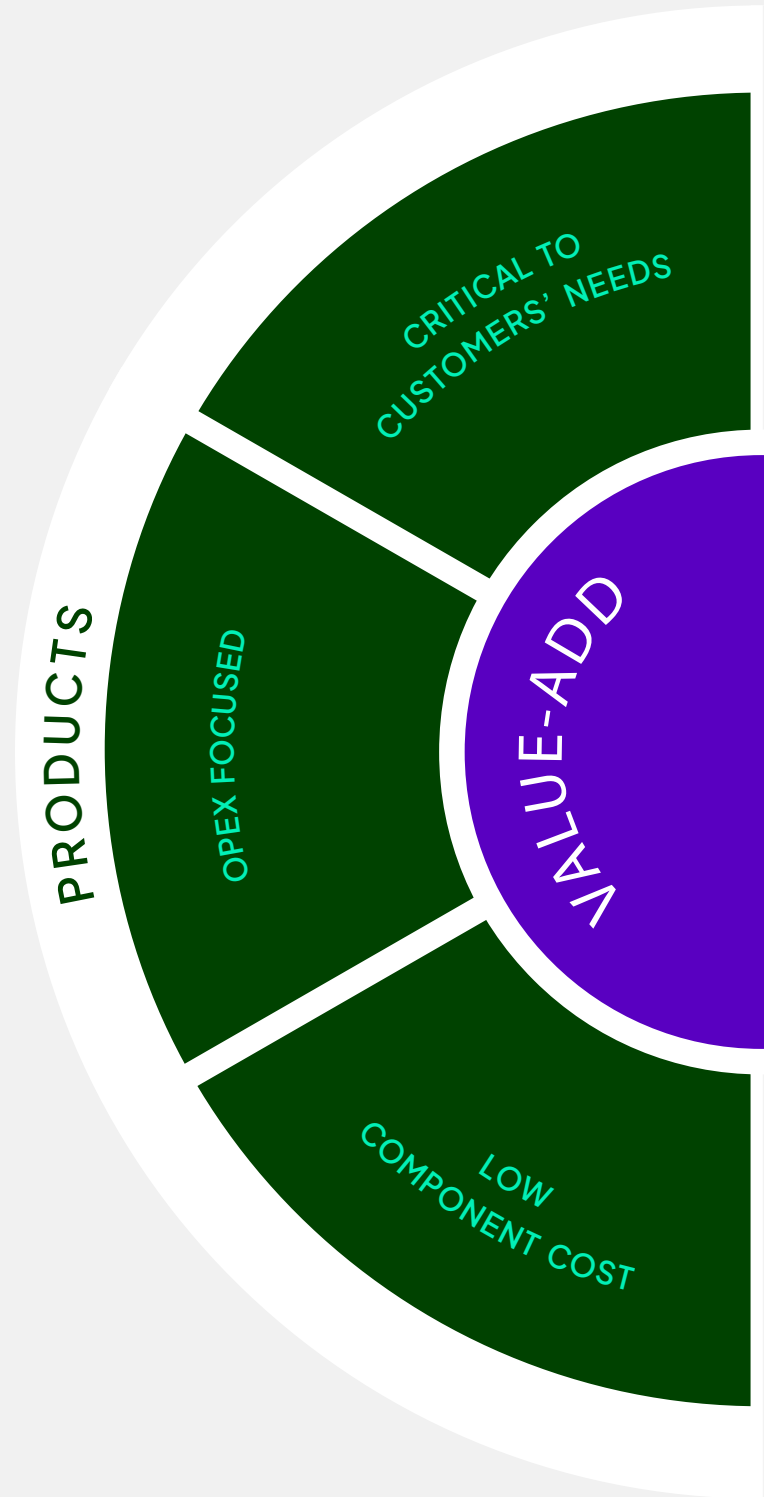
OUR BUSINESS CONTINUED

**WHAT WE DO (CONTINUED)**

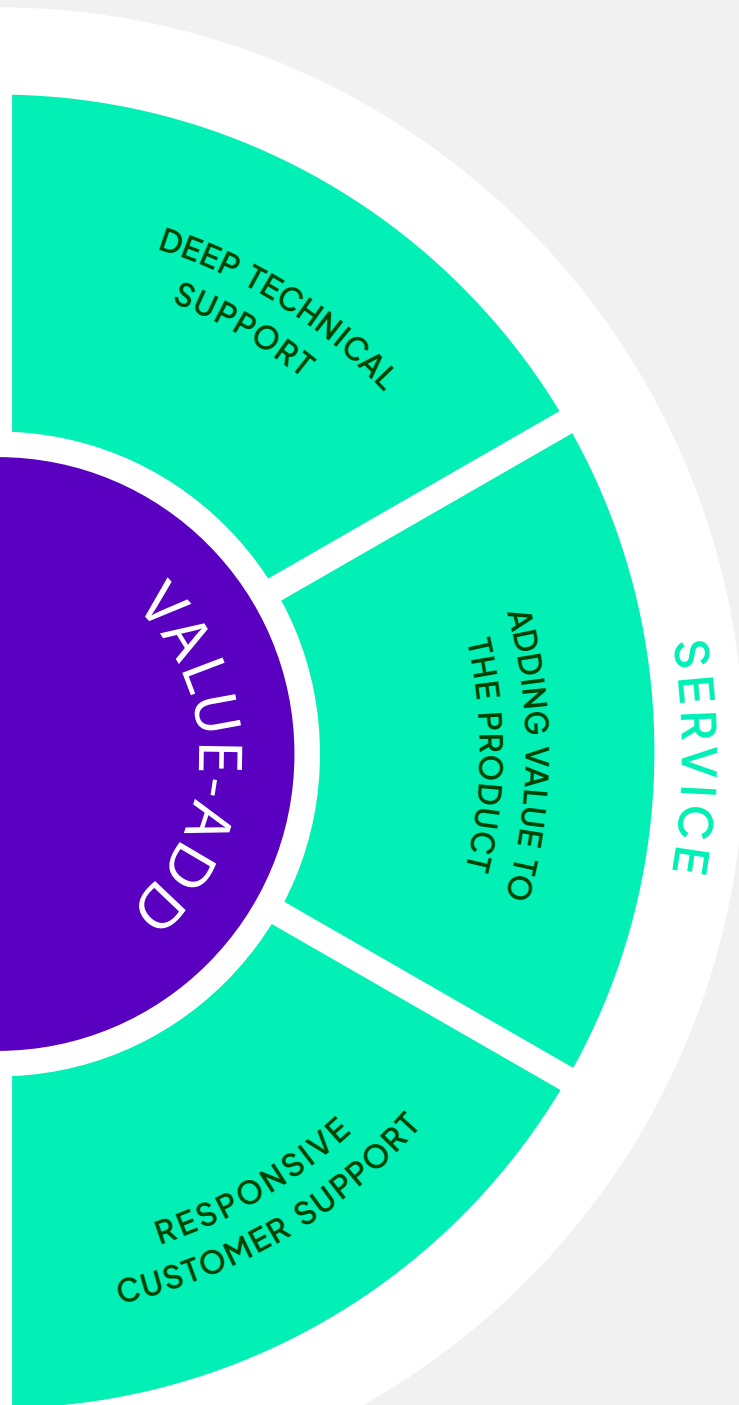
Our businesses deliver products and services to their customers, including wire and cable, connectors, fasteners and adhesives; seals, gaskets, hose and fluid power sealing products; surgical and diagnostic equipment, consumables and instrumentation.

We sell products that are critical to our customers' needs, typically funded through operating expenditure and with a low component cost. This might include a seal used in the repair of heavy machinery, consumable reagents used in the diagnosis of lung cancer, or a specialist screw used in an aerospace rocket engine.

Our businesses operate across our core geographies of North America, UK, Continental Europe and Australia serving customers in a broad range of markets, such as public healthcare, renewables, manufacturing, infrastructure and defence.







**HOW WE DO IT**

Our decentralised model empowers our businesses to work alongside their customers to deliver practical and innovative solutions that keep key industries moving. By focusing on value-add solutions, not just products, we are an essential partner to our customers.

**VALUE-ADD SERVICE DISTRIBUTION MODEL**

We're a service business as much as we are a distribution business. Our products all come with a value-add wrapper - whether that's technical expertise, responsive customer service, or product customisation - we create solutions that make our customers' lives easier. Our products and services are critical to our customers' value chain and the value we deliver far exceeds the cost of the product. This model drives loyalty and share of wallet, reputation and market share potential, and pricing power and strong margins.

→  
LEARN MORE ABOUT VALUE-ADD ON OUR WEBSITE



[WWW.DIPLOMAPLC.COM/ABOUT-US/](http://WWW.DIPLOMAPLC.COM/ABOUT-US/)

**BRILLIANT PEOPLE AND DECENTRALISED CULTURE**

We believe in accountability at the front of the organisation. Our businesses are empowered to deliver for their customers, their way. As part of Diploma, our businesses can also leverage the resources, opportunities and expertise of a large, international and diversified Group to benefit their customers, colleagues, suppliers and communities. Our colleagues have the technical expertise, specialist knowledge and market experience to fulfil our purpose.

Our strong leadership teams keep our shared culture and values alive across the Group.

→  
READ MORE ABOUT OUR PEOPLE ON PAGE 55

OUR BUSINESS CONTINUED

OUR IMPACT AND OUTCOMES

Our strategy and the way we do business is shaped by the views of our stakeholders. Our financial model balances ambition and discipline to deliver sustainable, quality compounding.

DELIVERING VALUE RESPONSIBLY

Delivering Value Responsibly is our sustainability framework, already embedded across the Group, which ensures that we operate responsibly whilst taking action on climate and looking after our people.



→  
 READ MORE ABOUT  
 DELIVERING VALUE  
 RESPONSIBLY  
 ON PAGE 54

OUR FINANCIAL MODEL

We have a differentiated business model and proven strategy that generate quality, compounding financial outcomes and resilience.

We deliver consistent organic revenue growth, accelerated by acquisitions and with sustainable high margins.

Our financial model balances ambition with discipline to deliver strong shareholder value.

OUR FINANCIAL MODEL

AMBITIOUS...

Organic revenue growth is our first priority  
**5%+**

Total revenue growth accelerated by quality acquisitions  
**10%+**

Value-add drives strong operating margins  
**17%+**

Compounding EPS growth  
**Double-digit**

...WITH DISCIPLINE

Capital-light business model drives strong cash conversion  
**90%+**

Capital stewardship focused on strong ROATCE  
**High teens**

Balance sheet discipline maintains prudent leverage  
**<2.0x**

Return to shareholders - dividend  
**Progressive**

Sustainable Quality Compounding



# WE MAKE OUR CUSTOMERS' LIVES EASIER

“What sets VSP aside is the innovation behind the engineering and the research that goes into that. They are extremely responsive if you need something, they are very quick to put you in touch with the right engineer to solve a problem. That could be a small problem or a larger, more catastrophic issue. Knowing that the end product is going to be the right product applied in the right way, that's priceless.”

**John Kennedy,**  
President of Field Sales at Rescar Companies  
VSP Customer



READ MORE ABOUT  
OUR STAKEHOLDER  
ENGAGEMENT  
ON PAGE 50



LEARN MORE  
ABOUT OUR VSP  
CUSTOMER STORY



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OUR-BUSINESSES/SEALS/](http://WWW.DIPLOMAPLC.COM/OUR-BUSINESSES/SEALS/)

## STRATEGY

# BUILDING HIGH-QUALITY SCALABLE BUSINESSES FOR SUSTAINABLE ORGANIC GROWTH

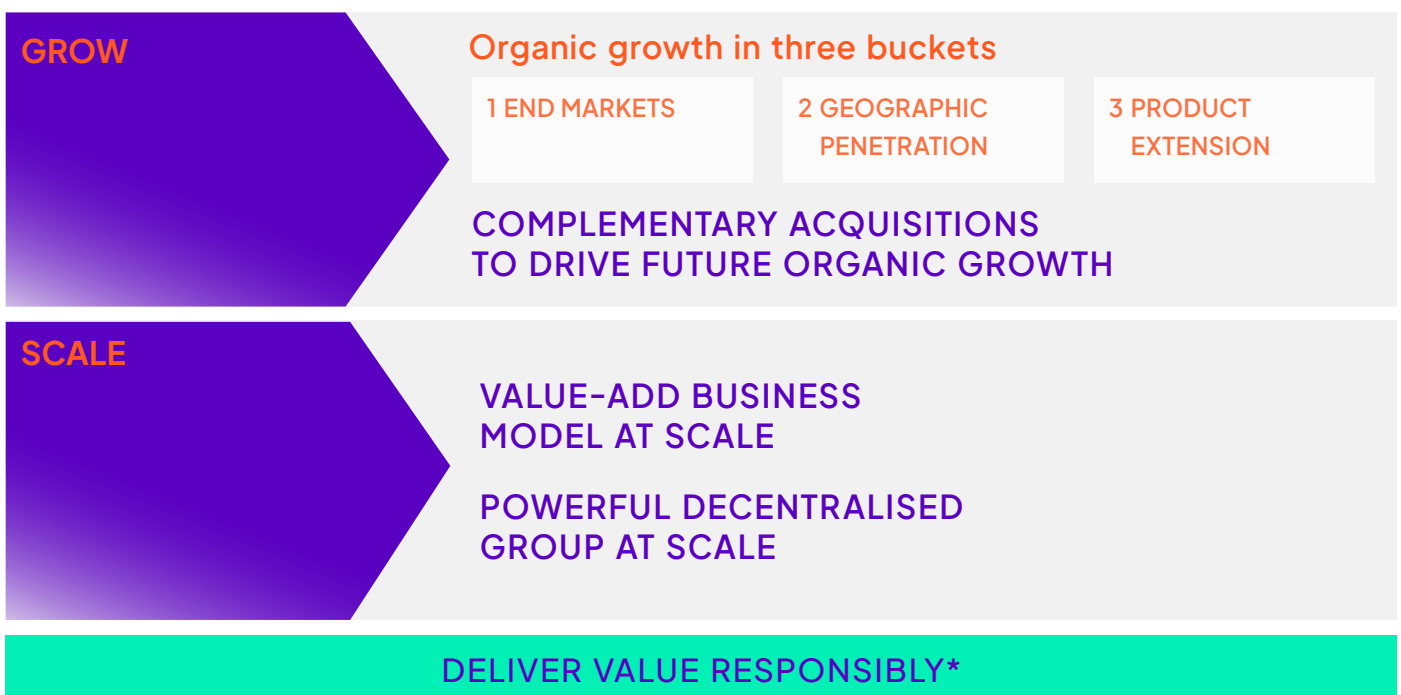
Our strategy is delivered by a brilliant team in an empowered decentralised culture. As a result, we have an impressive and resilient track record of growth at attractive margins.

We drive organic growth in three buckets by: positioning behind structurally growing end markets; penetrating further into core developed geographies; and extending our product range to expand our addressable markets. This drives sustainable organic growth and increased resilience.

We complement our organic growth strategy with bolt-on acquisitions that drive future organic growth in one or more of our three buckets.

Our value-add model and decentralised culture are our key differentiators. As we grow, we need to build scale within the businesses and the Group in order to protect our differentiators and sustain long-term delivery.

Our Delivering Value Responsibly (DVR) framework means that we are positioned to deliver products and services for a decarbonising economy, whilst also delivering for our colleagues and the environment.



\*READ MORE ABOUT DELIVERING VALUE RESPONSIBLY ON PAGE 54



# GROW

## 1 END MARKETS

We have an exciting opportunity to access structurally high-growth end markets, such as clinical diagnostics, electrification, industrial automation, infrastructure, renewables, water management, energy, and civil aerospace. We have increased our exposure in these markets, but still have a very small share. We also have the opportunity to position ourselves for a more sustainable economy.

## 2 GEOGRAPHIC PENETRATION

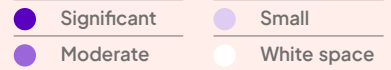
We remain focused on our core, developed economies of North America, UK & Ireland, Continental Europe, and Australia & New Zealand. We have minimal market share – or none at all – in most of our product verticals across our core geographies and therefore do not need to look to higher-risk, developing markets for growth. There is lots to go for in our established geographies.

## 3 PRODUCT EXTENSION

We expand our addressable markets through product extension. We do this through continuous product innovation; coordinated cross-selling across different Group businesses; or, selectively, through building out material new product lines that support value-add distribution.

## OUR GEOGRAPHIC AND PRODUCT OPPORTUNITIES

### MARKET SHARE



ADDRESSABLE MARKET	OUR SECTORS	OUR PRODUCT VERTICALS	OUR GEOGRAPHIC REACH								
			US	CANADA	UK & IRELAND	GERMANY	FRANCE	SPAIN	OTHER EU	ANZ	
CURRENT ADDRESSABLE MARKET	CONTROLS	WIRE & CABLE	Small		Small						
		INTERCONNECT	Small		Small	Small	Small				
		SPECIALTY FASTENERS	Small		Small	Small					
		SPECIALTY ADHESIVES			Small						
		INDUSTRIAL AUTOMATION	Small								
	SEALS	SEALS	Significant	Small	Small					Small	Small
		GASKETS	Small		Small						
		HOSES & FITTINGS			Small	Small	Small	Small	Significant	Small	
		PUMPS / VALVES			Small						Small
	LIFE SCIENCES	DIAGNOSTICS		Small	Small						Significant
		SURGICAL / CRITICAL CARE		Significant	Small					Small	Small
		ENDOSCOPY		Significant						Small	
GROWING ADDRESSABLE MARKET	↓ ↓	NEW PRODUCT VERTICALS									

# ORGANIC GROWTH AT AUSTRALIAN SEALS

Our Australian Seals business supplies premium mechanical engineering products, parts and services to the power, water and mining industries.

Since 2019, their organic growth has been consistently double-digit. Since joining Diploma, it has made some strategic acquisitions to accelerate organic growth through geographic penetration and product extension.

The bolt-on acquisition ACT in 2022 introduced exciting and innovative products, creating an attractive, full-service proposition for customers.

The dewatering unit in Australian Seals has also grown by more than 50% since 2019. By increasing its product offering and expanding service it has improved sales mix. Operating margin has improved from low double-digits to high-teens during the same period.

The business has also been able to take advantage of exciting opportunities in the waste management, water and marine industries, as well as expanding its repair service, driven by new refineries, including Lithium.

## Reported revenue

£41.0m

FY22: £32.2m | 27% YoY

## Organic revenue growth

+24%

FY22: +10%





**STEVE SARGEANT**  
GROUP CORPORATE DEVELOPMENT  
DIRECTOR

“We are long-term investors in our businesses.

We acquire high-quality companies, preserving their legacy, culture and people, and supporting their onward growth journeys with continued investment and sharing of best practice.

We have considerable expertise in making acquisitions and have completed over 30 in the last four years.”



LEARN MORE ABOUT  
OUR APPROACH TO  
ACQUISITIONS ON  
OUR WEBSITE



[WWW.DIPLOMAPLC.COM/  
ABOUT-US/ACQUISITIONS/](http://WWW.DIPLOMAPLC.COM/ABOUT-US/ACQUISITIONS/)

## COMPLEMENTARY ACQUISITIONS TO DRIVE FUTURE ORGANIC GROWTH

We make complementary acquisitions to drive future organic growth, positioning behind exciting end markets, expanding our footprint in a core geography, or adding product capability. Acquisitions also help us to build scale and resilience, bring in fantastic new talent, and drive great returns on capital.

The companies we acquire have the same core characteristics as our existing businesses: a compelling value-add proposition, strong organic growth potential, a brilliant leadership team, a good strategic fit, and attractive financial returns.

We are long-term investors in our businesses and help acquired businesses develop and grow. We do this by offering management expertise, assisting with a more structured sales approach, sharing best practice across similar Group companies, improving margins and cash management, and providing an ESG framework.

As a result, we have a strong track record of delivering disciplined acquisitions with great returns. Since 2019 we have spent over £1 billion on acquisitions that have delivered average organic growth and ROATCE of ca. 16%.

## A WINNING PROPOSITION FOR SELLERS

Our decentralised model and culture make us attractive to small business owners. We preserve their legacy, value and develop their people, and we're in it for the long term. This gives us a competitive advantage where price is not the sole decision driver.

## EXCITING PIPELINE

We have a strong internal corporate development team, and have developed our capabilities and processes over the past couple of years. This, together with our winning proposition for sellers, large fragmented markets and white space, leads to an exciting pipeline of continued acquisition opportunities.

## 12 SUCCESSFUL ACQUISITIONS

During the year we made 12 acquisitions across all of our Sectors.

We acquired two platform businesses: T.I.E., acquired in March, is our first venture into the Industrial Automation market; and DICSA, bought in July, provides us with a European Aftermarket platform in the Seals Sector. It is also our first Spanish-based investment. Both companies have a long track record of excellent organic growth and high margins.

We also acquired 10 smaller bolt-ons, which fit well into our existing businesses:

- R&G acquired FPS, Hedley, Valves Online and Lantech
- Techsil acquired Eurobond
- Shoal Group acquired Shrinktek
- VSP acquired GP&S and Hex
- Hercules OEM acquired ITG
- Simonsen & Weel acquired GM Medical





STRATEGY CONTINUED

**SCALE**

Our differentiators are our value-add business model and decentralised culture. As the businesses – and the Group – become significantly larger, we have to scale at the same time in order to preserve and enhance those differentiators and guarantee our delivery for the long term.

**VALUE-ADD BUSINESS MODEL AT SCALE**

To scale successfully, each of our businesses designs their operating model of the future, the processes and core competencies that underpin it, and the capability – talent, technology, and facility – required to deliver it.

Our core competencies are common to all our businesses: value-add, route to market, operational excellence, supply chain management, commercial discipline.

Strengthening them requires the business to be more strategic, structured and systematic, which in turn improves customer service and performance.

**POWERFUL DECENTRALISED GROUP AT SCALE**

We keep it focused. Portfolio discipline ensures a manageable platform for scale, whilst simple strategic and performance frameworks preserve local ownership but ensure alignment to the Group’s objectives.

Lean structures with dynamic leaders. By remaining lean, we ensure agility and execution while avoiding unnecessary bureaucracy. This approach requires great management, and so we have development and engagement programmes to ensure this.

Mood. Being decentralised doesn’t mean that our businesses are isolated. Regular individual and collective touch points and communications allow us to manage pace and engagement.

All of this means that our businesses are able to remain agile, close to their customers, with local accountability, decision-making and leadership. At the same time, they enjoy the benefits of being part of a large, multinational Group: networks, central expertise, collaboration, and best practice sharing.

**OUR IMPERATIVE TO SCALE**

**FROM**

**£10m**

**BUSINESS**

- Hands-on business leader
- Individuals wear many hats
- Responsive service
- Manual
- Family feel



**TO**

**£200m**

**BUSINESS**

- Strategic, structured leadership
- Broader management capability
- Seamless, customer-led processes
- Technology-enabled: data and automation
- Commercial, agile, innovative

**Value-add service model at scale requires a different approach**



**JILL TENNANT**  
STRATEGY DIRECTOR

“Scaling means we are building bigger, better businesses whilst also preserving our decentralised culture.

Scaling is a journey. It is carefully planned as part of our strategy, and it guarantees our delivery for the long term.”

## BUILDING SCALE AT WINDY CITY WIRE

Windy City Wire, part of the Controls Sector, has cultivated a very high-performance culture with strong sales expertise. Every colleague is clear on their objectives and job role, ensuring clarity and simplicity in a rapidly growing business.

Windy City Wire uses technology to improve efficiency. All of their performance metrics are available in real time, allowing them to set the right pace and course-correct as needed.

The business is currently investing in digital marketing and strengthening their online presence. This enables them to tell their story and strengthen their brand reputation.

All of this is supported by an innovative and highly automated facility, where customers often visit to learn more about Windy City Wire's products.

Windy City Wire also benefits from control over their own supply chain and a very well diversified customer base, with over 12,000 regular customers.

The business has a strong 'hub & spoke' operating model with a central facility in Illinois, supported by 19 distribution sites across the US.

Even as it scales, Windy City Wire's service remains unwaveringly brilliant.



CEO'S REVIEW

# SUSTAINABLE QUALITY COMPOUNDING

JOHNNY THOMSON  
CHIEF EXECUTIVE OFFICER

Revenue in the year was  
up 19% to:

£1.2bn



“I am extremely pleased with our financial performance and strategic progress. I would like to thank my brilliant colleagues across the Group who do a fantastic job every single day.”

### EXCELLENT FINANCIAL PERFORMANCE, DELIVERED WITH DISCIPLINE

The Group has delivered another successful year, reflecting the power of our value-add propositions, our strategy, and our decentralised model. This, underpinned by the commitment of our colleagues to deliver excellent customer service, has enabled us again to deliver strong organic growth at high and growing margins.

Revenue in the year was up 19% to £1.2bn (2022: £1.0bn). Organic growth of 8% was driven by strong volumes. Acquisitions, net of a small disposal, contributed 8% to reported revenue while foreign exchange translation added a further 3%.

Our value-add customer propositions enable us to price to offset cost inflation and then selectively reinvest some of the benefits of positive operational leverage into scaling our businesses. This 'margin formula', coupled with disciplined cost control and accretive acquisitions, means that we have increased adjusted operating margin by 80 bps to a very strong 19.7% (2022: 18.9%). Our adjusted operating profit increased by 24% to £237.0m (2022: £191.2m).

Adjusted earnings per share (EPS) grew by 18%, continuing our long-term compounding track record (15% compound annual growth rate (CAGR) EPS over 15 years).

Our cash-generative business model drove free cash flow conversion of 100% (2022: 90%), benefitting from targeted inventory reduction. Together with the equity raise earlier in the year, this led to a reduction in net debt to £254.7m, reducing leverage to 0.9x at 30 September 2023 (2022: £328.9m and 1.4x). Returns on capital are a key underpin of our compounding financial model and return on average trading capital employed (ROATCE) improved by 80 bps to 18.1% (2022: 17.3%).

### REVENUE DIVERSIFICATION DRIVING ORGANIC GROWTH AND INCREASING RESILIENCE

The Group's strategy is to build high-quality, scalable businesses for organic growth.

We drive organic growth in three ways: positioning behind structurally growing end markets; penetrating further into core developed geographies; and extending our product range to expand addressable markets. This strategy drives both sustainable organic growth and increased resilience. Execution of this strategy across our businesses drove organic growth of 8% in FY23, with strong trading momentum as we exit the year.

Our adjusted operating profit increased by 24% to £237.0m

24%

“The acquisition of DICSA creates a platform for our fluid power businesses in Spain and across Europe, including cross-selling opportunities.”

	Revenue £m		Growth	
	FY23	FY22	Reported	Organic
Controls	<b>568.4</b>	492.8	+15%	+11%
Seals	<b>419.0</b>	331.4	+26%	+5%
Life Sciences	<b>212.9</b>	188.6	+13%	+8%
Group	<b>1,200.3</b>	1,012.8	+19%	+8%

Some examples of how our businesses are delivering organic growth are set out below, with further detail provided in the Sector Reviews on pages 24 to 35.

#### Positioning to take advantage of structurally growing end markets

Across the Group we have continued to drive growth through expansion in structurally growing end markets.

A number of businesses in our **Controls** Sector are gaining share in aerospace, defence and energy markets as well as penetrating the wider electrification ecosystem.

The acquisition of Tennessee Industrial Electronics (T.I.E.), in March gives us access to the strategically important industrial automation end market in the US. Across our **Seals** businesses, we are well positioned to benefit from US infrastructure spend and we have diversified into exciting growing markets such as water treatment and renewable energy.

In **Life Sciences**, in addition to benefitting from the recovery of surgical procedures, our businesses are continuing to diversify, in particular across diagnostic areas such as molecular testing, allergy and auto-immune testing, haematology, and cancer screening.

#### Penetration of core developed economies

Over the last year we have made progress developing our US and European footprint. In **Controls**, for example, we continue to win market share in the German energy market delivering very strong double-digit growth.

In **Seals**, we are continuing to win share in the western and mid-west states of the US, leveraging the investment in the facility in Louisville. In the UK, R&G has enjoyed a very strong first year in the Group, building out our regional position and product offerings to drive excellent organic growth. The acquisition of Distribuidora Internacional Carmen S.A.U. (DICSA) in July creates a platform for our fluid power business in Spain and across Europe, including cross-selling opportunities with R&G. In **Life Sciences**, we now have a scaled European platform.

#### Product range extension

New product development forms an ongoing component of all our businesses' organic growth strategies.

- **Controls** has delivered outstanding growth from speciality adhesives, having entered that segment through the acquisition of Techsil in 2021. The acquisition of T.I.E. brings expertise in aftermarket and circular economy solutions for CNC machines and robotics.
- With the acquisition of DICSA, following last year's acquisition of R&G, **Seals** continues to diversify from its traditional strength across seals and gaskets, into wider fluid power products.
- Product development is intrinsic to our **Life Sciences** businesses. The Canadian businesses introduced new technology in the gastrointestinal and surgical segments. The European businesses introduced the single-use endoscope in the Urology segment, as well as new ultrasound technology, and new products in the lab and pharmaceutical testing environments.

## COMPLEMENTARY ACQUISITIONS TO ACCELERATE GROWTH

Acquisitions can accelerate our growth strategy. We are disciplined and selective and will only consider opportunities with the following core characteristics:

- differentiated value-add customer proposition generating sustainable high gross margins;
- strong organic growth and scaling potential; and
- capable management teams we can back.

Since 30 September 2022, we have acquired 12 high-quality businesses for a total of £280m.

In March, we acquired T.I.E. for ca. £76m, entering the strategically important industrial automation end market in the US. T.I.E. is a high growth, market-leading value-add distributor of aftermarket parts and repair services for robotics and CNC machines. It differentiates through speed to market and superior technical support, driving a strong organic growth track record and high margins.

In July, we acquired DICSА for ca. £170m, establishing a platform in fluid power solutions across the European aftermarket. DICSА has significant customer value-add, based on quality product, breadth of range, technical service, and speed to market. It adds to our established positions in the US and UK, expanding our aftermarket fluid power capability and accessing key strategic markets.

Over time we will drive significant revenue and procurement synergies including cross-selling existing product from R&G through DICSА's platform into Europe; leveraging our North American Seals Aftermarket platform to accelerate DICSА's growth in the US; and delivering consolidated procurement synergies.

Both T.I.E. and DICSА are strategic platform acquisitions, well positioned for continued strong growth, and are margin and earnings accretive in the first year.

During the year, we have also completed 10 bolt-on acquisitions for £33m, at an average earnings before interest and tax (EBIT) multiple of under 5x. These will add £33m of annual revenue to the Group at accretive EBIT margins, driving ROATCE of over 20% from their first full year.

Continuing our disciplined approach to portfolio management, we disposed of the lower growth, lower margin Hawco business (fluid controls within the Controls Sector) in March for £23m.

In fragmented markets with a well-developed approach and a compelling proposition to sellers, the Group's acquisition pipeline is strong and diversified. We remain committed to disciplined investment of capital, ensuring the Group's acquisitions support our future organic growth and deliver compounding earnings growth at high returns over the long term.

Since 30 September 2022, we have acquired 12 high quality businesses for a total of £280m

£280m



## CEO'S REVIEW CONTINUED

**SCALING THE BUSINESSES AND THE GROUP**

Delivering our strategy of building high-quality businesses for sustainable organic growth requires that we scale the businesses, developing their operating models to continue to deliver great customer propositions at scale. At the same time, we are developing the Group, evolving our structures, capabilities and culture to support this growth and maintain discipline and appropriate controls.

**Scaling the Businesses**

We have a simple, common framework which enables our businesses to deliver their target operating models. We have a set of core competencies (value-add, supply chain, operational excellence, commercial discipline, and route to market) which underpin their model.

As well as developing core competencies, scaling our businesses requires selective investment in capability, in the form of talent, technology, and facilities. During the year, we have invested in functional leadership across a number of our businesses, creating or upgrading roles in areas such as supply chain management, operations, route to market and support functions. From a technology perspective, we have Enterprise Resource Planning (ERP) upgrade projects underway across a number of businesses, as well as automated warehouse system upgrades in some Seals and Controls businesses. In terms of facilities, we have upgrades and relocations underway in each of our three Sectors to drive efficiency and improved customer service as those businesses continue to grow.

**Scaling the Group**

We have continued to focus on three principles this year:

First: keep it focused. This means portfolio discipline to ensure a manageable platform for scale. Despite more than doubling in size, we have moved from 20 to 16 business units in the last four years. For example, during the year we created new scaled businesses in Life Sciences (Canada and Ireland) and Seals (Australia) by combining smaller constituent businesses to form integrated operations that are better able to service their customers at scale.

Second: lean structures with dynamic leaders. This avoids bureaucracy in the businesses and promotes alignment, agility and execution. We have very lean Central and Sector teams but require more capability and capacity as we grow. During the year we have selectively added capability in Finance, HR, Sustainability and Risk & Compliance roles. Through our development processes and programmes, alongside external appointments, we are building talent and succession across the organisation.

Third: mood – the beat of the organisation. Decentralisation doesn't mean isolation. Regular individual and collective touchpoints allow us to be agile, manage pace, and execute better. This year, we have further developed the 'Diploma Identity', strengthening leadership networks, collaboration and best practice sharing, while preserving our critical differentiated decentralised culture.

**“Delivering our strategy of building high-quality businesses for sustainable organic growth requires that we scale the businesses, developing their operating models to continue to deliver great customer propositions at scale.”**

## DELIVERING VALUE RESPONSIBLY

We are making good progress across our businesses with Delivering Value Responsibly (DVR). During the year we have hired an experienced Group Sustainability Director and submitted our net zero targets for validation to the Science Based Targets initiative (SBTi).

DVR, our framework, is focused on six core areas:

- **Colleague Engagement** increased to 80%, a very strong result particularly for a decentralised business. We have engagement plans in each of our businesses and aim to maintain engagement above 70% over the long-term.
- Workshops and listening groups are also helping to further our **Diversity, Equity & Inclusion agenda**. Over the last four years our gender diversity has improved, with women now representing 28% of our Senior Management Team (SMT) up from 20% in 2019. Our 2030 target is for women to make up 40% of our SMT.
- Potential hazard reporting and training are enhancing our **Health & Safety** culture. In 2023, our lost time incident (LTI) Rate (LTIs per 1,000 employees) was 9.5 (2022: 10.6). We target at least a 5% reduction in lost time incidents every year.
- Our businesses are stepping up engagement with their **Supply Chains**. Over 70% of key suppliers are now aligned to our Supplier Code – committing to high ethical, professional and legal standards.

- Further focus on the **Climate Action** has included energy workshops and implementing emission-reduction initiatives. We have begun to introduce solar solutions on our facilities and expect to progress this further in the coming year. Our target is to achieve net zero across our value chain by 2045, with a 50% reduction in Scope 1 & 2 emissions by 2030.
- We are making good progress in Waste Reduction, with the volume of waste sent to landfill down to 32% from 60% in the prior year.

We are also focused on the positive impact that our Group has on society and the environment by delivering innovative and life-saving healthcare solutions; playing a role in renewable energy generation; and supporting circular practices across our aftermarket businesses.

## OUTLOOK

Whilst we remain mindful of the uncertain economic outlook, we are confident in the Group's prospects. Diploma has an excellent track record of compounding growth and delivering strong financial returns through the cycle. Our model is resilient, and its resilience has increased over time as we execute our strategy:

- Our revenue is resilient: ongoing diversification means we are exposed to structurally growing end segments.
- Our margins are resilient: focus on value-add solutions critical to customer needs supports pricing power.
- Our cash flow is resilient: our low capital-intensity model is highly cash-generative, underpinning a strong balance sheet.

At this stage in the year, FY24 growth is expected to be in line with our long-term financial model, albeit at higher margins:

- Volume-led organic revenue growth of ca. 5%.
- Acquisitions announced to date add ca. 6% (net) to reported revenue growth.
- Strong operating margin of ca. 19.7%.
- Free cash flow conversion of ca. 90%.

We remain focused on executing our strategy of building high-quality, scalable businesses for organic growth and are confident in our ability to deliver long-term growth at sustainably high margins.

**Johnny Thomson**  
Chief Executive Officer

# CONTROLS

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

## FINANCIAL HIGHLIGHTS

**£568.4m**

**Revenue**

FY22: £492.8m | +15% YoY

**£136.6m**

**Adjusted operating profit**

FY22: £105.8m | +29% YoY

**£112.9m**

**Statutory operating profit**

FY22: £75.3m | +50% YoY

**+11%**

**Organic revenue growth**

FY22: 24%

**24.0%**

**Adjusted operating margin**

FY22: 21.5% | +250bps

## INTERNATIONAL CONTROLS

Interconnect  
Specialty Fasteners  
UK Wire & Cable  
Specialty Adhesives  
Industrial Automation

## WINDY CITY WIRE

Windy City Wire



**WINDY CITY WIRE (WCW): 49%**

Delivers innovative low-voltage wire and cable management solutions that save integrators time and money on projects - from concept to completion. Windy City Wire delivers its proprietary value-add solutions - SmartWire, RackPack and SmartKits - with outstanding customer service.

**WIRE & CABLE (UK): 8%**

Delivers cable management, identification and termination solutions to data centres, rail, energy, marine and construction industries. They offer customers same-day despatch, technical support, excellent customer service, and custom-made product and inventory solutions.

**INDUSTRIAL AUTOMATION: 5%**

Delivers machine uptime through specialist repair, servicing and refurbishment of industrial automation equipment for customers in machine shops, metalworking and manufacturing industries. Customers benefit from minimised downtime, technical support and asset life extension.

**INTERCONNECT: 23%**

Our interconnect businesses supply electrical-mechanical solutions to customers in Defence, Energy, Medical and Automotive industries. They distribute high-performance interconnect products, as well as identification, protection and metal braided products. They deliver tailored solutions, responsive customer service and technical knowledge.

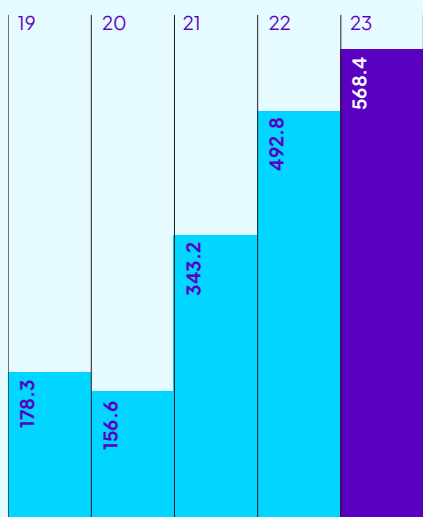
**SPECIALTY FASTENERS: 12%**

This business supplies a range of high-quality fasteners, inserts and components to customers in industries with highly technical and demanding applications and environments. They work with customers to develop bespoke, value-add solutions, such as in-house assembly, design, technical expertise, bespoke kitting, and automatic inventory replenishment.

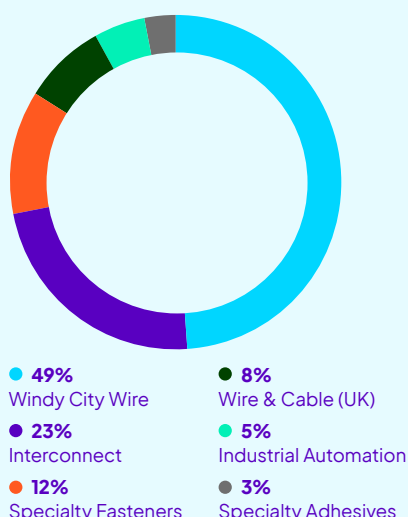
**SPECIALTY ADHESIVES: 3%**

Our specialty adhesives business distributes industrial adhesives, sealants, and tapes to customers in automotive, electronics, aerospace, defence and other manufacturing industries. Value-add services include repacking to meet customer-specific requirements, stock and supply chain management, kitting, deep technical support, and innovative sealing solutions.

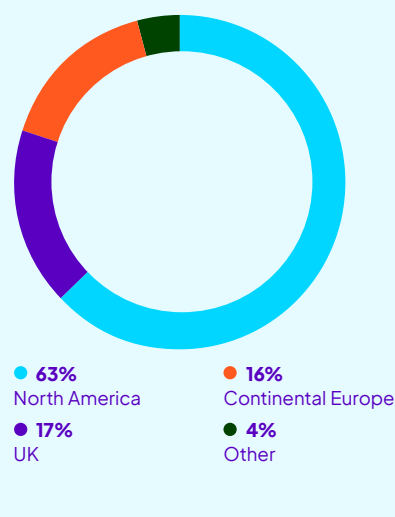
**REPORTED REVENUE £**



**REVENUE BY SEGMENT<sup>1</sup>**



**REVENUE BY GEOGRAPHY<sup>1</sup>**



<sup>1</sup> Pro forma revenue is stated after total net adjustments of (£2.4m) to Reported revenue for acquisitions and disposals completed during the year.

## CONTROLS SECTOR CONTINUED



**DAVID GOODE**  
CEO, INTERNATIONAL CONTROLS  
SECTOR

“International Controls enjoyed another exceptional year. Incisive growth plans and hard work ensured success across the Sector. The addition of T.I.E. both enhanced Sector margins and opened new markets and products to support the next phase of growth.”



**RICH GALGANO**  
CEO, WINDY CITY WIRE

“In a year of diligent effort, our team’s commitment to organic growth has been the cornerstone of our success, building scale sustainably and setting a solid foundation for the future.”

### 2023 HIGHLIGHTS

- Very strong performance in International Controls with organic revenue growth of 15%.
- Windy City Wire (WCW) delivered organic growth of 7%, building on a very strong comparative period in FY22.
- Adjusted operating profit increased significantly, 29% higher at £136.6m (2022: £105.8m) with a 250bps year-on-year increase in adjusted operating margin to 24.0% (2022: 21.5%). Both WCW and International Controls contributed to margin expansion driven by positive operating leverage and mix into higher margin products.
- Strategic acquisition of Tennessee Industrial Electronics (T.I.E.) builds scale and gives access to the important industrial automation end market.

**International Controls** (51% of Controls Sector revenue) delivered 15% organic growth in the year, benefitting from market share gains in recovering civil aerospace markets and structural tailwinds in UK defence and German energy markets as investment in these areas remains a critical focus for governments. The Sector also further penetrated exciting end markets within electric vehicles (EV), renewables and space. Operating margin increased strongly, primarily due to positive operating leverage on volume growth, and mix benefits from the acquisition of T.I.E. and disposal of Hawco.

**Windy City Wire** (49% of Controls Sector revenue) continues to perform strongly, with organic revenue growth of 7% in the year, following a very strong comparative period with 32% organic growth in FY22. Product range extension and share gains in new end market segments drove volume and a favourable mix.

Adjusted operating profit increased significantly, 29% higher at £136.6m with a 250bps year-on-year increase in adjusted operating margin to 24.0%.

29%

### REVENUE DIVERSIFICATION DRIVING ORGANIC GROWTH

The Sector continues to diversify its end markets, gaining share in space and telecoms and benefitting from the wider move to electrification and green energy as it continues to deliver growth in the EV and renewable energy end markets.

We delivered strong double-digit organic growth in our Interconnect businesses, particularly in the German energy end market, driven by share gains and upgrades to the transmission and distribution network. Other key growth segments include defence, motorsport, aerospace and medical, where our businesses benefitted from momentum in these growing end markets and share gains.

Our Specialty Fasteners businesses delivered very strong double-digit growth during the year as they continue to win market share and benefit from strong customer demand in the recovering civil aerospace market in both the US and UK. We secured key contract wins in seats and cabin hardware and further diversified end markets with good momentum into space, unmanned aerial vehicles (UAVs) and electric vertical take-off and landing (eVTOL) aircraft. Geographic diversification has also been a theme in aerospace, with an important contract win in France for a major cabin and seating manufacturer.

Specialty Adhesives delivered strong double-digit growth in its key automotive end market as well as continued share gains in the telecommunications and EV markets.

WCW continues to drive strong growth and gain share in the high margin petrol station end market, where its products are essential to the new generation chip readers used to prevent fraud, and which are being systematically rolled out across the US.

#### TARGETED ACQUISITIONS TO ACCELERATE GROWTH

During the year, the Sector completed the acquisition of T.I.E. for ca. £76m, providing it with access to the important industrial automation end market, which has been a strategic target end market for some time. T.I.E. also drives product extension (robotics and CNC machines) as well as deepening geographic penetration in the key US market.

Two smaller bolt-on acquisitions were completed in the year, with Eurobond further broadening our product offering in Specialty Adhesives, and Shrinktek expanding the Sector's offering in UK Wire & Cable.

#### BUILDING SCALE

Significant investment in technology and facilities is underway as the Sector finalises the integration of its UK Wire & Cable locations into one state-of-the-art facility and a common ERP platform.

Sales resource has been added to the European Fasteners business as part of the strategy to expand in the civil aerospace market. Focused investments in sales resources are also being made into the adhesives market to capitalise on long-term aerospace and defence opportunities.

#### OUTLOOK

We have made good strategic progress in Controls. Our businesses are benefitting from initiatives to capture growth in structurally growing end markets, such as data centres, EV and energy, as well as high-growth emerging markets, such as space and eVTOL. We are also benefitting from continued geographic diversification as we continue to build scale in the US and Europe. We are taking share in markets in which we operate. The Sector has strong momentum, and we remain very positive about its prospects.

## SPECIALTY ADHESIVES TECHSIL

Techsil, based in the UK, sells specialty silicones, adhesives and sealants. It adds value through technical sales and support, own branding and technical specification.

Techsil is aligned with structurally growing end markets, such as EVs, through battery bonding and circuit board solutions, as well as the telecoms and defence industries.

A strong management team has enabled us to add two bolt-on acquisitions since Techsil joined the Group in 2021.

Techsil has significant opportunity across all of our growth buckets – UK consolidation, geographic penetration in the US and Europe, and exceptional end market potential.



# 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.

## FINANCIAL HIGHLIGHTS

**£419.0m**

**Revenue**  
FY22: £331.4m | +26% YoY

**£79.0m**

**Adjusted operating profit**  
FY22: £62.6m | +26% YoY

**£55.8m**

**Statutory operating profit**  
FY22: £46.0m | +21% YoY

**+5%**

**Organic revenue growth**  
FY22: +14%

**18.9%**

**Adjusted operating margin**  
FY22: 18.9%

## NORTH AMERICAN SEALS

NA Aftermarket  
US OEM  
US MRO

## INTERNATIONAL SEALS

UK Aftermarket  
European OEM  
Australia

**NA AFTERMARKET: 18%**

Our North American Aftermarket business supplies a range of products, including seals, bespoke kits, repair accessories, and cylinders to customers repairing heavy machinery and hydraulic equipment across a wide range of industries. Their value-add proposition includes next-day delivery, technical assistance, kitting, custom seals and quality assurance.

**UK AFTERMARKET: 21%**

These businesses supply a wide range of fluid-power products, including industrial hose and couplings, hydraulic and pneumatic components, and gaskets and seals. Their customers benefit from their expertise, broad experience and in-depth product knowledge and stock.

**AUSTRALIA: 8%**

These businesses deliver solutions that reduce whole-of-life costs through equipment efficiency and reliability, reduced downtime and energy use. They supply premium mechanical engineering products, parts and servicing as well as products, including pumps, filtration and sealing devices. They serve the power, water and mining industries.

**US OEM: 13%**

Our US OEM business is a leading provider of technical solutions. They supply a wide range of products, including seals, gaskets, custom moulded parts and stamped metal components. Their value-add services include engineering expertise, such as compound and application design; supply chain and inventory management; quality assurance and kitting and assembly.

**EUROPEAN OEM: 11%**

Our European OEM businesses supply seals, gaskets and custom and moulded parts to customers across a wide range of industries, including renewable energy, healthcare, food & beverage, and automotive. They offer value-add services, including design and engineering support, and quality control and testing.

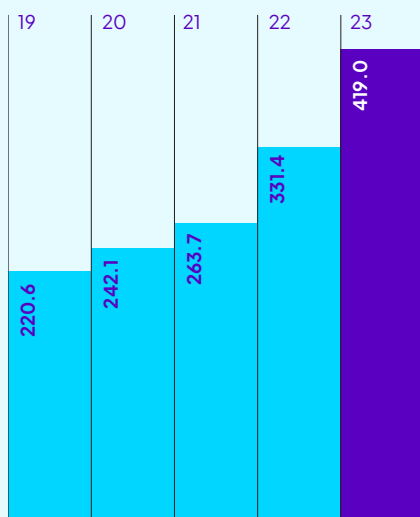
**US MRO: 13%**

Our US MRO business is engineering-focused and supports customers' gasket, packing and expansion joint needs in high-cost-of-failure applications. Customers benefit from proprietary products, significant cost savings and inventory management. Product design assistance and experienced engineering resources offer customers ongoing support throughout their production cycle.

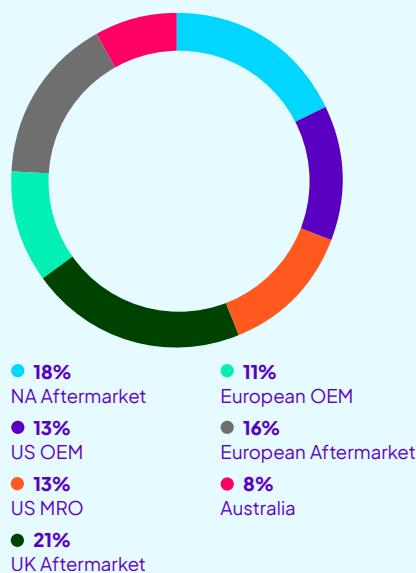
**EUROPEAN AFTERMARKET: 16%**

Our European Aftermarket business distributes a range of connectors, stainless steel fittings, hoses, and hydraulic components to customers in diverse industries, including agriculture, marine, automotive, chemical processing and infrastructure. Their value-add proposition includes deep technical expertise, breadth of stock and advanced international logistics.

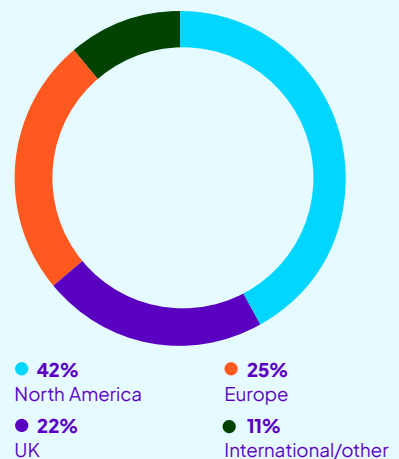
**REPORTED REVENUE £**



**REVENUE BY SEGMENT<sup>1</sup>**



**REVENUE BY GEOGRAPHY<sup>1</sup>**



<sup>1</sup> Pro forma revenue is stated after total adjustments of £74.6m to Reported revenue for acquisitions completed during the year.

## SEALS SECTOR CONTINUED



**TED MESSMER**  
CEO, NORTH AMERICAN SEALS SECTOR

“I am so proud of the North American Seals team and all the progress they have made this year in strengthening our growth potential and broadening our value-add capabilities.”



**ALESSANDRO LALA**  
CEO, INTERNATIONAL SEALS SECTOR

“The International Seals Sector is poised for continued strong organic growth, augmented by the increased European footprint due to the acquisition of DICSA.”

### 2023 HIGHLIGHTS

- Strong International Seals performance driven by R&G and Australian Seals.
- Resilient performance in North American Seals, benefitting from returns on the investment into the Aftermarket facility in Louisville and strong performance in our MRO business offsetting some destocking in certain OEM customers.
- Adjusted operating profit increased by 26% to £79.0m (2022: £62.6m).
- Invested in scaling projects focusing on automation and supply chain efficiencies through facilities upgrades.
- Strategic acquisition of Distribuidora Internacional Carmen S.A.U. (DICSA) builds scale in Europe and broadens the product portfolio into stainless steel fittings, expanding addressable markets.

**International Seals** (56% of Sector revenue) delivered strong organic growth of 9%, principally driven by an excellent trading performance from R&G in the UK and strong recovery of capital projects in Australia.

**North American Seals** (44% of Sector revenue) delivered organic growth of 1% against a very strong comparator (2022: +16%) with strong growth in our North American Aftermarket and MRO businesses, partly offset by some destocking in some industrial OEM customers.

### REVENUE DIVERSIFICATION DRIVING ORGANIC GROWTH

In International Seals, our UK Aftermarket business, R&G, grew strongly, benefitting from initiatives to diversify into product adjacencies and new end markets, such as wastewater treatment and potash mining. R&G has made a significant contribution to the organic growth of the Sector since acquisition, driven by strong sales into capital projects, particularly in the pneumatics and industrial markets, underpinned by solid MRO volumes.

Our Australian Seals businesses delivered very strong growth. This was driven by share gains and public infrastructure investments on the east coast, strong demand in anti-corrosion applications in the oil and gas industries, and continuous strong demand for the mining of raw materials for batteries. Anti-Corrosion Technology (ACT), which was acquired in late FY22, has more than doubled since acquisition, capitalising on asset protection projects in the oil and gas industry.

We saw softer performance in our European OEM businesses where both medical and industrial end markets suffered some customer destocking. We expect this to moderate growth in the near term.

North American Aftermarket delivered another year of strong growth. The investment in our Aftermarket facility in Louisville, extending service hours and product availability, is continuing to deliver accelerated growth and market share gains, particularly in western states. Very strong organic growth in the core repair market was boosted by the continuing focus on US infrastructure development.

The US MRO business delivered strong organic growth driven by high levels of demand for our proprietary products in the transportation market.

The US OEM business was softer, driven by destocking in a number of customers. We expect this to moderate growth in the near term.

### TARGETED ACQUISITIONS TO ACCELERATE GROWTH

During the year, the Sector acquired DICSA for ca. £170m, establishing a scaled platform in fluid power solutions across the European aftermarket. It adds to our established positions in the US and UK and over time will drive significant revenue and procurement synergies: cross-selling existing product from R&G, leveraging the Louisville facility to accelerate DICSA's growth in the US, and enabling procurement synergies.



Also in International Seals, four bolt-on acquisitions were added into the R&G Group. Hedley and FPS bring complementary products and geographical expansion to R&G's Hydraulics division. Valves Online will complement and strengthen R&G's capabilities in the online route to market, as well as developing the valve product category. Lantech enhances the end market capabilities of the Industrial division with its focus on the food & beverage and pharmaceutical markets.

In North American Seals, VSP acquired two businesses during the year, both creating cross-selling opportunities. GP&S, which supplies gaskets, seals, and fasteners; and Hex, which provides bolting and sealing training solutions to make manufacturing sites safer, more reliable and more profitable. Hercules OEM completed the bolt-on acquisition of ITG, a distributor of seals and adhesives for use in electrical connectors, valves, medical devices and industrial equipment.

### BUILDING SCALE

The Sector is selectively integrating smaller businesses to form better scaled platforms and during the year, completed the integration of TotalSeal into FITT Resources in Australia.

Further scaling investments in facilities to establish national hubs are being made, with the construction of a new M Seals facility in Denmark that will become the Nordic hub for the Sector. In the UK, we have invested in a national distribution centre for hydraulic products and a centre of excellence for hose assemblies to position R&G as the national leader for these product ranges.

In North American Seals, we have focused on improving the supply chain; investing in facilities, talent and processes to improve supply-demand planning and optimise inventory. The Sector continues to make major investments in warehouse automation and has successfully expanded the Autostore facility in Louisville.

### OUTLOOK

We have made good strategic progress in Seals in the year and the growth prospects for the Sector remain strong. The Sector is more resilient now than ever, supported by end segment exposures such as medical, food and beverage and renewable energy, and DICSA adds a scaled European operation to our existing US and UK platforms.

Customer destocking has continued in our North American and European industrial OEM businesses and while we remain confident in their long term prospects, we do expect this to moderate Seals growth in the near term. We are well positioned to benefit from the significant investments into infrastructure projects across the US and Europe, which create a tailwind for growth across our Aftermarket businesses.

## US MRO VSP TECHNOLOGIES

VSP Technologies offers customers fluid sealing solutions used in mission-critical and hazardous environments.

When VSP Technologies was acquired in 2019, it sold custom gaskets used in chemical processing, power generation and other heavy industries.

Since our acquisition, they have successfully broadened their flow control product lines, cross selling o-rings and hoses from other North American Seals Sector businesses, to VSP's existing customers.

Supported by their engineering expertise, VSP sells its customers solutions that reduce fugitive emissions and leakages and reduce downtime in mission-critical and hazardous environments such as rail transportation of toxic materials.

Their solutions reduce customer operating costs and have tangible environmental benefits.



# LIFE SCIENCES

The Life Sciences Sector sources and supplies technology-driven, value-add solutions in the In Vitro Diagnostics, Scientific and Medtech segments of the global healthcare market.

## FINANCIAL HIGHLIGHTS

**£212.9m**

Revenue

FY22: £188.6m | +13% YoY

**£43.2m**

Adjusted operating profit

FY22: £41.0m | +5% YoY

**£36.4m**

Statutory operating profit

FY22: £42.5m | (14%) YoY

**+8%**

Organic revenue growth

F22: (4%)

**20.3%**

Adjusted operating margin

F22: 21.7% | (140)bps

## LIFE SCIENCES

Canada  
Europe  
Australia

**CANADA: 42%**

Our Canadian businesses supply innovative and leading diagnostic technologies, surgical and endoscopic solutions to Canadian healthcare providers. They offer technical expertise, service and support to find the right solution for their customers.

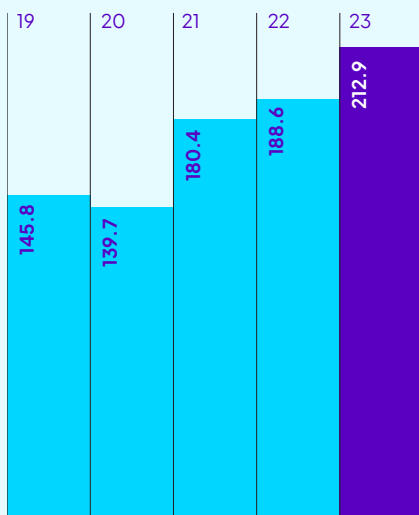
**EUROPE: 39%**

Our European businesses distribute, service and install a wide range of laboratory equipment and consumables, surgical products, medical technology and devices, life sciences solutions, and medical nutrition to customers in hospitals, community care, laboratories, and primary care.

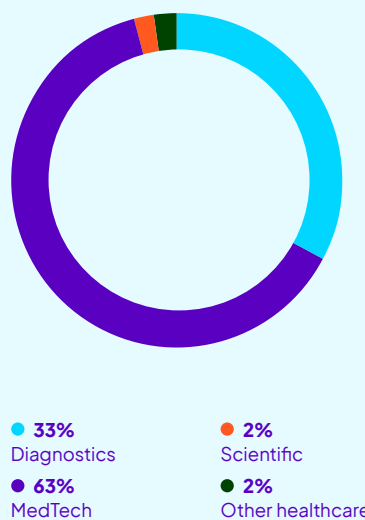
**AUSTRALASIA: 19%**

Our Australian businesses distribute surgical instrumentation, diagnostic pathology, medical research and innovative laboratory equipment solutions to a range of laboratories, hospitals, and university research departments across Australia and New Zealand.

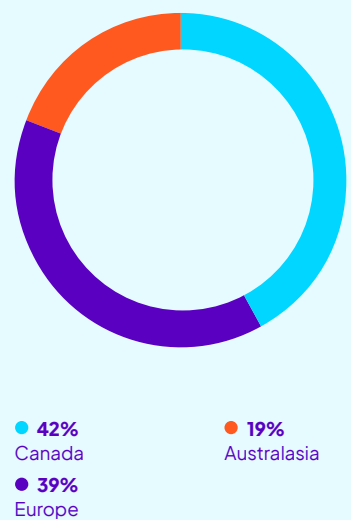
**REPORTED REVENUE £**



**REVENUE BY SEGMENT<sup>1</sup>**



**REVENUE BY GEOGRAPHY<sup>1</sup>**



<sup>1</sup> Pro forma revenue is stated after total adjustments of £3.4m to Reported revenue for acquisitions completed during the year.



## LIFE SCIENCES SECTOR CONTINUED



**PETER SOELBERG**  
SECTOR CEO, LIFE SCIENCES

“Our Life Sciences Sector is well positioned for the continued growth, investment and adoption of new technology in the healthcare sector, which will support improved patient care.”

### 2023 HIGHLIGHTS

- Organic revenue +8% (2022: -4%): The Sector has returned to growth, with momentum accelerating, driven by the normalisation of surgical procedure and diagnostic testing volumes despite ongoing healthcare staffing challenges.
- Positive outlook as governments act to address healthcare staffing shortages with automation and the associated increase in capital project funding.
- Operating margins remain well ahead of our financial model but declined year-on-year, as expected, primarily due to a higher proportion of relatively lower margin capital sales; a full year effect of Accuscience (which has a lower margin with lower capital intensity); plus ongoing scaling investments.
- Continued investments being made to build scale in the facilities and systems in Canada and Europe following the successful completion of the scaling project in Australasia.

### REVENUE DIVERSIFICATION DRIVING ORGANIC GROWTH

All businesses in the Sector have successfully diversified revenue streams to capitalise on the recovery of surgical and operating room procedures, as well as the increased funding for capital projects. During the year, we have secured new contracts across all regions as governments and hospitals increase capacity to clear the surgical backlogs and reinvest in new medical research laboratories.

New product introduction and the adoption of new technology were the primary drivers of growth in FY23. Growth has been driven by automated diagnostic testing in histology; molecular testing in infectious disease; haematology testing in oncology; AI-assistance in diagnostic & therapeutic endoscopy; single-use endoscopy in surgical urology procedures; and point of care patient monitoring and ultrasound.

**Organic revenue +8%. The Sector has returned to growth with momentum accelerating, driven by the normalisation of surgical procedure and diagnostic testing volumes.**

+ 8%

Our growth in Canada has been driven largely by implementation of technology and innovation by hospitals to address acute staffing shortages, with successful expansion in the urology, gynaecology and endoscopy specialties as well as technological adoption in laboratories and increased focus in interventional diagnostics testing.

The Australian and New Zealand markets moved out of restrictive business conditions in January, resulting in increased activities in surgery case numbers (as staff availability improved), scientific projects and studies, and pathology testing.

In Europe, our Irish and UK businesses continue to see growth in the In Vitro Diagnostics (IVD) segment and the scientific segment driven by improvement in technologies for R&D and manufacturing regulations. In the Nordics, we are well positioned to further expand into the critical care, surgical and gastrointestinal segments through national tender and contract wins.

### BUILDING SCALE

In Australia, we have successfully combined the operations of our two businesses to generate operational efficiencies, such as warehouse process improvements and freight consolidation. Similar projects are underway in the Canadian and European businesses, focusing on facilities and ERP systems. Together, these projects will build three scaled platform businesses to enable the Sector to capitalise on future growth opportunities.

### TARGETED ACQUISITIONS TO ACCELERATE GROWTH

In July 2023 we acquired GM Medical in Denmark, distributing consumables and capital equipment for anaesthesia, critical care, surgery, obstetrics, neonatology, simulation and sterilisation. GM Medical is highly complementary to our existing Danish business, Simonsen & Weel.

### OUTLOOK

With tailwinds from the recovery in surgical procedures, and increasing investment in pre-emptive diagnostics, the Sector's growth outlook remains positive. All businesses in the Sector continue to focus on building their portfolio of products and services to broaden their value proposition to both suppliers and customers.

FY24 will see a continuation of private and public laboratories investing to meet the growing demand for expanded diagnostics and screening utilising new automation and molecular testing; surgical and critical care capacity being rebuilt and expanded in healthcare systems; and drug and vaccine research and development, and companion diagnostics fields accelerating.

## LIFE SCIENCES AUSTRALIA

The Life Sciences Australia business navigate a highly technical and specialised environment in order to bring innovative surgical, pathology, and medical research products to market.

Following an investment from Diploma, the Life Sciences Australia business has built capability and organisational strength by consolidating its facilities, third-party logistics, warehousing and ERP systems, bringing them all under one roof.

This has allowed the business to move from a generalised model to a specialised model, allowing them to bring in specialist talent to manage inventory, operations, service, and accounts. The new facility is also designed to support collaboration between teams.

Another advantage of the move has been that clients are now able to visit the facility for product demonstrations and see first-hand the logistical value-add benefits that are on offer.



FINANCIAL REVIEW

EXCELLENT  
PERFORMANCE  
DELIVERED WITH  
DISCIPLINE

CHRIS DAVIES  
CHIEF FINANCIAL OFFICER





The Group reports under UK-adopted International Accounting Standards and references alternative performance measures where the Board believes that they help to effectively monitor the performance of the Group and support readers of the Financial Statements in drawing comparisons with past performance. Certain alternative performance measures are also relevant in calculating a meaningful element of Executive Directors' variable remuneration and our debt covenants. Alternative performance measures are not considered to be a substitute for, or superior to, IFRS measures. These are detailed in note 28 to the Consolidated Financial Statements.

## In FY23, the Group has again demonstrated progress against all elements of our financial model.

### Excellent financial performance

	FY23	Model
Organic growth is our first priority	<b>8%</b>	5%
Total revenue accelerated by quality acquisitions	<b>19%</b>	10%
Value-add drives strong operating margins	<b>19.7%</b>	17%+
Compounding EPS growth	<b>18%</b>	double-digit

### Delivered with discipline

	FY23	Model
Capital-light business model drives strong cash conversion	<b>100%</b>	90%+
Capital stewardship focused on strong ROATCE	<b>18.1%</b>	High teens
Balance sheet discipline maintains prudent leverage	<b>0.9x</b>	<2.0x
Return to shareholders with a progressive dividend	<b>5%</b>	5%

### SUMMARY INCOME STATEMENT

Our diversified portfolio and growth strategy drive strong, sustainable revenue growth, and our value-add service propositions drive consistently high margins.

	Year ended 30 September 2023			Year ended 30 September 2022		
	Adjusted £m	Adjustments £m	Total £m	Adjusted £m	Adjustments £m	Total £m
<b>Revenue</b>	<b>1,200.3</b>	<b>-</b>	<b>1,200.3</b>	1,012.8	-	1,012.8
Operating expenses	<b>(963.3)</b>	<b>(53.7)</b>	<b>(1,017.0)</b>	(821.6)	(46.9)	(868.5)
<b>Operating profit</b>	<b>237.0</b>	<b>(53.7)</b>	<b>183.3</b>	191.2	(46.9)	144.3
Financial expense, net	<b>(20.4)</b>	<b>(7.3)</b>	<b>(27.7)</b>	(11.6)	(3.2)	(14.8)
<b>Profit before tax</b>	<b>216.6</b>	<b>(61.0)</b>	<b>155.6</b>	179.6	(50.1)	129.5
Tax expense	<b>(52.0)</b>	<b>14.7</b>	<b>(37.3)</b>	(45.0)	10.9	(34.1)
<b>Profit for the year</b>	<b>164.6</b>	<b>(46.3)</b>	<b>118.3</b>	134.6	(39.2)	95.4
<b>Earnings per share (p)</b>						
Adjusted/Basic	<b>126.5p</b>		<b>90.8</b>	107.5p		76.1

Reported revenue increased by 19% to £1,200.3m (2022: £1,012.8m), consisting of organic growth of 8%, an 8% net contribution from acquisitions and disposals, and a 3% benefit from foreign exchange translation. During the year, the Group disposed of Hawco, which contributed £15.1m to Group revenues in FY23 (2022: £30.7m).

Adjusted operating profit increased by 24% to £237.0m (2022: £191.2m) as the operational leverage from the increased revenue, disciplined cost management and accretive acquisitions drove an 80bps year-on-year improvement in the adjusted operating margin to 19.7% (2022: 18.9%).

Statutory operating profit increased 27% to £183.3m (2022: £144.3m), benefitting from a £12.2m profit on disposal of Hawco, compared with a net gain on disposal of £7.3m in the prior year relating to the disposal of Kentek and a1-envirosciences.

Net adjusted finance expense increased to £20.4m (2022: £11.6m), principally due to the impact of higher interest rates, in particular in the second half of the year. Average gross debt remained broadly consistent with prior year with the proceeds from the equity raise in March being utilised, as intended, to finance acquisitions during the year. The all-in, blended cost of bank debt increased to 5.6% (2022: 2.8%).

Adjusted profit before tax increased 21% to £216.6m (2022: £179.6m). Statutory profit before tax was £155.6m (2022: £129.5m) and is stated after charging acquisition and other related charges, and acquisition related finance charges. Acquisition and other related charges of £53.7m (2022: £46.9m) principally comprise of the amortisation of acquisition related intangible assets of £52.9m (2022: £42.4m), £6.3m of acquisition related expenses (2022: £10.5m), £5.9m of fair value adjustments to inventory acquired through acquisition recognised in cost of inventories sold (2022: £nil) and partly offset by a net gain of £12.2m (2022: £7.3m) from the disposal of Hawco in the year. Acquisition related finance charges of £7.3m (2022: £3.2m) principally comprise of fair value remeasurement of put options for future minority purchases of £1.8m (2022: £1.4m) and amortisation and write-off of capitalised borrowing fees on acquisition related borrowings of £5.9m (2022: £1.4m).

## FINANCIAL REVIEW CONTINUED

We are committed to being a responsible taxpayer and our approach is to comply with tax laws in the countries in which we operate and to pay our fair share of tax. The Group's tax strategy was approved by the Board and is published on our website. The Group's adjusted effective rate of tax on adjusted profit before tax was 24.0% (2022: 25.0%) reduced from the year ended 30 September 2022 largely due to non-recurring items from the prior year.

Adjusted earnings per share increased by 18% to 126.5p (2022: 107.5p). Basic earnings per share increased by 19% to 90.8p (2022: 76.1p). An equity raise was completed in March 2023, resulting in a 7.5% increase (9,350,965 new shares) in the issued ordinary share capital. As at 30 September 2023, the average number of ordinary shares (which includes any potentially dilutive shares) was 130,260,868 (2022: 124,855,007) and the weighted average number of ordinary shares in issue was 129,675,581 (2022: 124,533,060).

**RECOMMENDED DIVIDEND**

The Board has a progressive dividend policy that aims to increase the dividend each year by 5%. In determining the dividend, the Board considers a number of factors which include the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long-term growth strategy and the target level of dividend cover.

For FY23, the Board has recommended a final dividend of 40.0p per share, making the proposed full year dividend 56.5p (2022: 53.8p). This represents a 5% increase in the full year dividend per share with a dividend cover of 2.2x EPS, continuing the Group's progressive dividend track record.

**CASH FLOW**

Our capital-light business model, coupled with balance sheet and capital discipline drives strong and consistent cash conversion and ROATCE and maintains prudent leverage.

Free cash flow increased by 36% to £163.8m (2022:£120.4m). Statutory cash flow from operating activities increased by 42% to £257.3m (2022: £180.6m). Free cash flow conversion for the year was 100% (2022: 90%), ahead of our targeted 90%+ model, demonstrating the highly cash-generative qualities of our businesses and the results of targeted inventory reductions.

	Year ended 30 Sep 2023 £m	Year ended 30 Sep 2022 £m
<b>Funds flow</b>		
Adjusted operating profit	237.0	191.2
Depreciation and other non-cash items	30.5	24.6
Working capital movement	(4.2)	(25.5)
Interest paid, net (excluding borrowing fees)	(17.9)	(8.9)
Tax paid	(41.4)	(39.2)
Capital expenditure, net of disposal proceeds	(21.6)	(5.5)
Lease repayments	(16.7)	(13.5)
Notional purchase of own shares on exercise of options	(1.9)	(2.8)
<b>Free cash flow</b>	<b>163.8</b>	120.4
Acquisition and disposals <sup>1</sup>	(255.3)	(177.5)
Proceeds from issue of share capital (net of fees)	231.9	-
Acquisition of minority interests	-	(0.3)
Dividends paid to shareholders and minority interests	(70.8)	(56.4)
Foreign exchange and other non cash movements	4.6	(33.7)
<b>Net funds flow</b>	<b>74.2</b>	(147.5)
<b>Net debt</b>	<b>(254.7)</b>	(328.9)

<sup>1</sup> Net of cash acquired/disposed and including acquisition expenses, deferred consideration, and payments of pre-acquisition debt-like items.

Depreciation and other non-cash items includes £28.6m (2022: £23.9m) of depreciation and amortisation of tangible, intangible and right of use assets and £1.9m (2022: £0.7m) of other non-cash items, primarily share-based payments expense.

Working capital increased by only £4.2m despite a 19% increase in revenue. This was largely driven by a £10.8m decrease in inventory as a result of strategic focus in this area as supply chain constraints have eased.

Interest payments increased by £9.0m to £17.9m (2022: £8.9m) in line with increased interest charges. Tax payments increased by £2.2m to £41.4m (2022: £39.2m) with the cash tax rate reducing to 19% (2022: 22%) due to the timing of tax payments. Our effective cash tax rate remains lower than our Group effective tax rate, mainly due to acquisition goodwill which is deductible for US tax purposes.

Capital expenditure increased by £16.1m, largely driven by scaling investments in Shoal Group, Hercules Aftermarket and R&G. FY22 benefitted from £9.9m of proceeds from disposal of property, plant and equipment.

The Group funded the Company's Employee Benefit Trust with £1.9m (2022: £2.8m) in connection with the Company's long term incentive plan.

The Group received net proceeds of £231.9m from an equity raise completed in March 2023, to enable the refinancing of the acquisition of T.I.E., and provide greater flexibility to execute further acquisitions. Dividends of £70.8m (2022: £56.4m) were paid to ordinary and minority interest shareholders.

This strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2023, the Group's Net Debt (excluding IFRS 16 lease liabilities) stood at £254.7m (2022: £328.9m).

## ACQUISITIONS ACCELERATE GROWTH

In fragmented markets, we deploy capital selectively and with discipline, to acquire quality businesses which accelerate strategic execution; build scale; broaden our portfolio; and accelerate organic growth.

Net cash flow from acquisitions and disposals of £255.3m, which includes £6.0m of acquisition fees, comprises the spend for DICSA of £159.7m and T.I.E. of £75.1m; £23.7m principally relating to ten smaller bolt-on businesses; and £12.3m of deferred consideration relating to previous acquisitions; partly offset by net proceeds of £21.5m from the disposal of Hawco, a lower growth, lower margin business.

The Group's acquisition liabilities to shareholders of acquired businesses at 30 September 2023 reduced to £22.6m (2022: £31.4m) and comprised both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior years.

- The liability to acquire minority shareholdings outstanding relates to a 10% interest held in M Seals, 5% interest in Techsil, a 2% interest in R&G and a 5% interest in Pennine Pneumatic Services. These options are valued at £9.2m (2022: £7.4m), based on the latest estimate of EBIT when these options crystallise.
- The liability for deferred consideration payable at 30 September 2023 was £13.4m (2022: £24.0m). This liability represents the best estimate of any outstanding payments based on the expected performance of these relevant businesses during the measurement period. The reduction in the year is primarily due to the revaluation and settlement of deferred consideration for Kungshusen and R&G.

Goodwill at 30 September 2023 was £439.1m (2022: £372.3m). Goodwill is assessed each year to determine whether there has been any impairment in the carrying value. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value at the year end.

## ATTRACTIVE RETURNS

ROATCE is a key metric used to measure our success in creating value for shareholders. It is a metric that drives ongoing capital and operating discipline, adding back amortised intangibles and other factors such as any impaired goodwill such that any improvement must be driven by true economic factors. As at 30 September 2023, the Group's ROATCE increased by 80 basis points to 18.1% (2022: 17.3%). This increase was primarily driven by strong operating profit growth from the existing businesses, but was supplemented by the bolt-on acquisitions completed during the year which generate year 1 returns of 20%. This increase in ROATCE was delivered despite the dilutive impact of the DICSA and T.I.E. acquisitions which, when acquired with a combined 9x EBIT multiple, naturally constrain year one returns. We expect both of these acquisitions to reach 20% returns over the medium term.

## IMPROVED FUNDING

On 17 July 2023, the Group entered into a new committed multi-currency revolving credit facility agreement (RCF) with an aggregate principal amount of £555.0m. The RCF is due to expire in July 2028 with an option to extend for two further 12 month periods. The RCF replaced the Group's previous debt facility agreement which as at 30 September 2022 comprised an RCF with an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m (\$127.5m), a bullet term loan for an aggregate principal amount of £59.1m (\$66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m.

At 30 September 2023, net debt of £254.7m (2022: £328.9m) represented leverage of 0.9x (2022: 1.4x) against a banking covenant of 3.5x (2022: 3.0x). The Group maintains strong liquidity, with year end headroom (comprised of undrawn committed facilities and cash funds) of £297m (2022: £204m).



## FINANCIAL REVIEW CONTINUED

The table below outlines the composition of the Group's net debt at 30 September 2023:

TYPE	CURRENCY	AMOUNT	GBP EQUIVALENT	INTEREST RATE EXPOSURE
RCF	USD	\$200.0m	£163.9m	SOFR fixed at 3%
RCF	EUR	€181.0m	£157.0m	Floating
Overdraft facilities			£0.3m	Floating
Capitalised debt fees net of accrued interest			£(4.1)m	
<b>Gross debt drawn at 30 September 2023</b>			<b>£317.1m</b>	
Cash & equivalents at year end			£(62.4)m	
<b>Net debt at 30 September 2023</b>			<b>£254.7m</b>	

### PENSIONS

The Group maintains a legacy closed defined benefit pension scheme in the UK. In the year, the Group funded this scheme with cash contributions of £0.6m (2022: £0.6m) which increases annually on 1 October by 2%. In Switzerland, local law requires our Kubo business to provide a contribution-based pension for all employees, which is funded by employer and employee contributions. The cash contribution to the scheme was £0.5m (2022: £0.5m). Both schemes are accounted for in accordance with IAS 19. At 30 September 2023, the UK defined benefit scheme was in a surplus position of £6.8m (30 September 2022: £6.4m) reflecting a slight rise in corporate bond yields and a slight fall in the market's expectation of future inflation. The Kubo scheme is not material.

### EXCHANGE RATES

A significant proportion of the Group's revenue (ca.80%) is derived from businesses located outside the UK, principally in the US, Canada, Australia and continental Europe. Compared with FY22, the average Sterling exchange rate is weaker against the US dollar and the Euro, while stronger against the Canadian and Australian dollars. The impact from translating the results of the Group's overseas businesses into UK sterling has led to an increase in Group revenues of £17.5m; an increase in the Group's adjusted operating profit of £4.1m; and a reduction in net debt of £14.9m, compared with the same period last year.

### GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this announcement and further detailed in the Annual Report & Accounts, which also includes an assessment of the Group's longer term viability.

The Directors have undertaken a comprehensive review of going concern, taking into account the updated financing of the Group against a number of economic scenarios, to consider whether there is a risk that the Group could breach either its facility headroom or financial covenants.

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business by business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep declines in revenues and operating margins resulting in materially adverse cash flows. These sensitivities factor in a continued unfavourable impact from a prolonged downturn in the economy. Both scenarios indicate that the Group has significant liquidity and covenant headroom on its borrowing facilities to continue in operational existence for the foreseeable future.

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

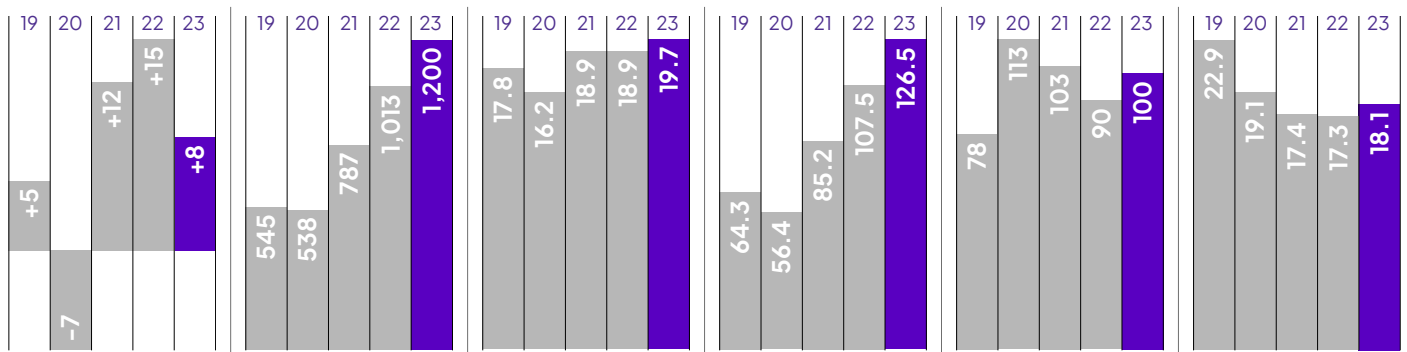
KEY PERFORMANCE INDICATORS

# EXCITING GROWTH POTENTIAL

Another year of strong performance against our strategic objectives (as set out on pages 12–17), our financial model (see page 10) and our ESG framework (see pages 54–66).

→ SEE OUR NON-FINANCIAL KPIS ON PAGE 54

FINANCIAL KPIS



**ORGANIC REVENUE GROWTH (%)**

Organic revenue growth is our first priority. We focus on products and solutions which are critical to customers’ needs, giving resilience to revenues. We target mid-single digit organic growth.

Performance

7%

five-year average

**REPORTED REVENUE GROWTH (£M)**

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

Performance

20%

five-year compound

**ADJUSTED OPERATING MARGIN (%)**

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

Performance

18%

five-year average

**ADJUSTED EPS (P)**

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.

Performance

18%

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%+.

Performance

97%

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.

Performance

19%

five-year average

## INTERNAL CONTROL AND RISK MANAGEMENT

# MANAGING RISK

Effective risk management is a key component of the discipline that underpins sustainable quality compounding.

Our risk management framework supports informed risk taking by our businesses. It sets out those risks that we are prepared to be exposed to and the risks that we want to avoid, together with the processes and internal controls necessary to evaluate the exposures and ensure they remain within our overall risk appetite.

This framework also provides the basis for the businesses to anticipate threats to delivering for their customers and ensures we are resilient to risks we have limited control over.

Our governance processes continue to evolve in support of the Group's strategic objectives. By improving our understanding and management of risk, we provide greater assurance to our shareholders, employees, customers, suppliers, and the communities in which we operate.

### OUR 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.



## OUR APPROACH

Risk management and the oversight of appropriate systems of control are ultimately the responsibility of the Board, with responsibility for overseeing the effectiveness of the internal control environment delegated to the Audit Committee. Group Internal Audit provides independent assurance that the Group's risk management, governance and internal control processes are operating effectively. Each of our businesses is accountable for managing risks effectively. We have continued to broaden our risk management and governance by developing horizon scanning for emerging and potential risks, and enhancing efficiency of management and governance procedures.

## RISK APPETITE

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

We have three levels of risk appetite:

- Averse: take steps to avoid risk
- Cautious: take steps to mitigate risk
- Tolerant: accept risk

## IDENTIFYING AND MONITORING MATERIAL RISKS

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

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

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

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

## EMERGING RISKS AND OPPORTUNITIES

The Board also considers potential risks and opportunities that could impact our Group in the future. The risk management framework enables early identification of emerging risks and opportunities so that they can be tracked and evaluated thoroughly at the appropriate time with any potential exposure assessed. This allows the Board to determine if the Group is adequately prepared for the situation. During the year, 'Climate Change', previously identified as an emerging risk, has been transferred to the Group's principal risk register and separated into the direct impact of adverse weather versus the impact of increased legislation in line with our TCFD climate assessment.

INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s decentralised operating model helps mitigate the potential impact of our principal risks.

The risks summarised below represent the principal risks and uncertainties faced by the Group, and the steps taken to mitigate them. These have been determined by the Board, using the robust risk evaluation described on the previous page, as having the potential to have a material impact to the performance, position or future prospects of the Group.

There have been some changes to the Group’s principal risks during the year:

- Two climate-related risks: maximum legislation and maximum impact, have been added to incorporate our TCFD risk assessment.
- Supply Chain has been disaggregated into loss of key suppliers and supply chain disruption given the differing nature of the mitigating actions.

- Inflationary environment and foreign currency have been removed from the register of principal risks as they are part of the underlying operating environment, managed through standard operating procedures.

The Group’s medium/high risks have been identified in the upper right four quadrants of the matrix. These risks and their corresponding mitigating actions are summarised in the table overleaf.

#### GROUP RISK MATRIX

PROBABILITY	Likely 50–90% chance		11	
	Moderate 10–50% chance	1, 2, 3, 13	8, 9, 4, 14	5, 6, 15
	Unlikely 1–10% chance		10, 7, 12	
		Minor Some disruption possible	Moderate Significant time/resources required	Major Potential for severe damage
		CONSEQUENCES		

#### Operational

- 1 Health & Safety
- 2 Inventory obsolescence
- 3 Key systems failure
- 4 Unsuccessful acquisition
- 5 Failure to attract, develop & retain talent
- 6 Cyber attack
- 7 Product liability

#### Strategic

- 8 Supply chain disruption
- 9 Loss of key supplier
- 10 Loss of key customer

#### Macro

- 11 Climate - max legislation
- 12 Pandemic
- 13 Climate - max impact
- 14 Prolonged market downturn
- 15 Geopolitical trade issues

#### Risk assessment

- High risk
- Medium risk
- Low risk



**PRINCIPAL RISK**

**UNSUCCESSFUL ACQUISITION**

**Risk category**  
Operational

**Board risk appetite**  
Cautious

**Change in risk**



The acquisition pipeline remains healthy and we retain our disciplined approach to acquiring high-quality, value-enhancing businesses.

**RISK DESCRIPTION AND ASSESSMENT**

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**

Diploma has a strong history of executing a clearly defined, disciplined acquisition approach to acquire high-quality, value-enhancing businesses.

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

A formal due diligence process is followed for every acquisition, with close supervision by the CEO, CFO 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.

**FAILURE TO ATTRACT, RETAIN AND DEVELOP TALENT**

**Risk category**  
Operational

**Board risk appetite**  
Cautious

**Change in risk**



This risk remains elevated due to tight labour markets affecting candidate availability and retention, upward pressure on wage levels in certain geographies, and changing expectations of working environments.

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

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



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

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



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



## INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
<p><b>CYBER ATTACK</b></p> <p><b>Risk category</b> Operational</p> <p><b>Board risk appetite</b> Cautious</p> <p><b>Change in risk</b></p> <p></p> <p>The risk of cyber attacks remains high.</p>	<p>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.</p> <p>Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable.</p> <p>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.</p>	<p>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.</p> <p>All businesses in the Group have a robust cyber security programme and we regularly engage with cyber security experts to continuously improve and strengthen our IT systems.</p> <p>A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business.</p> <p>Business continuity plans exist for each business with ongoing testing.</p>
<p><b>SUPPLY CHAIN DISRUPTION</b></p> <p><b>Risk category</b> Strategic</p> <p><b>Board risk appetite</b> Cautious</p> <p><b>Change in risk</b></p> <p></p> <p>This risk is less acute than in the prior year, and our supplier relationships remain strong, supported by the ongoing rollout of our Supplier Code.</p>	<p>The risk of manufacturing lead times increasing as a result of supply chain shortages or supply chain partners not operating to the same ethical standards as Diploma.</p>	<p>We maintain strong relationships with suppliers and keep customers updated of any changes to retain key business.</p> <p>Meeting with key customers regularly to gain insight into their product requirements and market developments.</p> <p>We work with our supply chain partners to help them meet our standards of acceptable working conditions, financial stability, ethics and technical competence. Our key suppliers are also asked to adhere to our Supplier Code. If they are unable to meet the standards expected then we will source product elsewhere.</p>

-  Increase
-  No change
-  Decrease
-  New risk

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
<p><b>LOSS OF KEY SUPPLIER</b></p> <p><b>Risk category</b> Strategic</p> <p><b>Board risk appetite</b> Cautious</p> <p><b>Change in risk</b> </p> <p>The continued growth and diversification of the Group effectively reduces the materiality of any loss of supplier.</p>	<p>The risk that a key supplier revokes a supply agreement and accesses the market through a competitor or directly.</p> <p>In certain businesses there is a disintermediation risk where a supplier may go direct to market rather than via a distributor.</p>	<p>The key mitigation is the value-add service we provide to our supply partners, enabling them to access markets in the most efficient and effective way.</p> <p>We continue to pursue diversification strategies and regularly seek alternative sourcing.</p> <p>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.</p>
<p><b>CLIMATE - MAX LEGISLATION</b></p> <p><b>Risk category</b> Macro</p> <p><b>Board risk appetite</b> Tolerant</p> <p><b>Change in risk</b> </p> <p>This is a new risk identified by our TCFD scenario analysis.</p>	<p>The risk of increasing environmental legislation that adds cost or complexity to products and services and/or renders some products obsolete.</p>	<p>Our businesses are close to their customers; have the technical expertise to specify compound materials; and enjoy long-term, meaningful relationships with their suppliers. We expect them to pivot and adapt in line with legislation. We have seen examples of this already, with North American Seals businesses promoting and identifying PFAS-free products to customers.</p> <p>Our Group has set net zero targets across our value chain. We expect our businesses to incorporate this into their value-add offering and see this as a competitive advantage for customers that wish to decarbonise their supply chain.</p> <p>Given that many of our businesses are small-to-medium sized, few of their competitors have the same access and resources to analyse and progress against emissions reduction targets.</p>

## INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

**PRINCIPAL RISK****PROLONGED MARKET DOWNTURN****Risk category**

Macro

**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 geographies and 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 MRO applications, rather than original equipment manufacture.

**GEOPOLITICAL TRADE ISSUES****Risk category**

Macro

**Board risk appetite**

Averse

**Change in risk**

This risk remains elevated in certain geographies, including due to ongoing events such as the conflicts in Ukraine and the Middle East.

Diploma operates in established economies with stable political and legal systems with immaterial exposure to current geopolitical 'hot spots' such as Russia and the Middle East.

Geopolitical events that could disrupt the Group's operations include:

- Interruption of trade agreements;
- Change of trade or tariff relationships between countries in which we operate;
- Government budget spending; and
- Political elections.

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



## 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 2026, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting.

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

The Directors confirm that this robust assessment also considers the principal risks facing the Group, as described on pages 44 to 48, and the potential impacts these risks would have on the Group's business model, future performance, solvency or liquidity over the assessment period. The Board considers that the diverse nature of the Sectors and geographies in which the Group operates acts significantly to mitigate the impact any of these risks might have on the Group.

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

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

The results of flexing these assumptions, in aggregate to reflect a severe but plausible scenario, are used to determine whether additional bank facilities will be required during this period. The Group has significant financial resources including banking facilities as detailed on pages 157 - 158. The Group also has a broad spread of customers and suppliers across different geographic areas and independent market sectors, often secured with longer-term agreements. The Group is further supported by a robust balance sheet and strong operational cash flows.

In addition, the Group has also carried out reverse stress tests against the base case financial projections to determine the conditions that would result in a breach of financial covenant. The conclusion of this was that the conditions required to create the reverse stress test scenarios on revenue, operating margin and cash flows were so severe that they were implausible.

The Directors therefore 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 2026. The Directors' assessment has been made with reference to the resilience of the Group as evidenced by its robust performance since 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.

## ENGAGEMENT WITH STAKEHOLDERS AND SECTION 172 STATEMENT

# EMBEDDING STAKEHOLDER VIEWS, GUIDED BY OUR PURPOSE

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

### **S172**

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.

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

### **STAKEHOLDER ENGAGEMENT**

The Board is committed to effective engagement with all stakeholders and has established a culture that ensures this commitment is adopted within our businesses. Directors consider the views and interests of a wide set of stakeholders and are conscious that expectations around our performance and contribution to society – from local to global – are both diverse and continuously evolving.

Stakeholder interactions take place at all levels of the Group and an essential component of our strategy is that we recognise the value of autonomy and ensure that decisions are made at the appropriate level.

The Board will sometimes engage directly with stakeholders on certain issues where appropriate to do so, but the decentralised nature of our Group and resultant distribution of our stakeholders mean that some stakeholder engagement is more appropriate at an operational level.

Our governance framework delegates authority for local decision-making to the appropriate level within a defined set of parameters. This allows Sectors and businesses to take account of the needs of their own specific key stakeholders in their decision-making. Our strong management teams make decisions with a long-term view and to the highest standards of conduct in line with overarching Group governance.

The Board receives and debates regular reports from the Executive Team, who in turn have continuing dialogue with Sector and business management, to help it understand and assess the impact of our business, and the interests and views of our key stakeholders.

It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. All Group and subsidiary board papers must demonstrate that relevant stakeholder perspectives and needs have been considered as part of the decision-making process. As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enable the Directors to comply with their legal duties under s172 of the Companies Act 2006 and therefore improve decision-making.

Please see pages 85 to 87 for details on how the Board operates and the way in which the Board and its Committees reach decisions, including the matters we discussed during the year.

## HOW STAKEHOLDER INTERESTS HAVE INFLUENCED DECISION-MAKING

Decisions taken by the Board and its Committees consider the interests of our key stakeholders, the impacts of these decisions and the need to foster the Company's business relationships with customers, suppliers and other stakeholders. The Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By considering the Group's purpose and values together with its strategic priorities and having a process in place for decision-making, Directors aim to balance those different perspectives.

Throughout this Strategic Report, the Board has sought to demonstrate how the views of our stakeholders are embedded in how we do business, guided by our clear purpose. Details of the matters considered by the Board during the year can be found on page 79.

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

### EQUITY PLACING

In March 2023, following consultation with key shareholders, the Company raised 9,350,965 new ordinary shares, resulting in a 7.5% increase in the issued ordinary share capital with gross proceeds of approximately £236m. The Board was confident that the proceeds of the capital raise could be deployed against strongly value-enhancing opportunities, whilst maintaining rigorous discipline to capital allocation.

### DIVIDEND

One of the principal decisions considered by the Board over the year has been in relation to returning value to shareholders. The Board has adopted a progressive dividend strategy, which considers our shareholders' expectations, the Company's liquidity position, and the financial resources required to execute our strategy.

### ACQUISITIONS

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



ENGAGEMENT WITH STAKEHOLDERS AND SECTION 172 STATEMENT CONTINUED

HOW WE ENGAGE WITH OUR STAKEHOLDERS



**OUR COLLEAGUES**

**WHY WE ENGAGE**

Diploma’s success depends on its ability to attract and retain qualified and experienced employees.

**HOW WE ENGAGE**

- Group Colleague Engagement Survey, listening groups and engagement plans
- Regular business visits
- Consistent talent and performance management approach
- Internal communications through Purple Pages, our Group-wide internal newsletter, regular CEO videos and internal memos
- Employee Assistance Programme
- Talent development, DVR governance and training via our Group learning management system
- Regular updates from the Group CEO, Group HR Director, Group Corporate Development Director and Sector CEOs
- Feedback from the Group Colleague Engagement Survey
- Bi-annual facility visits

**OUTCOMES/ACTION TAKEN**

Following the engagement survey results, the Board is aware of areas of improvement and the following actions were taken:

- Colleague champion nominations
- Workshops delivered on DEI and Women’s focus groups
- Mental health first aiders

Training & development initiatives:

- Launched the Leadership at Scale Programme, attended by 35 senior colleagues
- Apprenticeship Week celebration



**OUR BUSINESSES**

**WHY WE ENGAGE**

It is imperative that we maintain good levels of engagement with our businesses to support 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 SLT meetings
- In-person Sector conferences
- CEO updates
- Regular updates from Sector CEOs
- Business visits – this year our Board visited Acernis Medical in Canada, and Simonsen & Weel in Denmark

**OUTCOMES/ACTION TAKEN**

- Onboarding programmes for all acquisitions, including DICSA and T.I.E.
- Celebration of apprentices, who visited head office to meet senior management, meet other apprentices, and learn about Diploma



**OUR CUSTOMERS**

**WHY WE ENGAGE**

We are focused on customer satisfaction and delivering an excellent value-add service. We remain engaged with our customer base, to receive feedback for continuous improvement and to build long-lasting relationships.

**HOW WE ENGAGE**

- Decentralised model: individual businesses have close customer relationships and are responsive to their needs
- Conferences and trade events
- Long-term relationships
- CEO reports
- Updates from Sector CEOs
- Risk management

**OUTCOMES/ACTION TAKEN**

- Product innovations across Life Sciences and other Sectors
- Workshops and customer education at our facilities
- Providing value-add services



## OUR SUPPLY CHAIN

### WHY WE ENGAGE

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

### HOW WE ENGAGE

- Decentralised model: individual businesses maintain close relationships with suppliers
- Regular engagement, including audits as appropriate
- Supply Chain Policy
- Clear payment practices
- Updates from Group CEO and Sector CEOs
- Supply chain reporting
- Modern Slavery Statement
- Risk management

### OUTCOMES/ACTION TAKEN

- Strong, mutually beneficial partnerships
- Increased number of key suppliers signed up to Group Supplier Code
- Ongoing collaboration to realise innovation
- Strategic alignment and growth opportunities



## OUR INVESTORS

### WHY WE ENGAGE

We are committed to maintaining an open and constructive dialogue with our shareholders, keeping them informed on performance and strategy so that they can fairly value the Company and ensure our continued access to capital.

### HOW WE ENGAGE

- Results presentations by CEO and CFO
- One-on-one meetings undertaken by CEO, CFO and Head of Investor Relations throughout the year, including results roadshows
- Annual General Meeting
- Trading updates, regulatory news items and website updates
- ESG rating schemes
- Responses to general investor enquiries
- CEO and CFO feedback on results
- Engagement with the Chair and Committee Chairs as appropriate; including consultation with shareholders on remuneration and the new remuneration policy
- Shareholder briefings and investor relations update by the Head of Investor Relations
- Approval of trading updates, half year and full year results and RNSs
- Reviews of analysts' research

### OUTCOMES/ACTION TAKEN

- Updated website, providing investors (both current and prospective) with a better understanding of our past and current performance, regulatory announcements, strategy and various reports
- Investor Seminar took place in June this year



## ENVIRONMENT AND COMMUNITIES

### WHY WE ENGAGE

We value local engagement with our communities. We are committed to conducting business sustainably, targeting net zero and creating long-term value for stakeholders.

### HOW WE ENGAGE

- The Group matches donations fundraised by the businesses
- Group Environmental Policy
- More frequent greenhouse gas emissions reporting
- Integrated waste reporting
- DVR governance and workshops
- Training key roles to achieve net zero targets
- CEO reports
- Updates from biannual DVR Committees
- Training on climate-related issues and trends

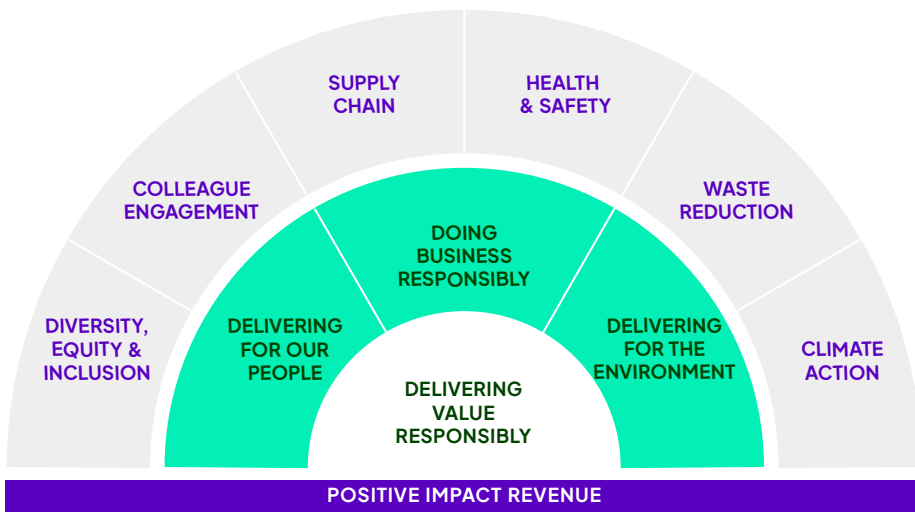
### OUTCOMES/ACTION TAKEN

- As a result of the aforementioned engagement activities, the following actions were taken:
- Continuing initiatives for business relocations to more energy efficient facilities where possible
  - Continuing to transition to renewable energy by partnering with electric companies and investing in technological advancements
  - Positioning the businesses to support the transition to a lower carbon economy

# DELIVERING VALUE RESPONSIBLY

## GROWTH WITH POSITIVE IMPACT

We are determined to make a difference. For our Delivering Value Responsibly (DVR) framework, that means that we need objectives that are linked to our business model and embedded in the business strategy and commercial and operational activities.



### NON-FINANCIAL KPIS

These are the metrics we use to measure progress against our DVR framework and wider strategy.

<p><b>COLLEAGUE ENGAGEMENT</b></p> <p><b>80%</b></p> <p>2022: 79%</p>	<p><b>KEY SUPPLIERS ALIGNED TO SUPPLIER CODE</b></p> <p><b>73%</b></p> <p>2022: 59%</p>	<p><b>EMISSIONS INTENSITY (TONNES PER £1M REVENUE)</b></p> <p><b>7.2</b></p> <p>2022: 7.4</p>
<p><b>WOMEN IN SENIOR MANAGEMENT TEAM POSITIONS</b></p> <p><b>28%</b></p> <p>2022: 27%</p>	<p><b>LOST TIME INCIDENT RATE (LTIS PER 1,000 EMPLOYEES)</b></p> <p><b>9.5</b></p> <p>2022: 10.6</p>	<p><b>WASTE TO LANDFILL</b></p> <p><b>32%</b></p> <p>2022: 60%</p>





# 01

## DELIVERING FOR OUR PEOPLE

We are building an engaged and diverse workforce, who can reach their full potential as part of Diploma.

Our colleagues are the foundation of our business. They deliver for our customers, execute against our strategy and are essential to our ongoing success. It is critical that we continue to support their success.

**Developing our leaders at pace.**  
Our businesses are run by our brilliant leaders. We must continue to develop them as our Group and businesses scale.

**Colleague engagement.**  
Our colleagues have great technical expertise and in-depth knowledge

of their customers and markets. Engagement helps us to retain that talent and nurture the unique culture that binds us.

**Developing our emerging talent.**  
We must continue to deepen our breadth and depth of expertise in the areas that make the biggest difference to our businesses.

**We continue to focus on DEI**  
to ensure that all our colleagues are given the opportunity to succeed.



**DONNA CATLEY**  
GROUP HR DIRECTOR

“We need exceptional leaders who are empowered to lead, when coupled with our ambitious growth we have a very compelling people proposition.”

DELIVERING VALUE RESPONSIBLY  
DELIVERING FOR OUR PEOPLE CONTINUED

PERFORMANCE AGAINST OUR TARGET

FOCUS AREA	FY30 TARGET	FY23 PERFORMANCE AGAINST TARGET	FY22 COMMITMENTS	FY23 PERFORMANCE AGAINST COMMITMENTS
<p><b>COLLEAGUE ENGAGEMENT</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	Maintain an engagement index of 70%+	<ul style="list-style-type: none"> <li>Engagement index score of 80% - an increase on FY22 score of 79%</li> </ul>	<ul style="list-style-type: none"> <li>Build out our learning management system</li> <li>Continued focus on wellbeing and mental health</li> <li>HR network to support best practice</li> <li>Continued leadership development</li> </ul>	<ul style="list-style-type: none"> <li>Our learning management system, 'Purple Portal' has been rolled out across the Group</li> <li>Continued focus on mental health during the year: celebrations of world mental health day, business-led initiatives, and Group-led workshops</li> <li>Bolstered HR capability with HR network established and HR leadership event held in US</li> <li>Successful delivery of our Leadership at Scale Development Programme</li> <li>Colleague engagement plans in place at every business</li> </ul>
<p><b>DIVERSITY, EQUITY &amp; INCLUSION</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	Women to represent 40%+ of Senior Management Team (SMT)	<ul style="list-style-type: none"> <li>Female talent retention and planning part of business and strategy reviews</li> <li>DEI policy implemented across the Group</li> <li>Engagement initiatives across the Group, including equity workshops and women's listening groups held with over 100 women, including key senior talent to help define our areas of focus</li> </ul>	<ul style="list-style-type: none"> <li>Succession planning</li> <li>Implementing the Diversity, Equity and Inclusion Policy across the Group</li> <li>Further learning and knowledge sharing</li> </ul>	<ul style="list-style-type: none"> <li>Increase in female representation at SMT</li> </ul>

**1. COLLEAGUE ENGAGEMENT**

In 2023, we surveyed colleagues across the Group for the third time. We are delighted to have maintained our high response rate of 86%. Our overall engagement score increased to 80%, compared with 79% in FY22.

There were some areas of standout success. 88% of colleagues told us they feel empowered to do their job. This was further supported by high scores relating to clarity on objectives at work, as well as our culture of teamwork and collaboration.

We are proud to hear that women and colleagues identifying as

belonging to an ethnic minority are as engaged, or more engaged than white, male colleagues.

However, we are not complacent and recognise that there is more work to do. We need to continue strengthening communication ties and ensure colleagues have access to the learning and progression opportunities that come with a growing business. Every business is now working hard to co-create action plans informed by our colleagues' feedback.

Retention is equally important and we are pleased to have reduced our

overall voluntary attrition by 4% in the last year (21.7% to 17.7%), this is especially significant given the context of the UK/US labour market.

88%

of colleagues told us they feel empowered to do their job

## 2. DEVELOPING LEADERS AT PACE

Our decentralised model spans 16 business units, three Sectors and multiple geographies. It's a model that puts our customers at the heart of what we do, promotes local ownership, empowers our leaders to make the right decisions for their business, and drives a culture of accountability and ambition. The best decisions are made by leaders who are closest to our customers, employees and markets.

To ensure the success of this model we need exceptional leaders who are empowered to lead their business. This ownership, when coupled with our ambitious growth makes our people proposition very compelling.

To accelerate the development of our leaders we have invested in bespoke leadership development targeted at supporting both Senior and Future Leaders as they consider how to Lead at Scale.

It is an opportunity for us to build relationships across our global business and share best practice. Following the success of this year's programme, which was attended by over 30 of our senior leaders, we will be extending the programme further across Europe, US and Australia during FY24.

## 3. MENTAL HEALTH & WELLBEING

We are mindful of the potential impact that working environments and practices can have on our colleagues.

Our businesses are very engaged in supporting the mental health and wellbeing of their colleagues. Many of our businesses now have trained mental health first aiders in place, whilst others have brought in external expertise to teach colleagues how to build resilience, improve communication and create healthy and sustainable habits. For other businesses, the focus is on building awareness - through 'tea and toast' sessions, Mindfulness Monday or a day every week dedicated to open discussion of mental health.

# ELENA LOCASTRO

## VP OF LIFE SCIENCES NORTH AMERICA

I joined Diploma in 2004, when the business I worked for - Somagen Diagnostics - was acquired. In 2009, I was appointed Managing Director and every year since has offered new challenges and successes as we've grown and scaled the business.

I have recently been promoted to Senior Vice President, North

America for the Life Sciences Sector. It's an exciting and rewarding role, with many opportunities ahead.

During my time at Diploma, I've had the opportunity to focus on talent development and diversification of our businesses. I've enjoyed working with our colleagues to develop exceptional talent within the Sector and it has been rewarding to work with my team to build purpose and culture.





**DELIVERING VALUE RESPONSIBLY**  
**DELIVERING FOR OUR PEOPLE CONTINUED**

**4. DEVELOPING OUR EMERGING TALENT**

We know that the successful development of emerging talent is key to the future of our companies and that is why we are particularly proud of our apprenticeship programme.

For many of our businesses, apprentices are a key source of talent. We work hard to support, develop and upskill our apprentices, who often remain with the Group for decades, adopting a number of roles including, in some cases, Managing Director.

During the year, we also worked to retain and develop key talent by facilitating movement between businesses and secondment of roles into businesses.

We continue to actively work with our businesses to ensure people development is high on the agenda, and we are helping to build out local plans that play an important role in ensuring that we have strong succession pipelines to support our future growth and scale.



**CELEBRATING  
OUR  
APPRENTICES**

**We were delighted to welcome our UK apprentices to the Diploma PLC office to celebrate National Apprenticeship Week in March this year.**

Apprenticeship schemes play a huge role in developing and retaining talent across our businesses.

At our M Seals UK division, 24% of colleagues are either current or former apprentices and 85% of the shop floor team joined as apprentices or school leavers.



### 5. CONTINUED FOCUS ON DIVERSITY AND INCLUSION

Diversity and inclusion is a competitive advantage that can help our businesses grow. We have set an ambition that all our colleagues feel able to bring their full selves to work, fulfil their potential, and benefit from working as part of a diverse team. To realise that vision, we must attract, retain and develop a diverse workforce.

Gender balance - we recognise that we have more to do to drive diversity across our senior team and this is why we have set ourselves the goal of gender parity by 2030. This year our Senior Leadership Team is made up of 28% women, up from 27% in 2022. Our continued focus is producing results - we recently promoted two female leaders to our Life Sciences Executive Team.

We have conducted listening groups with over one hundred women across the Diploma business to hear first-hand their experiences and insights. As a result we will be designing and implementing a global Women in Leadership programme that will be implemented in FY24 and will support the accelerated development of female talent across the Group.

We will also focus on supporting our businesses to hire for diversity - including how to attract and hire.

Recognising the importance of support for mothers returning from maternity leave, we are delighted to announce a partnership with 'Mentor Mums' in the UK. Through this partnership, we aim to enhance our support and coaching for new mothers returning to the workplace.

Race and ethnicity - alongside gender equality, we are building the foundations for greater ethnic diversity. Currently, 8% of our Senior Leadership Team consider themselves to be in an ethnic minority. Growing our ethnic diversity relative to the markets we operate in is our future goal and work is underway to establish a clear baseline for measured future progress.

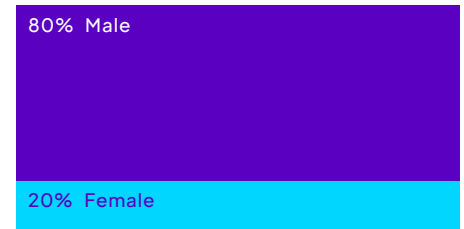
Fostering inclusion - we continue to focus on fostering a culture of inclusion and community. We were pleased to see this reflected in the results of our recent colleague engagement survey.

It is humbling to see how our companies continue to build inclusive businesses and support our people so they can drive the growth of our businesses. This is testament to our culture and organisation model.

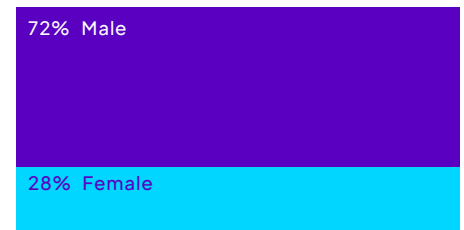
Finally, a huge thanks to our colleagues across the globe who deliver for our customers and colleagues every day.

### Diversity, Equity & Inclusion

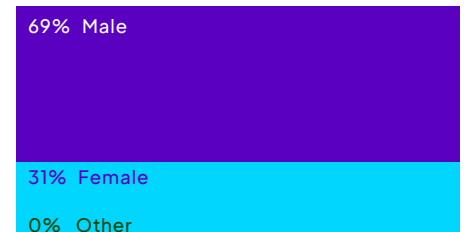
	MALE	FEMALE	OTHER	TOTAL
Reporting to Executives	28	7	0	35



	MALE	FEMALE	OTHER	TOTAL
Senior Management Team	98	39	0	137

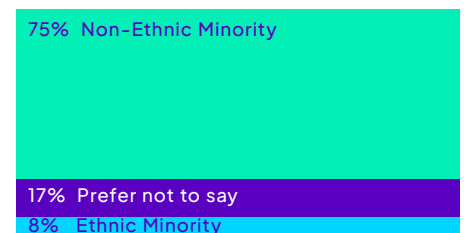


	MALE	FEMALE	OTHER	TOTAL
Employees	2,176	997	1	3,174



### Ethnicity

	ETHNIC MINORITY	NON-ETHNIC MINORITY	PREFER NOT TO SAY	TOTAL
Senior Management Team	11	103	23	137





# 02

## DOING BUSINESS RESPONSIBLY

Ensuring the highest standards of ethics, safety and conduct across our Group.

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.

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.

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 will be to work with our suppliers to tackle climate change and reduce our own impact through more sustainable packaging, logistics and products.



**PHIL PRATT**  
GROUP SUSTAINABILITY DIRECTOR

“Two years on from the establishment of our Delivering Value Responsibly framework, our sustainability agenda aimed at addressing some of the most pressing challenges facing our business and the world, we are on track to reach our FY30 targets.”

**PERFORMANCE AGAINST OUR TARGET**

FOCUS AREA	FY30 TARGET	FY23 PERFORMANCE AGAINST TARGET	FY22 COMMITMENTS	FY23 PERFORMANCE AGAINST COMMITMENTS
<p><b>SUPPLY CHAIN MANAGEMENT</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	85% of key suppliers aligned to supplier code	<ul style="list-style-type: none"> <li>73% of suppliers aligned to code, up from 59% in FY22.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to ensure alignment of key suppliers with Supplier Code</li> <li>Align our Supply Chain Policy and processes with our net zero targets</li> <li>Build our understanding of supplier emissions</li> </ul>	<ul style="list-style-type: none"> <li>Strong progress during the year led by meaningful engagement with suppliers</li> </ul>
<p><b>HEALTH &amp; SAFETY</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	<p>Zero Harm</p> <p>FY23 target: 5% reduction on lost time incident rate (LTI rate)</p>	<ul style="list-style-type: none"> <li>10% reduction on LTI rate</li> </ul>	<ul style="list-style-type: none"> <li>Build positive mental health and wellbeing</li> <li>Continuous improvement and focus on Health &amp; Safety culture</li> <li>Ensure process in place to reduce risks identified by potential hazard reporting</li> </ul>	<ul style="list-style-type: none"> <li>Steady performance against LTI rate undermined by increase in severity of incidents</li> </ul>

**Supply Chain Management**

We have seen a steep improvement in the number of key suppliers aligned to our Supplier Code. 73% of our key suppliers are aligned to our Code, up from 59% in FY22, and accounting for ca. 54% of total Group supplier spend.

Key suppliers are identified by our businesses and must, in aggregate, account for 50% of the Group's supplier spend. They may also include any supplier that is a high-volume or high-spend supplier, a critical component supplier or a non-substitutional supplier.

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



## DELIVERING VALUE RESPONSIBLY DOING BUSINESS RESPONSIBLY CONTINUED

### Health & Safety

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

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

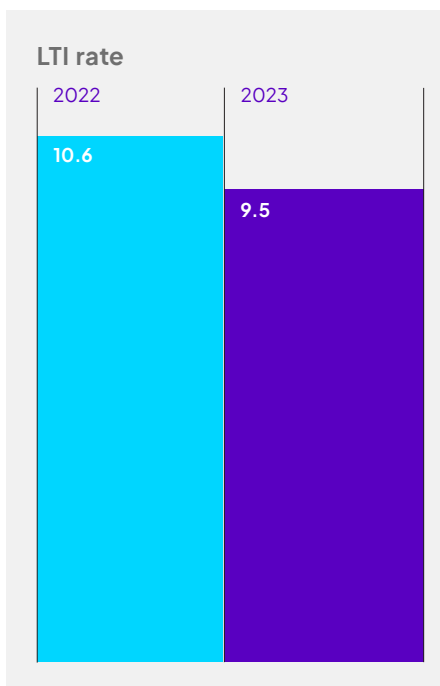
Businesses are responsible for developing and implementing procedures and frameworks to suit their specific circumstances and risk level. However, we expect all businesses to comply with the standards and requirements of our Group policy.

Our guiding principle is that no one should be harmed at work. In order to achieve this, we have focused on identifying and mitigating risks.

Our Health & Safety KPI is our Lost Time Incident (LTI) rate, defined as Lost Time Incidents per 1,000 employees. An LTI is defined as any incident in which time is lost beyond time taken for on-site first aid.

During FY22, we set a target of 5% year-on-year reduction in the LTI rate. In FY23, we recorded a total of 27 LTIs and an LTI rate of 9.5. This represents a 10% decrease on the FY22 rate of 10.6. There were no fatalities in the year.

The majority of our LTIs relate to operations of our warehouses, such as manual handling, slips and trips. We have identified further areas of increased risk from poor use of equipment and programmes are being implemented to address this.



Our focus for FY24 will be to embed the Diploma 'Stand up for Safety' framework to ensure a consistent approach to Health & Safety across all businesses. To support implementation of the framework, we will introduce workshops and enhanced training to ensure strong safety leadership and effective standards and governance, supported by third party audits.

We remain committed to the ongoing safety and wellbeing of all colleagues, and will continue to support our businesses and business leaders in reaching our long-term objective of zero harm.

### Giving Back

Giving back is important to Diploma and this year we've seen a number of creative initiatives across the Group to support local communities and fundraise for charities that are important to our colleagues.

In line with our decentralised model, charitable initiatives are driven by the businesses and matched through Diploma's fundmatching scheme.

During the year, charitable donations across the Group totalled £54,000. No political donations were made.



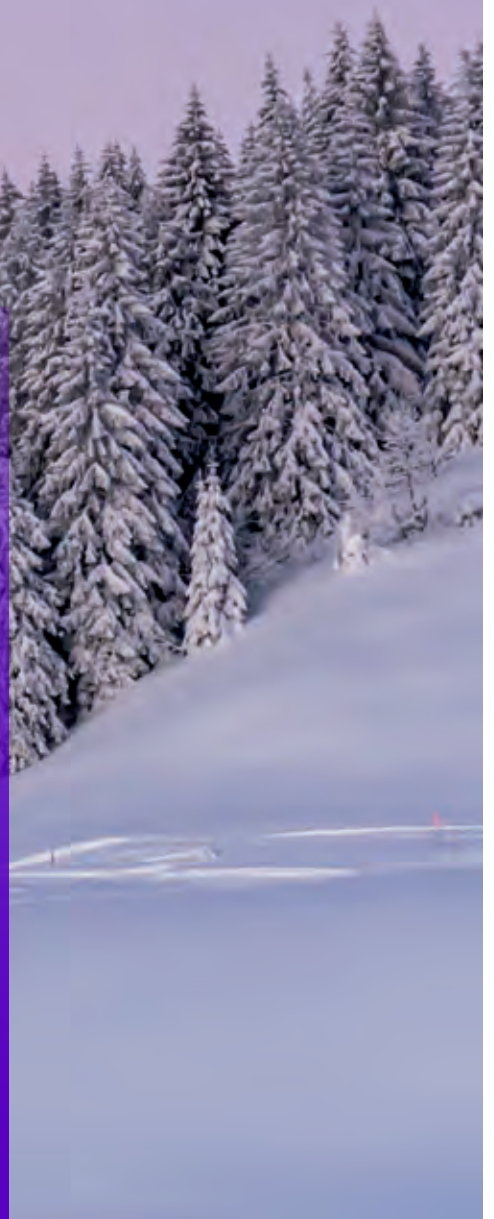
## 03

# DELIVERING FOR THE ENVIRONMENT

We are delivering against our net zero ambitions and positioning the Group to contribute positively to a low-carbon economy.

The climate crisis is urgent and global, we recognise the impact of our value chain 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 how taking action can contribute to long-term value creation and the growth of our businesses.

Our colleagues are increasingly passionate about climate change and expect the Group to drive progress and support business 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 in turn support their net zero goals.



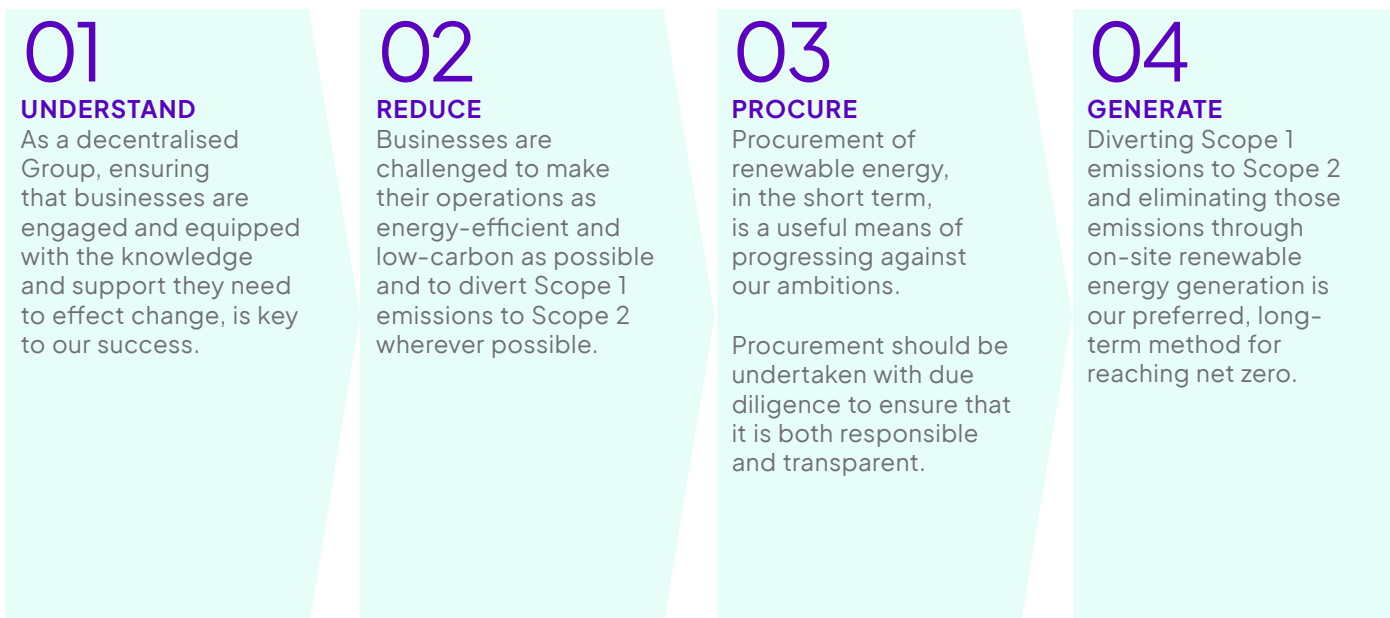
**DELIVERING VALUE RESPONSIBLY**  
**DELIVERING FOR THE ENVIRONMENT CONTINUED**

**PERFORMANCE AGAINST OUR TARGET**

FOCUS AREA	FY30 TARGET	FY23 PERFORMANCE AGAINST TARGET	FY22 COMMITMENTS	FY23 PERFORMANCE AGAINST COMMITMENTS
<p><b>CLIMATE ACTION</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	<p>50% reduction of Scope 1 &amp; 2 emissions on FY22 baseline</p> <p>30% reduction of Scope 3 emissions on FY22 baseline</p> <p>We have also set a target to reach net zero across our value chain by 2045</p>	<ul style="list-style-type: none"> <li>Scope 1 and 2 emissions intensity reduced from 7.4 to 7.2 tonnes CO<sub>2</sub>e per £m revenue</li> </ul>	<ul style="list-style-type: none"> <li>Set SBTi net zero target</li> <li>Build internal knowledge of Scopes 1, 2 &amp; 3</li> <li>Set out a clear roadmap to our 2030 targets</li> </ul>	<ul style="list-style-type: none"> <li>Calculation of Scope 3 emissions</li> <li>Submission of net zero targets to the SBTi</li> <li>Defined our roadmap to 2030 targets</li> <li>Workshops held with all businesses and Sector leadership on how to reach operational net zero</li> <li>Capital investment in facilities to increase solar coverage and improve efficiency</li> </ul>
<p><b>WASTE REDUCTION</b></p> <hr/> <p><b>STATUS: ON TRACK</b></p>	<p>Less than 15% waste to landfill</p>	<ul style="list-style-type: none"> <li>32% to landfill, representing a 41% reduction on the prior year</li> </ul>	<ul style="list-style-type: none"> <li>Divert waste from landfill</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in waste to landfill in every business across the Group</li> </ul>

**OUR NET ZERO ROADMAP**

Our businesses are responsible for setting their own strategy and initiatives on emissions reduction, in line with our Group target. Our net zero roadmap supports the Group and our businesses in achieving our targets.



OUR NET ZERO ROADMAP CONTINUED

	UNDERSTAND	REDUCE	PROCURE	GENERATE
FY23 PROGRESS	<ul style="list-style-type: none"> <li>Workshops held across the Group on our Net Zero Roadmap</li> <li>Scope 3 calculation undertaken, which allows us to understand our material categories at Group, Sector and entity level</li> <li>Monthly meetings with Sector Finance teams to review performance</li> </ul>	<ul style="list-style-type: none"> <li>Reduced emissions intensity</li> <li>Investment into new, more efficient facilities in the Controls and Seals Sectors (expected impact in 2024)</li> <li>Transitioning fleet to electric. We have tripled the number of hybrid or electric vehicles during the year</li> </ul>	<ul style="list-style-type: none"> <li>Businesses starting to procure renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Two new facilities built during the year with solar panels</li> </ul>
WHAT'S NEXT (2024 – 30)	<ul style="list-style-type: none"> <li>Energy efficiency audits for key facilities</li> <li>Minimum requirements for new facilities</li> <li>Increase data input for Scope 3 calculation</li> <li>Build engagement and knowledge of Scope 3 across the Group</li> <li>Workshops and roadmap for top 10 contributors to Scope 3</li> </ul>	<ul style="list-style-type: none"> <li>Where possible, all vehicles to be electric. Some exceptions might include utility vehicles used to carry heavy equipment over long distances and in remote regions in our Australian Seals businesses</li> <li>Continued facility upgrades and improvements to processes</li> </ul>	<ul style="list-style-type: none"> <li>Continue to responsibly procure renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Continued roll out of solar panel projects and increased coverage</li> </ul>
BY FY30	<ul style="list-style-type: none"> <li>All businesses to understand how to reduce emissions across their value chain and have plans in place to reach net zero</li> </ul>	<ul style="list-style-type: none"> <li>All energy reduction initiatives to have been actioned</li> </ul>	<ul style="list-style-type: none"> <li>100% of energy renewably procured</li> </ul>	<ul style="list-style-type: none"> <li>Significant proportion of energy generated through solar</li> </ul>

**SETTING NET ZERO TARGETS**

We have calculated our Scope 3 emissions for FY22, using a cost-based methodology. These have been submitted to the SBTi, where they are awaiting validation.

We have set a near-term target of 50% reduction of absolute Scope 1 and 2 emissions by 2030 from an FY22 base year. We also committed to reduce our absolute Scope 3 emissions by 30% within the same timeframe. Our long-term target is to reduce absolute Scope 1, 2 and 3 GHG emissions 90% by 2045 from an FY22 base year.

**SCOPE 1 & 2**

During FY23, Scope 2 represented 60% of our operation emissions. During the year, our businesses continued to install LED lights, EV chargers and change processes to improve efficiency. We also held workshops across the businesses to align on our net zero strategy.

**SCOPE 3**

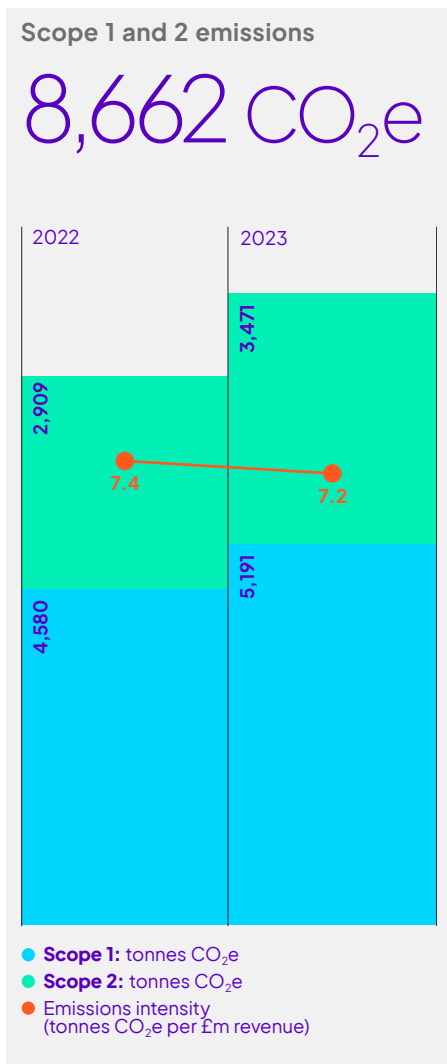
Scope 3 emissions are the most material GHG source for the Group, accounting for 97% of total FY22 emissions. Of the 15 categories considered, Category 1: Purchased Goods & Services is 51% of Scope 3. Our focus will be to engage suppliers on their emissions initiatives.

Categories 4 and 9, which relate to upstream and downstream transport and distribution are in aggregate responsible for 34% of Scope 3 emissions. Where possible, we will shift air freight to lower emission options, such as shipping or rail, and select road freight partners with electric fleets.

**EMISSIONS INTENSITY**

Emissions intensity decreased from 7.4 to 7.2 indicating that gross emissions from existing businesses remained flat despite an increase in revenue.

DELIVERING VALUE RESPONSIBLY  
DELIVERING FOR THE ENVIRONMENT CONTINUED



**GREENHOUSE GAS EMISSIONS**

**ENERGY USAGE**

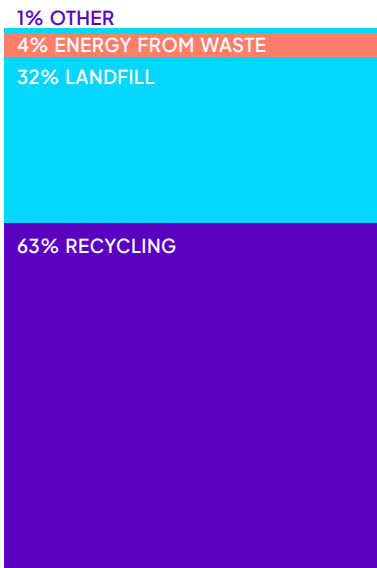
	TONNES CO <sub>2</sub> e	
	FY23	FY22
Scope 1 emissions	3,471	2,909
Scope 2 emissions		
Location-based	5,191	4,580 <sup>1</sup>
Market-based	5,653	4,806
Gross emissions (Scope 1 & 2)		
Location-based	8,662	7,489 <sup>1</sup>
Market-based	9,123	7,715
Scope 3 emissions <sup>2,3</sup>		199,487
Gross emissions		
Location-based		206,976 <sup>1</sup>
Market-based		207,202
	TONNES CO <sub>2</sub> e PER £1M REVENUE	
Emissions intensity (Scope 1 and 2)	7.2	7.4
	KWH	
Total energy consumption	14,905,885	13,893,454
UK	3,011,796	2,524,621

1 We have restated our FY22 location-based, Scope 2 figures to reflect updated GHG conversion factors. We have used the relevant year's figures to calculate the FY22 and FY23 numbers.  
2 We will calculate our FY23 Scope 3 emissions during FY24.  
3 Categories correspond to standard Scope 3 categories as defined by GHG Protocol.

**WASTE**

Although reported waste has increased by 12%, the reported waste intensity ratio has decreased from 3.3 to 3.1.

Importantly, our businesses have made strong progress on our KPI - % of total waste to landfill - which has fallen from 60% during FY22 to 32% in FY23. This puts us on track to hit our target of less than 15% waste to landfill by FY30.



**Waste per £m revenue<sup>1</sup>**

**3.3**  
metric tonnes

**Total waste**

**3,720**  
metric tonnes

<sup>1</sup> Reported waste per £m revenue is 3.1, however, this number excludes acquisition revenue for acquisitions that aren't currently reporting waste.



## TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Climate change is an urgent and global crisis and we recognise the part we play in mitigating its effects.

We set out below our climate-related financial disclosures consistent with all the TCFD recommendations and recommended disclosures. By this we mean the four TCFD recommendations and the 11 recommended disclosures set out in Figure 4 of Section C of the report entitled 'Recommendations of the Task Force on Climate-related Financial Disclosures' published in June 2017 by the TCFD.

### GOVERNANCE

As part of our ESG programme, Delivering Value Responsibly (DVR), we have an established governance structure in which the Board has ultimate oversight of, and responsibility for, climate-related risks and opportunities (CRROs). The Group's Executive Directors, who are both members of the Group DVR Steering Committee, are responsible for the delivery of the Group's DVR strategy (which includes the management of CRROs) and are the sponsors of its 2045 net zero ambitions.

We have a fully embedded risk management framework, which is overseen by the Board and the Group CFO, and includes the analysis of CRROs and their materiality to the Group.

They are supported in this by:

COMMITTEE	FREQUENCY	RESPONSIBILITIES
Executive Committee	Fortnightly updates Biannual 2-day strategic meeting	Overseeing and agreeing the Group's approach to identifying and managing CRROs. Updated as needed by Group Sustainability Director. In-depth coverage of DVR and CRROs at strategic meetings.
DVR Steering Committee	Monthly performance meeting Quarterly strategic meeting Biannual Governance meeting	Members include the Group CEO, CFO and Sustainability Director. It sets the Group's DVR strategy, framework and governance, and oversees reporting, performance and development, including the net zero and emissions reduction strategies and performance. During the year, it led the climate-related modelling, analysis and review of principal CRROs. Governance meeting attendees include Executive Team and Sector Management. Review progress of strategic objectives, targets and initiatives, and emerging trends and relevant risks and opportunities.
Senior Leadership team (SLT)	Quarterly update	Comprised of the business MDs and key senior leaders. The SLT drives local performance against climate-related metrics and targets, and identifies and mitigates against local CRROs.
Local DVR committees and networks	Varies	Share resources and best practice and build local knowledge and expertise. Annual workshops with Group on DVR initiatives, targets and strategy.

### MORE INFORMATION

See our [DVR Governance structure on page 87](#)

Review our [Risk Management framework on page 42](#)

## DELIVERING VALUE RESPONSIBLY TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

### GOVERNANCE CONTINUED

The Board is kept informed on all relevant matters, including climate-related issues, in a number of ways, including: monthly reporting packs, covering financial and non-financial performance; regular Board meetings, which include CEO updates on DVR and climate-related strategy and performance; an annual, in-depth DVR update from the Group Sustainability Director; annual deep-dive reporting on macroeconomic trends, including the risks of climate change; quarterly climate risk updates, including a review of the Group's climate risk management.

The Board considers climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets and business plans as well as setting the organisation's performance objectives, monitoring implementation and performance and overseeing major capital expenditures, acquisitions and divestitures.

The Board has practical experience in implementing ESG strategies. They supplement this with external expertise. During the year we engaged external consultants to support on emissions reporting, including Scope 3, net zero target setting, and qualitative risk scenario modelling.

#### MORE INFORMATION

More information on our Board and Committee attendance on page 80

Information on Board activity and focus areas can be found on page 79

Read more about the Board's skills and experience on pages 83–84

### RISK MANAGEMENT

Our businesses have in-depth knowledge of their customers, industry, products and services, and our decentralised model empowers them to manage and make decisions locally. We consult our businesses and Sector management in identifying and assessing all risks, including CRROs, supported by expertise and knowledge from relevant functions and Group departments.

In FY23, we undertook a qualitative scenario analysis to identify principal CRROs. We involved operational, business and functional leaders across the Group, supported by external, independent expert consultants. The CRROs were assessed using a Probability-Impact Matrix to consider the likelihood of the CRRO materialising over the different timeframes, and the potential impact and materiality to the Group.

Following the identification of key CRROs, we considered the materiality of their impact on the Group over time (short, medium and long-term horizons). We assess materiality against climate-related risks on a 'net basis' after consideration of mitigating factors or actions.

- Short to medium-term risks: materiality determined at higher than 5% of the Group's adjusted Profit Before Tax (in line with our Financial Statement audit methodology) in the respective year of the most recent long-term strategic plan. Short-term refers to the time period up to 2030, medium-term refers to the time period between 2030–2040.
- Long-term risks: we apply 2x the materiality levels of short to medium-term risks. This reflects likely continued growth of the Group, greater uncertainty over time, and time available for mitigation planning. Long term refers to the time period between 2040–2050.

This process will be refreshed annually to ensure that the material climate-related risks and opportunities continue to be relevant and appropriate to the Group.

CRROs are managed in line with our decentralised culture and DVR and Risk Governance frameworks. Climate risk management is fully integrated into our risk management process.

#### MORE INFORMATION

Read about our decentralised culture on page 9

Risk management framework on page 42

DVR governance framework on page 87

Relevant committees, responsibilities and frequency of updates on page 81

Group risk management framework on page 42

## STRATEGY

In order to identify relevant CRROs, we considered the following scenarios, which allowed us to consider the impacts of likely physical and transitional outcomes. We considered the impact of climate regulation and physical impacts across our key geographies and sites, including those of our suppliers. We considered changing markets and the impact on our customers and suppliers.

RCP SCENARIO	FOSSIL-FUELLED GROWTH	STEADY PATH TO SUSTAINABILITY
Description	More extreme weather events due to extremely limited decarbonisation efforts	Globally coordinated decarbonisation to achieve net zero by 2050
Mean temperature rise by 2100	4 degrees celsius	2 degrees celsius

### Fossil-fuelled growth scenario – overview

Global collaboration is focused on mitigation, rather than reducing climate change, resulting in an increase of extreme weather events as the current warming rate continues unabated. Temperatures exceed the warming rate of 4 degrees by the end of the century, as projected by the IPSS's worst case RPC 8.5 scenario.

### Steady Path to Sustainability scenario – overview

Globally coordinated efforts to reduce emissions to net zero by 2050. This limits the global temperature increase to 2 degrees above pre-industrial levels, as projected by the Intergovernmental Panel on Climate Change's (IPCC) RCP2.6 scenario.

### FOSSIL-FUELLED GROWTH SCENARIO

We assumed a range of extreme weather events occurring with increasing frequency across the short, medium and long term, and the potential damage to our distribution centres and offices due to flooding, extreme heat, wildfires and storms. We reviewed 10 of our most significant locations, covering ca. 60% of the Group's total revenue. Mitigation – such as property or business interruption insurance and buffer stockholding in place – would significantly reduce any financial impact.

We identified the highest physical risk and impact would be due to hurricanes at our Hercules Aftermarket site, located in Louisville. However, there are preventative disaster recovery plans and insurance in place to mitigate against those risks.

The financial impact of the risks identified in this scenario would not be material due to:

- The broad geographical spread of the Group;
- Diversified physical assets, customers and suppliers, with low commercial dependencies (largest customer and supplier represent 1% and 5% of revenue respectively);
- Our distribution centres are not typically located in high-risk areas. Whilst there may be very short-term disruptions on a very localised basis, it would only affect a few, small locations with insufficient frequency to have a material financial impact, post-mitigation.

We will continue to monitor the impact physical risks have on our operations as part of our future financial planning.

### STEADY PATH TO SUSTAINABILITY SCENARIO

We considered the risk of changing regulation and/or customer demand, in the context of the Group's 2045 net zero target. This scenario identified our most relevant CRROs, which we have outlined below, including their impact on the Group's business, strategy and financial planning. We have performed a quantification of the financial impacts to the Group based on the relevant timeframes. Whilst our assessments show that the financial impacts of these CRROs are low, our financial statements and viability assessments nevertheless reflect our best estimate of the impact of climate change on future business performance and the carrying values of our tangible and intangible assets, based on currently available information and taking into account the planned mitigation measures. We have also considered the resilience of the Group's strategy against these CRROs, including potential mitigations as well as actions to capitalise on the material climate-related opportunities.

**DELIVERING VALUE RESPONSIBLY**  
**TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED**

**STRATEGY CONTINUED**

**Identified risks and impact (Steady Path to Sustainability Scenario)**

**TRANSITIONAL RISK**

Policy & Legal / Market:

**Product decarbonisation due to stricter climate policies and market shifts**

As a global company, we will likely face differing and localised environmental policies and legislation across our key geographies. We also expect them to be introduced and implemented at a different pace. Meeting these higher standards is extremely important to ensure we can successfully and compliantly operate in those geographies.

One specific identified risk in product decarbonisation is the EU's proposed ban on synthetic chemicals such as polyfluoroalkyl substances (PFAS), which is relevant to our Seals business, where ca. 6% of the Group's revenue is generated from seals that include PFAS.

From a market perspective, a significant proportion of our downstream market is subject to considerable emissions scrutiny. It is therefore likely that we will be expected to reduce the carbon intensity of our sold products to support our customers in meeting their own sustainability goals.

As a consequence, it will become vital to obtain emissions data and encourage product decarbonisation from our suppliers, especially in less sustainability-focused countries, given our role as a value-added distributor.

**MATERIALITY OF RISK**

Timeframe: **medium term**

Financial impact: **low**

The fragmented product decarbonisation policy landscape also has the knock on impact of making products more expensive and uncompetitive in less environmentally ambitious markets, whilst posing a potential risk if suppliers lack regional decarbonisation incentives.

The EU's proposed ban on PFAS may have the impact of increasing the cost of seals that incorporate raw material alternatives to PFAS to be sold into the EU market, but also seals that originate from the EU to be more expensive in other territories that have not imposed the PFAS ban.

The failure to adapt our products would mean a reduced ability to sell certain products into jurisdictions where demand for sustainable goods is high, potentially reducing revenue and affecting our competitiveness.

**MITIGATION**

As a global Group, we benefit from knowledge sharing – those businesses that have navigated stricter or faster-moving legislation will enrich the Group experience and provide case studies and learnings that will benefit other businesses.

As a decentralised Group, our businesses are close to their customers, have the technical expertise to specify compound materials, and enjoy long-term, meaningful relationships with their suppliers. We expect them to pivot and adapt in line with legislation. We have seen examples of this already, with North American Seals businesses promoting and identifying PFAS-free products to customers.

Our Group has set net zero targets, including against Scope 3 emissions. We expect our businesses to incorporate this into their value-add offering and see this as a competitive advantage for customers that wish to decarbonise their supply chain. Given that many of our businesses are small-to-medium sized, few of their competitors have the same access and resources to analyse and progress against emissions reduction targets.



## STRATEGY CONTINUED

## Identified risks and impact (Steady Path to Sustainability Scenario)

TRANSITIONAL RISK	MATERIALITY OF RISK	MITIGATION
<p>Policy &amp; Legal</p> <p><b>Decarbonisation costs</b></p> <p>A shift towards decarbonisation could see increased operating costs particularly in relation to purchased inventory as well as logistics costs. This could largely be influenced by the tightening of environmental laws and regulations in relation to carbon pricing globally. Carbon pricing instruments can take many forms, with the most common being carbon taxes, taxes on fuels and trading schemes or levies.</p>	<p>Timeframe: <b>short, medium and long term</b></p> <p>Financial impact: <b>low</b></p> <p>The risk of new regulation manifesting in the EU via the carbon border adjustment mechanism (CBAM) for example, could see product costs increasing. There is also a risk that products will increase in cost as raw materials such as precious earth metals become more expensive to procure due to scarcity, increased demand and government regulation.</p> <p>Inbound and outbound logistics cost is ca. 34% of our Scope 3 emissions. There could be increased costs associated with carbon freight taxes and low-carbon technologies implemented through either government regulation or investments by our logistics partners in sustainable alternatives.</p>	<p>The Group has previously navigated rising supply chain costs by successfully passing costs on to the customer.</p>

**DELIVERING VALUE RESPONSIBLY**  
**TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED**

**STRATEGY CONTINUED**

**Identified risks and impact (Steady Path to Sustainability Scenario)**

**OPPORTUNITY**

Policy & Legal / Market:

**Product and market opportunities**

Prolonging product lifespans is at the core of the circular economy. With a significant portion of our products catering to repair, maintenance and refurbishment, we inherently contribute to our customers' machinery longevity. Circularity is a core part of our business model. The ability to manage, reuse and recycle waste products and by-products is a competitive advantage.

As the global economy transitions to a low-carbon model (albeit at varying rates), there are opportunities to grow revenues across a range of new customer segments, including adaptation infrastructure and renewables. As economies decarbonise, new opportunities are likely to emerge.

Policy & Legal / Market:

**Enhanced logistics efficiency**

Through sustainable supply chain management we can simultaneously reduce costs through more efficient distribution and improve our reputation with customers who are increasingly interested in greener product deliveries. This can also enhance access to new customers looking for more sustainable distribution options, including those looking to reduce their Scope 3 emissions.

Our aim is to pass on efficiencies to our customers and market our sustainable approach to customers interested in reducing their value-chain emissions.

We have started to collect data on our inbound and outbound logistics and work closely with our customers and third-party couriers to reduce their emissions and improve efficiency.

We are currently doing this by consolidating orders into less frequent shipments and driving model shifts where possible.

**POTENTIAL BENEFIT**

Timeframe: **short, medium and long term**

Our recent acquisition of T.I.E. exemplifies how we are pivoting to more aftermarket and repair service opportunities. We will use T.I.E. and existing aftermarket businesses as a platform for further growth in this segment.

The transition to a lower-carbon economy and its impact on industrial design should lead to significant opportunities for new customers and segments for the Group. We have a strong process to assess and capitalise on new market opportunities. In our budgeting and strategic planning process, all businesses identify transitioning industries and strategies to access these new markets. We are already seeing this growth in market segments with our Australian Seals business securing its largest service contract to remove, repair and reinstall pump equipment for a national water company.

Timeframe: **medium**

Lower transportation costs, including decreased fuel use, transport miles and associated emissions and taxes through route optimisation, reverse logistics, fuel efficiency, consolidated supply chains, a move to local suppliers, combined shipments and other efforts to decarbonise transport and logistics.

**STRATEGY CONTINUED****Identified risks and impact (Steady Path to Sustainability Scenario)****Resilience of the Organisation's Strategy**

Our strategy enables us to remain resilient to CRROs:

- Our decentralised model means that our businesses retain their in-depth product knowledge, understanding of local markets, and strong customer and supplier relationships. This enables us to respond quickly to changes in regulation, market and technology;
- Our low customer and supplier dependencies ensure that any identified risks are sufficiently diversified;
- Our value-add and pricing discipline allows us to pass on the impact of decarbonisation costs to protect our margins;
- Our organic growth initiatives capture opportunities relating to a decarbonising economy, supporting our transition away from markets that are at risk due to decarbonisation;
- DVR is embedded across our Group, ensuring that our businesses are aligned on our net zero target and are driving action and emissions reductions across every aspect of their business;
- Our low capital intensity model gives us the versatility to transition with little risk to asset values.

As part of our Supplier Code, we continue to work with our suppliers to align on our emissions reduction ambitions and intend to expand the Scope of our Supplier Code in order to drive Scope 3 emissions reductions with our product and logistics suppliers.

**MORE INFORMATION**

Read about our decentralised culture on page 9

See customer and supplier dependency on page 69

Read more about DVR on pages 54–66

Read about our material Scope 3 emissions on page 65

Read about our Supplier Code on page 61

## DELIVERING VALUE RESPONSIBLY

### TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

#### METRICS & TARGETS

##### A summary of our Group emissions

The Group measures and monitors the following key metrics. Below we have outlined those that are relevant to our identified CRROs. A summary of the below metrics, KPIs and relevant targets can be found on pages 54–66.

#### Emissions

Reducing our absolute emissions is a key driver to achieving our 2045 net zero target.

#### Waste

Although waste does not represent a material proportion of our emissions footprint, we nevertheless see it as potentially significant in terms of business reputation, efficiency and circularity.

#### Supplier Code

We see supplier engagement and the future alignment of our Supplier Code to our Scope 3 targets, as fundamental to our net zero strategy.

#### Financial metrics

Financial performance targets are set as part of the budget, which incorporate the revenue, profit and cash flow impacts of CRROs. The financial performance targets form a material element of the short-term variable bonus schemes as well as the longer-term performance share plans.

We actively monitor revenue that comes from both the physical and transitional impacts of climate change – such as renewable energy generation, circularity or fugitive emissions – as well as our social impact.

In addition, the three-year strategic plan and the annual budget includes opex and capex investments related to our CRROs. All scaling projects are now scrutinised for their environmental impact, taking advantage of these projects to make step changes towards meeting our environmental targets and incorporates the respective financial investments required to enable this. A similar process is in place and applied to due diligence and business plan preparations for new acquisitions, e.g. T.I.E. and DICSА acquisitions in FY23.

More detail on these targets and the performance against them is set out on pages 54 to 66.

#### MORE INFORMATION

See pages 64–66 for our absolute Group Scope 1, 2 and 3 emissions; energy consumption; emissions intensity ratio (tonnes per £1m revenues); and net zero targets and strategy

See page 66 for total Group waste; waste intensity ratio (tonnes per £1m revenues)

See page 61 for further information on our supplier code; percentage of suppliers aligned to code; and next steps



## NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

This table signposts related non-financial information in this report and further reading on our website at <https://www.diplomaplc.com/sustainability/sustainability-reports-and-policies/>.

REPORTING REQUIREMENT	POLICIES	REFERENCE IN 2023 ANNUAL REPORT
<b>1. Anti-bribery and Corruption</b>	The Group has a policy on anti-bribery and corruption that complies with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure continued and effective compliance in our business through our Learning Management System.	Further detail can be found on our website
<b>2. Code of Conduct</b>	Our Code of Conduct sets out the expected standards of conduct and behaviour of all employees across Diploma as they relate to our people, governance and the law, and stakeholder engagement.	Further detail can be found on our website
<b>3. Diversity, Equity &amp; Inclusion</b>	Our DEI Policy applies to all our businesses and every aspect of how we work. We believe our business leaders play a key role in creating an inclusive, diverse and equitable workplace and that an effective DEI strategy will add value to our business, contribute to employee wellbeing and allow us to recruit and retain a wider pool of talent.	56–59; 100
<b>4. Equal Opportunity</b>	Our Group-wide diversity and inclusion commitment is for all candidates are considered fairly, regardless of their gender, race, age, sexual orientation, professional or academic background. Development opportunities are equally applied to all employees regardless of disability. In the event of an existing employee becoming disabled, every effort will be made to ensure their employment with the Group continues and appropriate support is provided.	Further detail can be found on our website
<b>5. Environment</b>	Our Environment Policy asks our businesses to comply with or exceed all applicable environmental laws, understand climate-related risks and opportunities and their impact on their business.	63–66
<b>6. Climate-related Financial Disclosures</b>	We summarise our climate-related financial disclosures consistent with all TCFD recommendations and recommended disclosures. By this we mean the four TCFD recommendations and the 11 recommended disclosures set out in Figure 4 of Section C of the report entitled 'Recommendations of the Task Force on Climate-related Financial Disclosures' published in June 2017 by the TCFD.	67–74
<b>7. Health &amp; Safety</b>	Our Health & Safety Policy supports our commitment to ensure the Health & Safety of our colleagues, visitors and partners through a proactive culture, rigorous standards, governance and reporting.	60–62
<b>8. Human Rights &amp; Labour Conditions</b>	The Group's activities are primarily carried out in countries with strong human rights legislation, which we comply with in the countries in which we operate. Our businesses carry out due diligence on their supply chain and key suppliers comply with our Supplier Code. Our own colleagues are provided with a safe, secure and healthy working environment, with access to employee assistance programmes.	60–61
<b>9. Modern Slavery Statement</b>	The Group has a zero-tolerance approach to slavery in all forms, including human trafficking, forced and child labour. Each business undertakes an annual risk assessment of modern slavery within the business and its principal suppliers. Based on these and the initiatives implemented by the businesses to counter slavery, the Board has been assured that slavery is not taking place within the Group.	79
<b>10. Whistleblowing</b>	We have a Whistleblowing Policy that applies to all employees and businesses and is monitored by the Audit Committee. The Policy is displayed on noticeboards at all businesses. Employees are encouraged to raise concerns via the confidential, independently-managed, multilingual hotline, which is available 24/7, 365 days a year. All reports are reviewed by the Group Company Secretary with the support of internal audit and external resources, if required.	95

## 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 2023, the Company has been compliant with all of the principles and provisions set out in the UK Corporate Governance Code 2018 (the Code). In respect of the year ending 30 September 2024, as set out below, the Board expects that it will for a short period require further explanation with regard to Provision 10 in respect of Andy Smith who will remain on the Board and its Committees for a short extension past his nine-year tenure to enable a smooth and effective transition of the role of Chair of the Remuneration Committee. The Board considers Andy Smith to remain independent during this extended period.

### PRINCIPLES OF THE UK CORPORATE GOVERNANCE CODE 2018

#### 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 other stakeholders, and contributing to wider society.

**READ MORE ON PAGES 50 TO 53,  
AND PAGES 86 TO 87.**

#### 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 83 TO 85.**

#### 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 PAGES 83 TO 84,  
AND PAGES 96 TO 101.**

#### 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 42 TO 48,  
AND PAGES 88 TO 95.**

#### 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 102 TO 125.**



**David Lowden**  
Chair

“The high standards of corporate governance underpin everything we deliver.”

### DEAR SHAREHOLDER,

On behalf of the Board, I am delighted to present the Company's Corporate Governance Report for the year ended 30 September 2023, which summarises how the Board and our governance have provided leadership over the year in support of the long-term sustainable success of Diploma. Diploma has grown consistently over the last few years and our governance has continued to evolve accordingly to provide confidence to our investors and allow our entrepreneurial businesses to develop further.

Corporate governance is the predominant framework in which companies build trust with their stakeholders, and the wider community. It is more than just the principles that safeguard a company's interests, but a way to create long-term value. Corporate governance in itself is not a direct value driver, but can facilitate or hinder the creation or protection of value. Forward-looking organisations are able to focus on growth and value creation through the development of strong corporate governance practices. We must also go beyond the balance sheet, reporting intangible value and investing in our employees' development to grow alongside their businesses.

Sustainable corporate governance focuses on tackling environmental issues, evolving supply chains, improving diversity in the workforce, as well as contributing to the local communities. The Board is pleased that our corporate governance thinking and approach have continued to grow and evolve alongside the growth of our businesses. Throughout the last few years, we have continued to develop and embed our Delivering Value Responsibly (DVR) frameworks. Further information on our sustainability programmes can be found on pages 54 to 66. Insights from our DVR and governance developments have been used to inform steps taken by the Board, the Executive Team and our businesses to improve the efficiency of other 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, values, and cohesive cultural fundamentals that govern our actions and provide guidance across our varied businesses.

The Non-Executive Directors were very pleased to witness this culture in person during our visits this year to our Life Sciences businesses, Simonsen & Weel in Denmark and Acernis Medical in Canada.

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 that enables the creation of sustainable long-term value for our shareholders and other stakeholders.

### BOARD SUCCESSION AND EVALUATION

Board composition and succession remain key areas of activity and focus. Anne Thorburn and Andy Smith will be retiring in 2024 after nearly nine years of service each. During the year, our Nomination Committee oversaw the succession and appointment process for a suitable candidate to take over the Remuneration Committee Chair position and were pleased to appoint Jennifer Ward as Remuneration Committee Chair-Designate on 1 June 2023. Jennifer brings a wealth of knowledge and experience to the Board and is an important part of its continued evolution. The Nomination Committee has begun a search process for the role of Audit Committee Chair and an announcement will be made at the appropriate time.

## CHAIR'S INTRODUCTION TO GOVERNANCE CONTINUED

The Board is keenly aware of the need for diversity and inclusion, which is a key component of the Group's DVR programme. Following the appointment of Jennifer Ward in June, as at the end of the Financial Year the Board is 37.5% female, which does not meet the target by the Financial Conduct Authority that 40% of Board members are to be women. We do meet the recommendations requiring women to occupy at least one of the Board's senior roles.

Gender diversity in the wider senior management and wider workforce remains a key focus as expanded upon on pages 56 to 59. 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 96 to 101.

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 FY23 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 101. In FY24 we will undertake an externally facilitated evaluation and look forward to the opportunity for candid self-reflection.

The Board's priorities for FY24 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 17 January 2024. 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. I welcome the opportunity to meet with our shareholders at the AGM, but would also remind all stakeholders that the Board and I are available throughout the year to answer questions or engage on topics of interest to you. You can contact us via the Group Company Secretary.

**David Lowden**  
Chair



## 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

- Regularly reviewed the Group's performance against the strategy.
- Presentations by the Group 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.
- Equity raise.

### FINANCE

- Received updates on the Group's financial performance.
- Approved the FY24 budget; monitored performance against the FY23 budget through regular presentations from the CFO.
- Assessed and approved dividend payments, balancing the views of various stakeholders.
- Investor relations: regular reports including share register movement and feedback from analysts and investors.
- Presentations from Tax and Treasury Functions.
- Control of Treasury and Tax policies.
- New multi-currency revolving credit facility agreement (RCF) and wider financing strategy.

### OPERATIONS

- Regular updates from the Group CEO.
- Monitored and discussed the regulatory and political impacts on the Group's operations.
- Approval of the annual Modern Slavery Statement.
- Sector presentations.
- Business visits.

### COLLEAGUES & CULTURE

- Reviewed Group Colleague Engagement Survey results.
- Received reports on workforce wellbeing throughout the year.
- Denmark and Canada site visits.
- Talent and succession update.
- Whistleblowing reports.
- Sector presentations.

### RISK

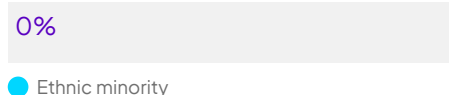
- Received reports on the macroeconomic environment, world events and emerging trends.
- Annual risk review: review of principal risks to ensure they remain appropriate together with mitigating activity; reviewed and approved the inclusion of new and emerging risks.
- Quarterly risk updates.
- Cybersecurity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

### GOVERNANCE

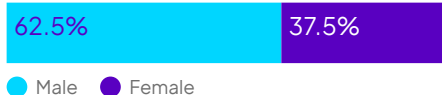
- Regular corporate governance and regulatory updates from the Group Company Secretary.
- Concluded the annual Board effectiveness review.
- Agreed and tracked actions from the 2022 internal evaluation of the Board's performance.
- Approved the appointment of a new Non-Executive Director.
- Reviewed schedule of matters reserved for the Board and Terms of Reference of its Committees.
- Reviewed and approved the Company's financial reporting.

## GOVERNANCE AT A GLANCE

### ETHNIC DIVERSITY



### GENDER DIVERSITY



### LENGTH OF TENURE



### SKILLS AND EXPERIENCE



### BOARD AND COMMITTEE ATTENDANCE FY23 (AS AT 30 SEPTEMBER 2023)

MEMBER	BOARD	AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
David Lowden	8/8	-	4/4	3/3
Johnny Thomson	8/8	-	-	-
Chris Davies	8/8	-	-	-
Anne Thorburn	8/8	5/5	4/4	3/3
Andy Smith	8/8	5/5	4/4	3/3
Geraldine Huse <sup>1</sup>	7/8	3/5	3/4	2/3
Dean Finch <sup>2</sup>	8/8	4/5	4/4	3/3
Jennifer Ward <sup>3</sup>	1/2	0/1	0/1	1/1

1 Geraldine Huse was unable to attend the September 2023 Board and Committee meetings due to an unavoidable conflict, and was unable to attend the Audit Committee meeting held in April as it was called on short notice.

2 Dean Finch was unable to attend the Audit Committee meeting held in April as it was called on short notice.

3 Jennifer Ward was unable to attend the September 2023 Board, Audit and Nomination Committee meetings due to an unavoidable conflict.

### CHANGES TO THE BOARD

- Chris Davies was appointed to the Board as Chief Financial Officer on 1 November 2022.
- Jennifer Ward was appointed to the Board as an independent Non-Executive Director and as Chair-Designate of the Remuneration Committee on 1 June 2023.

**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 & Safety, leadership, strategy, values, standards, controls and risk management.

<p><b>DAVID LOWDEN</b> Chair</p> <p>Leads the Board and ensures its overall effectiveness in discharging its duties.</p>	<p><b>ANNE THORBURN</b> Senior Independent Director</p> <p>The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for other Directors and shareholders.</p>	<p><b>Independent Non-Executive Directors</b></p> <p>Independent Non-Executive Directors ensure that no individual or small group of individuals can dominate the Board’s decision making.</p>
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**GROUP COMPANY SECRETARY**

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

**BOARD COMMITTEES**

<p><b>AUDIT COMMITTEE</b> Chair: Anne Thorburn</p> <p>Oversees and monitors the Company’s financial statements, accounting processes, audit (internal and external), internal controls systems and financial risk management procedures. Also monitors the effectiveness of the internal audit function and reviews the external auditor independence and performance.</p> <p>SEE MORE ON PAGES 88 TO 95.</p>	<p><b>NOMINATION COMMITTEE</b> Chair: David Lowden</p> <p>Regularly reviews structure, size and composition of the Board and its Committees. Identifies and nominates suitable candidates to be appointed to the Board. Leads the Board’s succession planning and keeps the senior leadership needs of the Group under review. Oversees the development of a diverse succession pipeline.</p> <p>SEE MORE ON PAGES 96 TO 101.</p>	<p><b>REMUNERATION COMMITTEE</b> Chair: Andy Smith Chair-Designate: Jennifer Ward</p> <p>Reviews and recommends the framework and policy on Executive Director and senior management remuneration. Reviews workforce remuneration policies and alignment with culture.</p> <p>SEE MORE ON PAGES 102 TO 125.</p>
<p><b>TREASURY COMMITTEE</b></p> <p>Provides oversight of treasury activities in implementing the treasury policies approved by the Board.</p>	<p><b>ADMINISTRATION COMMITTEE</b></p> <p>Conducts general business administration on behalf of the Company within clearly defined limits delegated by the Board and subject to the matters reserved to the Board.</p>	<p><b>DISCLOSURE COMMITTEE</b></p> <p>Oversees the disclosure of market sensitive information.</p>

**EXECUTIVE DIRECTORS**

Group Chief Executive Officer and Group Chief Financial Officer

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

**EXECUTIVE TEAM**

The Executive Team provides strategic and operational leadership to the Group, ensuring that strategies are executed effectively.

**SENIOR LEADERSHIP TEAM**

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

# BOARD OF DIRECTORS





**01 DAVID LOWDEN**

Board Chair &amp; Nomination Chair

**Joined: October 2021****Committee membership** **N** **R****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/Financing
- International Business

**Past appointments:**

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

**04 ANNE THORBURN**

Senior Independent Director &amp; Audit Chair

**Joined: September 2015****Committee membership** **A** **N** **R****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/Financing
- International Business

**Past appointments:**

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

**02 JOHNNY THOMSON**

Group 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/Financing
- International Business

**Past appointments:**

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

**05 ANDY SMITH**

Independent Non-Executive Director &amp; Remuneration Chair

**Joined: February 2015****Committee membership** **A** **N** **R****Current external appointments:**

- None

**Relevant skills and experience:**

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

**03 CHRIS DAVIES**

Group Chief Financial Officer

**Joined: November 2022****Current external appointments:**

- Non-Executive Director, Motability Operations Group PLC

**Relevant skills and experience:**

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

**Past appointments:**

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

**06 GERALDINE HUSE**

Independent Non-Executive Director

**Joined: January 2020****Committee membership** **A** **N** **R****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

## BOARD OF DIRECTORS CONTINUED

**07 DEAN FINCH**

Independent Non-Executive  
Director

**Joined: May 2021**

**Committee membership** (A) (N) (R)

**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/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 General Counsel  
& Company Secretary

**Joined: April 2020**

An experienced FTSE company secretary and solicitor, John is responsible for the Group's global legal, compliance and governance affairs.

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.

**08 JENNIFER WARD**

Independent Non-Executive  
Director

**Joined: June 2023**

**Committee membership** (A) (N) (R)

(Chair-Designate of Remuneration Committee)

**Current external appointments:**

- Executive Director and Chief Talent, Culture and Communications Executive, Halma Plc

**Relevant skills and experience:**

- B2B Industrial, Services and Retail Sectors
- Customer Service
- Sales and Marketing
- Organisational Development
- International Business
- Diversity, Equity & Inclusion

**Past appointments:**

- Senior Director, Human Resources, PayPal Inc
- SVP Learning & Leadership Development, Bank of America

## DIVISION OF RESPONSIBILITIES

The Board is responsible to shareholders for the Group's financial and operational performance, risk management and culture. It 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 operating effectively.

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

### MATTERS RESERVED FOR THE BOARD

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

- Purpose, strategy and management
- Values, culture and stakeholders
- Membership of the Board and other appointments
- Financial and other reporting and controls
- Audit, risk and internal controls
- Contracts and capital structure
- Communication
- Remuneration
- Delegation of authority
- Corporate governance and other matters

### ROLES IN THE BOARDROOM

#### Non-Executive Chair

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

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

#### Group CEO & Group CFO

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

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

#### Independent

##### Non-Executive Directors

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

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

#### Senior Independent

##### Non-Executive Director

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

#### Group Company Secretary

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

## MONITORING CULTURE

### PURPOSE, CULTURE AND VALUES

The Board is responsible for ensuring that the Group achieves its purpose, which is to innovate, create and deliver value-add solutions for a better future. 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. As the business landscape evolves and the Group continues to grow, the Board felt it necessary to review the Group's culture and values during the year to ensure continuity, adaptability and the right cultural direction. Following this review, we refreshed our core values to be: customer-centric, doing the right thing, remaining accountable, growing together and being down to earth.

During the year, the Board has monitored culture in a number of ways. This includes business visits, presentations from Sector leadership, strategy review sessions, and 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. Whilst remaining decentralised and maintaining their own unique identity, our businesses benefit from shared best practices, intercompany networks and exceptional leadership teams.

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 have travelled to Simonsen & Weel in Denmark and Acernis Medical in Canada in April 2023. The results of our Group Colleague Engagement Survey (discussed on page 56) 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 honing 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 of 80%; the full results of the survey are detailed on page 56.

**DELIVERING VALUE RESPONSIBLY**

Our DVR governance structure is lean and reflects our decentralised model. The Board has ultimate oversight and responsibility for DVR including DVR governance, strategy, performance and climate-related risks and opportunities. The Audit committee reviews Group climate-related risks and their mitigation, as well as Group TCFD disclosures. The Remuneration Committee has a role in ensuring flexibility to introduce DVR metrics into future remuneration.

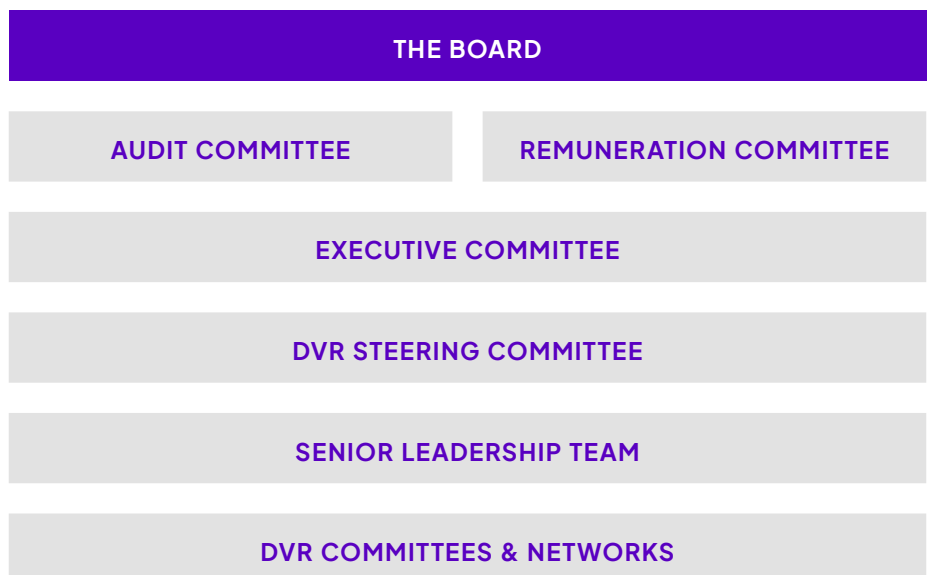
The Executive Team, which includes the Sector CEOs, ensures alignment and oversight of DVR within their areas of responsibility.

The Senior Leadership Team, including Managing Directors, is responsible for local DVR performance and operational execution. They are supported by local DVR committees and networks.

The role of the DVR Steering Committee, which includes the Group CEO and Sustainability Director, is to outline DVR strategy, set Group targets, support the Sectors and businesses, and monitor and communicate progress.

In a decentralised Group, ensuring alignment and driving progress at the right pace can be a challenge so communication is key. The Board is regularly updated on DVR and also has an annual in-depth annual session with the Group Sustainability Director. The SLT and Executive Team also cover DVR during regular, scheduled updates. All targets and metrics are discussed and approved by the Board.

**OUR DVR GOVERNANCE STRUCTURE**



## AUDIT COMMITTEE REPORT

### 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 continual improvements to governance, compliance and financial safeguards.

TERMS OF REFERENCE  
CAN BE FOUND ON OUR WEBSITE  
AT [WWW.DIPLOMAPLC.COM](http://WWW.DIPLOMAPLC.COM)

### KEY MATTERS DISCUSSED

- Reviewed and agreed the scope of audit work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the Annual Report & Accounts and received reports from the Group 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 risks.
- Approved the Going Concern and Viability Statements.
- 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 Head of Internal Audit 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 proposed revisions to the UK Corporate Governance Code 2018 and what this means for the Group's internal control framework as well as future reporting under section 172 Companies Act 2006.
- Continued to monitor developments in audit reform and changing best practice.
- Approved the Committee work programme for 2024.
- Engaged and cooperated with the Financial Reporting Council (FRC) in response to their review letter, in particular regarding a technical compliance issue relating to an interim dividend paid in 2021.



**Anne Thorburn**  
Chair of the Audit Committee

“Building trust and confidence in our Group’s governance through our unwavering commitment to excellence and to upholding the highest standards of financial integrity.”

MEMBER	MEETINGS ATTENDED	JOINED
ANNE THORBURN (CHAIR)	5/5	September 2015
ANDY SMITH	5/5	February 2015
GERALDINE HUSE <sup>1</sup>	3/5	January 2020
DEAN FINCH <sup>2</sup>	4/5	May 2021
JENNIFER WARD <sup>3</sup>	0/1	June 2023

<sup>1</sup> Geraldine Huse was unable to attend the April meeting as it was called on short notice and the September meeting due to an unavoidable conflict.

<sup>2</sup> Dean Finch was unable to attend the April meeting as it was called on short notice.

<sup>3</sup> Jennifer Ward was unable to attend the September meeting due to an unavoidable conflict.

### 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. The Committee reinforces the Board’s ability to make informed decisions and upholds the best interests of our shareholders and stakeholders.

During the year ended 30 September 2023, the Committee has ensured oversight of all these areas while also responding to evolving regulatory and market dynamics. Regulatory bodies continue to raise the bar on corporate governance and financial reporting standards. This has necessitated an evolution within the business environment as we continue to adapt and enhance the Committee’s oversight functions to maintain the highest standards of transparency, accountability and integrity in our financial reporting and governance practices.

Two key aspects of these reforms entail the establishment of the Audit, Reporting and Governance Authority (ARGA) to oversee audit regulation and the anticipated revisions to the UK Corporate Governance Code. Other aspects of anticipated reforms are uncertain following recent government statements and we will continue to review the evolving landscape.

The Committee has received reports on internal audits for the Group’s businesses, together with several deep dive sessions, including 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 recognises the growing importance of ESG factors, including climate-related financial disclosures, in shaping the investment landscape and promoting sustainability. We continue to enhance our ESG and climate-related financial disclosures, aligning them with best practices to provide comprehensive and accurate information so that stakeholders can make informed decisions and effectively assess our resilience to climate change.

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

## AUDIT COMMITTEE REPORT CONTINUED

PwC has now completed its sixth full annual cycle, led by Richard Porter who became our lead audit partner for this financial year. I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. Following a routine review of the Company's Annual Report by the FRC, the Committee became aware that approximately £2.5m of the FY21 interim dividend was not paid in accordance with the technical requirements of the Companies Act 2006. This was because interim accounts had not been publicly filed prior to the dividend declaration. It is intended that this technical issue, which has no impact on the Group's financial position, be ratified by a shareholders' resolution proposed at the upcoming Annual General Meeting (AGM). The Committee has reviewed the circumstances and is satisfied that the failure was due to an inadvertent oversight and is not indicative of any wider problem with its systems and controls. The FRC also highlighted several recommendations to improve financial reporting which were reviewed by the Committee and incorporated.

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, which 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.

After serving on the Board for nearly nine years, including in my role as Audit Chair, I will be stepping down during 2024. It has been a privilege to serve alongside my Board colleagues and to work with our dedicated management team. During my tenure, I have witnessed the Group's growth and evolution, and I am proud of the progress we have made.

I want to express my gratitude to all our shareholders for your trust and support and I am confident that the Group is well-positioned for continued success. The Audit Committee will transition smoothly to a new Chair, who will continue to champion the values and principles that drive the Group.

I look forward to meeting shareholders at the AGM on 17 January 2024 and will be happy to respond to any questions relating to the activities of the Audit Committee.

**Anne Thorburn**  
Chair of the Audit Committee  
20 November 2023



## AUDIT COMMITTEE

The Committee is chaired by Anne Thorburn and comprises five 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 General Counsel & Company Secretary acts as Secretary to the Committee. The Executive Directors and Board Chair also regularly 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 or management 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 2023 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, 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 2023. 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 DICSA and T.I.E.. The acquisitions were material for the FY23 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 provisional accounting for these two acquisitions and the other ten smaller acquisitions is appropriate.

The Group completed one disposal in the year for proceeds of £25m resulting in a net profit on disposal of £12m. The profit on disposal has been presented within acquisition and other related items.

## PROVISIONS FOR EXCESS AND SLOW-MOVING INVENTORY

The Committee reviewed the CFO report 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; it 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.

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.

## AUDIT COMMITTEE REPORT CONTINUED

**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 decreased, largely due to the reduction of the equity size premium, net of rising risk free rate and cost of debt; the achievability of management's forecasts in the short to medium-term against the backdrop of a challenging macroeconomic environment; 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 the downside case reflects a more significant decline in trading, lower than forecast operating margins, and adverse cash flows, 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 on Going Concern and Viability. Further detail on the assessment of Viability and the Viability Statement are set out on page 49. Further details on Going Concern can be found on page 173.

**ENGAGEMENT OF THE EXTERNAL AUDITOR**

The external auditor is engaged to express an opinion on the financial statements of the Group and the Company. The Committee welcomed Richard Porter as the new lead audit partner, following last year's audit partner rotation. 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 Group 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.

### 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 FRC Revised Ethical Standard 2019.

The Group 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 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 an Interim Review of the Group's half year consolidated financial statements (£74,500). 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 26 to the consolidated financial statements.

The Committee assures itself of the auditor's independence by receiving regular reports from the external auditor that 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 42 to 48.

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 subsequent 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, which is held in their local ERP system. This is 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.

## AUDIT COMMITTEE REPORT CONTINUED

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 audit function regularly audits the base data at each business to ensure it is properly reported through to the Group management reporting system.

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.

During the year, management reviewed the design of the Minimum Controls Framework, encompassing a set of standard process controls, entity level controls and IT general controls that will be rolled out to all entities in the Group from FY24, in conjunction with the upcoming requirements of the UK Corporate Governance Reforms.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2022 to the date of this report. Taking into account the matters set out on pages 44 to 48 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 Group CFO and Chair of the Audit Committee. During the year, a new Group Head of Internal Audit was appointed, who joined the Group in October 2023. Due to the expansion of our presence in the US, the incumbent Group Internal Audit Director will take on a new role and be responsible for the internal audits of the US entities, reporting to the new Group Head of internal Audit. This is effective from October 2023, with a smooth transition process completed at the date of this report. The department comprises a Group Head of Internal Audit and two Group Internal Auditors.

At the beginning of the year, the Group Internal Audit Director presented the audit plan for the year to the Committee for its approval. During the year, a risk-based scoping process was gradually introduced to combine a top-down, strategic approach and a bottom-up operational approach to identifying business risks which, in turn, shape the scope of each review when carrying out site visits.

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. The reports are also shared with the external auditors.

The Group Head of Internal Audit formally reports to the Committee on the results of the internal audit work carried out by the Internal Audit 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 Head of Internal Audit at least twice a year to review some of the department's reports and discuss their findings.

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

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 to the size and nature of the Group.



## WHISTLEBLOWING

The Committee also monitors the adequacy of the Group's Whistleblowing Policy and protocols, which provide the framework to encourage and give employees confidence to speak up 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 & General Counsel 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

### THE ROLE OF THE COMMITTEE

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

TERMS OF REFERENCE CAN BE FOUND ON OUR WEBSITE AT [WWW.DIPLOMAPLC.COM](http://WWW.DIPLOMAPLC.COM)

### KEY MATTERS DISCUSSED

- Succession planning for Chairs of Audit and Remuneration Committees.
- Recruitment of Jennifer Ward.
- Consideration of a detailed skills, experience and diversity matrix that sought to identify recruitment priorities based on identified gaps, industry expectations and good practice.
- Reviewing Board and Committee Diversity in detail as well as wider Group Diversity & Inclusion.
- Consideration of the contributions and effectiveness of the Non-Executive Directors seeking re-election at the FY23 Annual General Meeting, prior to giving recommendations to the Board and shareholders for their re-elections.
- Keeping the Group's leadership and succession requirements under active review.

MEMBER	MEETINGS ATTENDED	JOINED
DAVID LOWDEN (CHAIR)	4/4	October 2021
ANNE THORBURN	4/4	September 2015
ANDY SMITH	4/4	February 2015
GERALDINE HUSE <sup>1</sup>	3/4	January 2020
DEAN FINCH	4/4	May 2021
JENNIFER WARD <sup>2</sup>	0/1	June 2023

1 Geraldine Huse was unable to attend the September Nomination Committee meeting due to an unavoidable conflict.

2 Jennifer Ward was unable to attend the September Nomination Committee meeting due to an unavoidable conflict.



**David Lowden**  
Nomination Committee Chair

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

### DEAR SHAREHOLDER

I am pleased to set out 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 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 with consideration of the experience and expertise of existing Directors, any required skill sets or competencies, and the strategic requirements of the Group. During FY23 and into FY24, the composition of the Board has and will continue to change reflecting the departures of Anne Thorburn and Andy Smith in 2024 after nearly nine years of service leading our Audit Committee and Remuneration Committee respectively.

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 key focus of the Committee during this past year has been on Board succession planning, primarily 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. At the end of the financial year, three out of eight Directors (37.5%) were women and we had no Board members from a minority ethnic background, therefore did not meet the targets for women and ethnic minority representation.

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 59) about our Group-wide approach to diversity and inclusion, which emanates from the Board and impacts the approach of the Nomination Committee.

The guidance from the Financial Reporting Council (FRC) 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**  
Nomination Committee Chair  
20 November 2023

NOMINATION COMMITTEE REPORT 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 roles 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 when 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. Site visits by individual Directors (and the Board as a whole) are undertaken during the year as well, with this year focusing primarily on Life Sciences.

These visits allow 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.

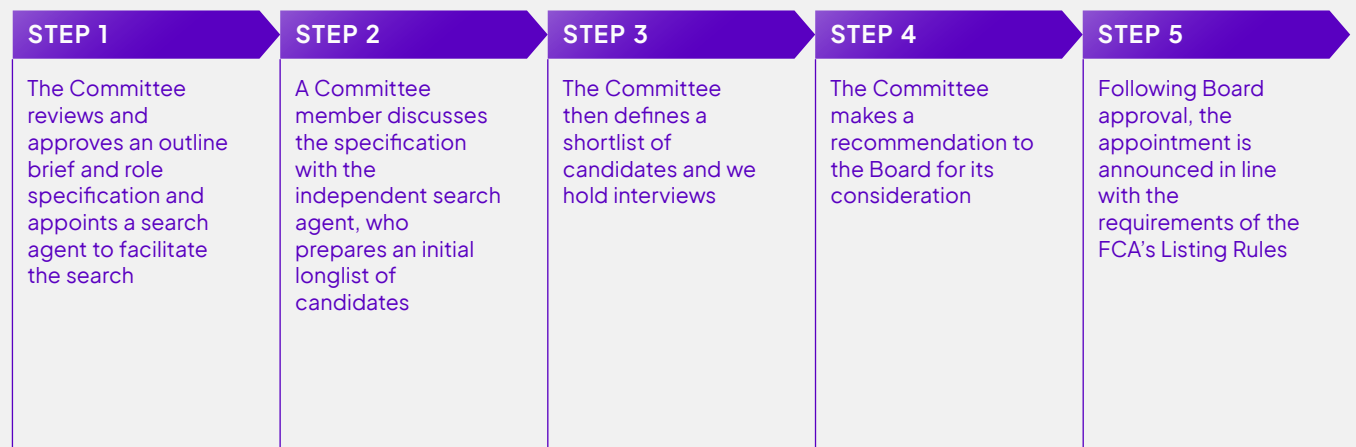
The Chair also has the responsibility of ensuring that Directors receive training on a continual basis in support of their ongoing development. This training is provided by way of technical updates, reports and briefings prepared for Board meetings. Directors have full access to our corporate advisors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

**PROCESS FOR BOARD APPOINTMENTS**

When making Board appointments, we follow the five steps outlined below. We disclose the name of the search agent and any other connection they have with Diploma in our Annual Report & Accounts published following the search.

During the year we engaged Korn Ferry in connection with the recruitment of Jennifer Ward. Korn Ferry do not have any other connection to the Group, other than providing executive search services.

In due course, a tailored induction programme is developed for the new Director.





**ONBOARDING PROCESSES**

The decentralised nature of the Group has always made induction processes complex. Ideally we seek to arrange 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. 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 General Counsel & Company Secretary, 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 2023, the Committee undertook a regular thorough analysis of the Board’s competencies. The Committee also considered how the Board would need to evolve to be fit for the future, as well as any potential gaps that may need to be filled through succession or training.

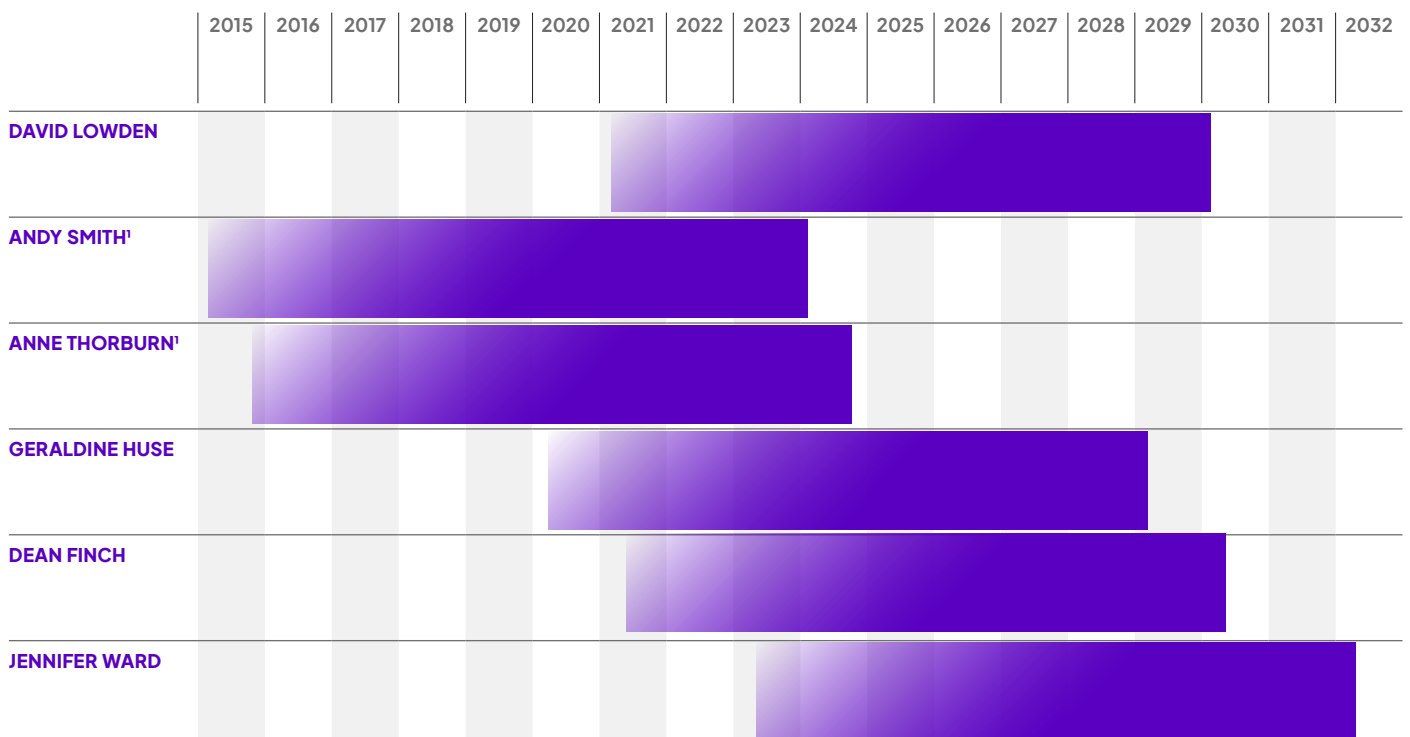
The Group CEO manages the development of succession plans for the Executive Team, and these are overseen by the Committee. The Group CEO and Group HR Director presented a succession planning update to the Board in January 2023.

The Committee is aware of the importance of identifying critical roles within the businesses to ensure Diploma retains and motivates key talent and has 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 of nine years, as determined by applicable UK standards.

**LENGTH OF TENURE**



█ Length of term

1 Director in third and final term.

## NOMINATION COMMITTEE REPORT CONTINUED

**DIVERSITY & INCLUSION**

Diversity is a key consideration when assessing the Board's composition and that of its Committees, as well as the wider Group, to ensure the development of a diverse pipeline for succession. The Committee has worked hard to ensure the Board is sufficiently diverse to meet and support its future strategic developments.

The Board and this Committee consider a broad definition of diversity when setting policies and appointing Directors. This includes: ethnicity, religion, socio-economic background, gender, sexual orientation, age, disability, partnership status, culture, personality and professional experience.

The Board confirms that as at 30 September 2023 (being the reference date selected by the Board for the purposes of this disclosure) the Company has not fully complied with the gender diversity targets of Listing Rule 9.8.6R(9) and the FTSE Women Leaders Review. It is anticipated that following the departures of two Non-Executive Directors in 2024, the Company will fully comply with the gender diversity targets of the Listing Rule.

The Committee notes the Parker Review and the ethnicity diversity targets of Listing Rule 9.8.6R(9) and acknowledges that further work is required for the Board and its Committees to become more ethnically diverse. In order to develop a truly diverse culture, the Board and its Committees recognises it needs to set the tone and become more proportionately representative of its workforce and the stakeholders it serves.

As at 30 September 2023 the Company did not meet the Listing Rule 9.8.6R(9) ethnicity target for Board members of at least one individual on its Board from a minority ethnic background.

In order to collect the data for the gender and ethnic diversity disclosures, the Board and its executive management team were each sent a series of questions to complete, including asking how they self-identify in each of the designated categories under the Listing Rules disclosure. This data was then collected with results recorded and retained for future records.

**BOARD AND EXECUTIVE MANAGEMENT GENDER IDENTITY**

	Number of Board Members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	62.5%	3	7	78%
Women	3	37.5%	1	2	22%

**BOARD AND EXECUTIVE MANAGEMENT ETHNIC IDENTITY**

	Number of Board Members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Non-ethnic minority	8	100%	4	8	100%

**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 2023, 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 and Executive Directors were reviewed by the

Board Chair. The results of the 2023 evaluation process were considered and debated in detail by the Board. The conclusion was that the Board, its members and its committees continue to function well. 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
Board and Committee structures	Review Committee structures and Board schedule to reflect the increased size/complexity of the Group, and to permit Committees to function in parallel as appropriate.
Enhanced risk management	Development of risk management and an increased focus on climate-related and emerging risks, in line with our overall strategy.
Stakeholders	Develop further understanding of key stakeholders, including customers, during Board business visits and with additional deep-dive sessions as appropriate.

The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2024 Annual Report.

**KEY AREAS FOR DEVELOPMENT**

The below recommendations were made following the 2022 external Board performance evaluation.

RECOMMENDATION	ACTION
Consider the diversity of the Board, from both a gender and ethnicity standpoint.	Nomination Committee addressed diversity requirements in succession planning and during the Non-Executive Director recruitment process.
Continue to challenge and support on the progress of DVR actions.	The Board continues to critically review DVR progress and actions. After consideration the Board concluded that it was preferable for DVR matters to remain the focus of the full Board rather than a committee.
Improve information shared with the Board to enhance visibility on certain topics and improve decision-making.	Board papers continue to evolve to ensure they communicate effectively and facilitate critical thinking and decision-making.

## REMUNERATION COMMITTEE REPORT

### 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 workforce remuneration policies.

TERMS OF REFERENCE CAN BE FOUND ON OUR WEBSITE AT [WWW.DIPLOMAPLC.COM](http://WWW.DIPLOMAPLC.COM)

### KEY MATTERS DISCUSSED

- Approved Remuneration Committee work programme for 2023.
- Reviewed the AGM 2023 votes on the 2022 Remuneration Committee Report.
- Undertook a post-AGM review of the new Remuneration Policy.
- Approved annual performance bonus targets and the subsequent bonus awards for 2023.
- Approved new Performance Share Plan (PSP) awards for Executive Directors and Group senior management and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP awards made in December 2020, which matured in 2023.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Reviewed the fees of the Chair and Non-Executive Directors.
- Reviewed remuneration framework for the Executive Team and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2023 Remuneration Committee Report.

MEMBER	MEETINGS ATTENDED	JOINED
ANDY SMITH (CHAIR)	3/3	February 2015
ANNE THORBURN	3/3	September 2015
DAVID LOWDEN	3/3	October 2021
GERALDINE HUSE <sup>1</sup>	2/3	January 2020
DEAN FINCH	3/3	May 2021
JENNIFER WARD	1/1	June 2023

<sup>1</sup> Geraldine Huse was unable to attend the September 2023 meeting due to an unavoidable conflict.



**Andy Smith**  
Remuneration Committee Chair



“Another strong year of performance adds to the track record of growth, strategic execution and strong returns. We continue to develop our reward based on the interests of all stakeholders.”

### 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 2023.

### CONTEXT AND APPROACH TO REMUNERATION

The Company continues to perform very strongly. Our current leadership team has led substantial and rapid growth and created considerable shareholder value over the longer term. In September 2018 Diploma was ranked 189th on the FTSE index and in August 2023 we entered the FTSE 100, more than doubling the market capitalisation in five years.

The Board is very pleased with this growth and recognises it is key for us to retain our strong leadership team, incentivise them to deliver and to be able to attract the talent we need to continue to grow. As we continue to build high-quality scalable businesses that deliver sustainable organic growth, our leadership roles become bigger and more complex. The Committee devotes considerable time to ensuring that our remuneration policies and practices align to strategy and that reward is linked firmly to performance. The Committee pays particular attention to developing reward to keep pace with the rapid growth in the Company and the increasing complexity it brings.

If the growth trajectory of the Company continues, it is likely that the organisation will need to bring forward the Remuneration Policy review for consultation during 2024 and for voting at the January 2025 AGM. The Committee will continue to review this over the coming months.

### 2023 PERFORMANCE PAY

The leadership team has delivered another year of strong performance and continued to build on their impressive track record (pages 106 to 107). It has been a year of excellent progress with regard to scaling the Company to enable further growth through building infrastructure, developing talent and further developing our businesses' target operating models, capabilities and cultures. Organic growth has been strong, driven by revenue diversification initiatives and good organic performance from recent acquisitions. We have continued our programme of high-quality acquisitions with two strategic additions and ten smaller 'bolt-ons' taking us into new strategic markets (further detail on strategic delivery can be found on pages 12 to 17).

Adjusted operating profit, reported revenue and free cash all exceeded annual bonus targets (on page 109), resulting in a full bonus payment of 125% of salary for both Johnny Thomson and Chris Davies.

Our long-term performance continues to generate excellent shareholder returns.

Our three-year compound annual growth rate (CAGR) for adjusted earnings per share (EPS) is 31%, exceeding the performance target maximum of 14%. Return on adjusted trading capital employed (ROATCE), which underpins our Performance Share Plan (PSP), is 18% and in line with the Group's financial model and Board expectation. Our three-year total shareholder return (TSR) performance is in the 88th percentile when compared to the comparator group of FTSE 250 companies (excluding investment trusts). The Committee reviewed the possible impact of Covid on the outturn of the 2020 grant and was satisfied that there was no windfall gain. Therefore, based on these excellent results, the PSP 2020 has vested at maximum for Johnny Thomson and all other PSP participants. Given his start date of November 2022, Chris Davies does not have any PSP vesting this year. Full details are shown in the table on page 112. As covered in previous disclosures, Chris Davies received remuneration to replace variable awards foregone at his previous employer in order to join the Group (shown on page 108).

In line with the Code, the Committee reviewed individual Directors' incentive plan outcomes and overall remuneration considering the Company's underlying performance and concluded that Executive Director remuneration in respect of the year ended 30 September 2023 is consistent with the levels of Company performance delivered and that there was no requirement for any discretionary adjustments.

## REMUNERATION COMMITTEE REPORT CONTINUED

**IMPACT OF GROWTH AND SCALE ON REMUNERATION**

Diploma's trajectory over the last five years is extremely positive and has generated excellent returns for shareholders.

On page 107 we have set out the journey of growth, portfolio development and strategic execution delivered by management over the last five years since Johnny Thomson was appointed as CEO. In that time the business has added seven new business lines and diversified product ranges as well as expanded and entered new geographic end-markets.

Balancing the development of reward to account for the pace of growth and increasing complexity and proven, sustainable performance is key. Accordingly, the Committee pays careful attention to ensuring reward follows performance and does not precede it. In its considerations, the Committee balances the interests of shareholders, management and colleagues, and uses relevant market data as context to inform decisions. Given our entry into the FTSE 100, the Committee now reviews market data for companies of a similar size using FTSE 51-100 (excluding investment trusts and financial services) as the broad comparator group and a bespoke group of 11 companies\* as a peer comparator.

**REMUNERATION IN THE WORKFORCE**

Our colleagues are at the heart of our success and retaining top talent in highly competitive international markets is key to Diploma's delivery. We seek to ensure that colleagues are fairly and well-rewarded and are pleased to note that the Company achieved outstanding levels of colleague engagement again this year (more information on page 56).

The Committee takes colleagues' perspectives into account when considering remuneration across the Company. During 2023, the Committee engaged with colleagues in our workforce via the Executive team, business presentations and site visits. The general feedback from the workforce is that they want the Company to be successful and sustainable so as to provide job security, and for everyone to be paid fairly.

In our decentralised model, remuneration decisions for our workforce of around 3,300 colleagues operating in different markets, businesses and countries are made locally, based on local market conditions. We do seek to align remuneration throughout the Company, and the Group provides guidance and oversight to ensure we pay all our colleagues fairly and in line with our Group reward philosophy.

For our business leaders, we have increased variable pay, both short-term and long-term remuneration, ensuring emphasis on sustainable long-term performance.

The overall workforce pay increase for the start of 2024 is 5%. This year we have experienced more regional variation than usual, driven by differences in the pace of changing inflation and macroeconomic conditions in different markets.

For our wider workforce, our UK businesses are moving towards the real living wage (with our businesses already accredited or in the process of being accredited and new acquisitions tasked to move towards that goal). We have also introduced life assurance for all UK colleagues who did not previously have it and have introduced further healthcare plans.

**EXECUTIVE REMUNERATION FOR 2024 – IMPLEMENTATION****Fixed Pay:**

Johnny Thomson continues to deliver excellent leadership and build an impressive track record. The breadth and complexity of his role has increased significantly as the Company scales and expands into new end markets, new products and new geographies.

As stated earlier, our ambition is strong, and we want to retain Johnny to lead the Company through the next phase of growth. He is of great value to our business, with a skillset that is highly sought after in the market. We wish to continue to move his reward and incentivisation forward to recognise the increased scale of the business, the excellent performance delivery, and the increased worth in the marketplace that his track-record of delivery brings.

Against the current FTSE comparator group and also against the bespoke peer group\*, Johnny's total direct compensation (TDC) is between lower quartile and median; base rate is at lower quartile and bonus as a percentage of salary is below lower quartile.

After careful consideration of pace of growth, complexity and the interests of stakeholders, including consultation with ca. 20 of our largest shareholders representing around 60% of our register, as well as the key proxy agencies, the Committee has decided to increase the CEO's reward this year as permitted within our existing policy. We are therefore increasing Johnny Thomson's annual base salary from £754,000 per annum to £820,000 per annum, an increase of 8.75%.

\* Rentokil Initial plc, Bunzl plc, Halma plc, Spirax-Sarco Engineering plc, Croda International plc, DS Smith plc, Howden Joinery plc, RS Group plc, Spectris plc, Inchcape plc, Johnson Matthey plc.

Chris Davies joined us in November 2022, and we recruited him on a package that reflected that of his previous employer and his experience at the time. He has made a very strong start in his first year with us, swiftly establishing himself in the role, delivering against all his objectives and we are confident he will be instrumental in our future success. He has led the finance team well, building additional capability and has played an instrumental role in strengthening the Company's finances by managing an equity raise to support our M&A pipeline and refinancing of the Company's revolving credit facility.

Against the current FTSE market group and peer group\* CFO TDC is below lower quartile as are base rate and bonus as a percentage of salary. The Committee considered market positioning compared to peers, and determined that based on the scale of his role, his experience, and his contribution to the Company, an increase to Chris Davies' salary is warranted.

We are therefore increasing Chris Davies' annual base salary from £450,000 to £510,000 (an increase of 13.3%).

#### Annual Bonus:

The 2024 annual performance bonus will follow the same measures as 2023, 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 rationale stated above, Chris Davies will receive a PSP award of 250% of base salary (PSP 2022: 200%), which takes him to the maximum allowed under the existing policy. Additional emphasis on long-term reward was supported by shareholders and aligns with interests in sustainable long-term returns. Johnny Thomson will receive a PSP award of 300% of base salary which remains unchanged from 2022.

PSP measures remain unchanged for the 2023 grant. 75% of the total award will be based on adjusted EPS growth, with an underpin on ROATCE. 25% of the total award will be based on relative TSR. Given the Company's promotion into the FTSE 100, it was decided that the FTSE 250 (minus investment trusts) was no longer the best comparator group and having considered options, the Committee chose the FTSE 100 (minus investment trusts) as the most appropriate comparator group for the 2023 award.

Given the importance of stretching targets, the Committee spent time reviewing the long-term business case. In setting targets, we ensure strong focus on organic growth, enhanced by quality, strategic acquisitions and maintaining financial discipline in line with the Company's financial model. The targets for adjusted EPS have been set at the same level as 2022 (5% threshold and 13% maximum). This provides the right degree of stretch ambition for Diploma at this time. The Board will maintain oversight of ROATCE to ensure that it meets their expectations of high-teens. We will continue to review the level of stretch annually for each new PSP grant.

#### ESG

Our ESG programme Delivering Value Responsibly (DVR) is now firmly embedded in our strategy (more detail can be found on page 54). The management team are accountable for DVR as part of the strategy and performance is reviewed by the Board. In 2023 we set targets for the Group which the Committee noted were achieved. The Board are continuing to monitor performance and we are keeping the connection between DVR and Executive incentives under review. We have flexibility in our policy to introduce DVR as a measure in the future should that be appropriate.

#### NON-EXECUTIVE DIRECTORS AND COMMITTEE EVALUATION

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is operating effectively. As set out in the Nomination Report on page 96 Jennifer Ward will take up the role of Remuneration Chair in June 2024 after my tenure expires. Jennifer will continue our journey on remuneration with ongoing partnership with shareholders.

Non-Executive Director fees have been reviewed and the increases are set out on page 112. The Board and Committee are conscious of potentially higher demands on Non-Executive Directors which may arise from the Company's promotion to the FTSE 100. We plan to review fees at the end of 2024 based on our performance during next year.

#### CONCLUSION

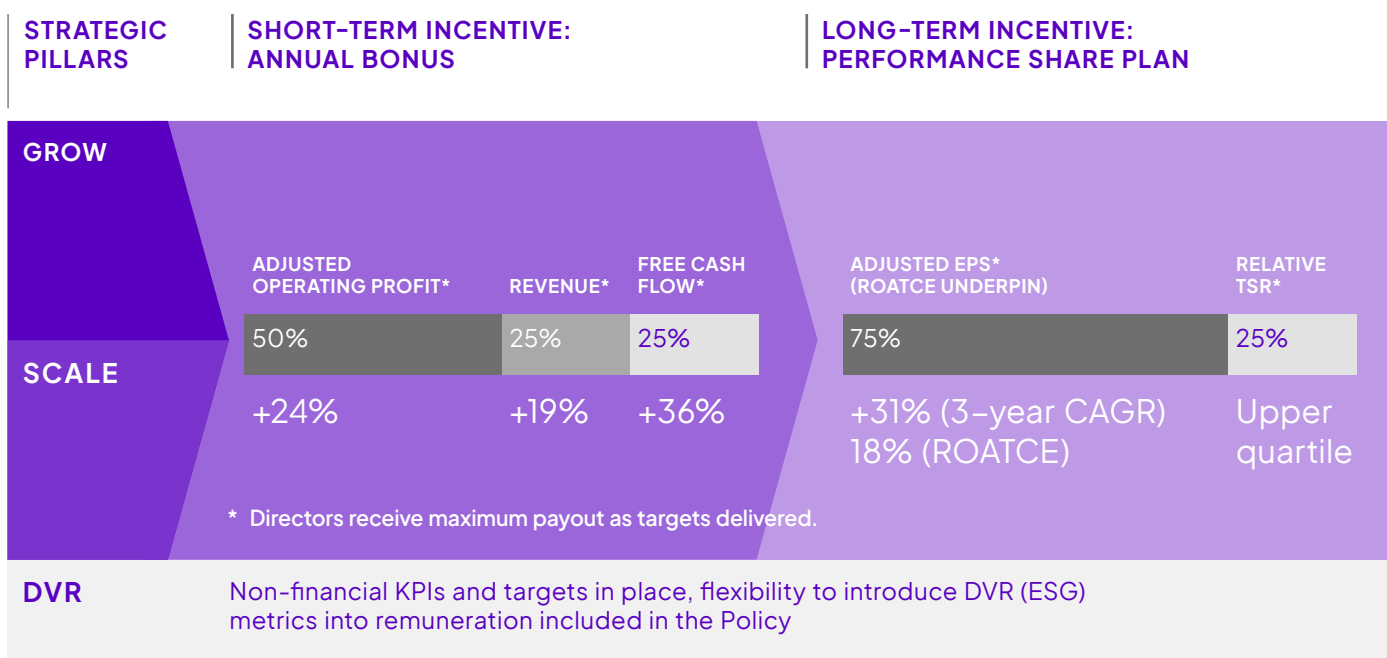
In closing, I would once again like to thank shareholders for their engagement over this last year and indeed for working closely with me over the past nine years. We will maintain close dialogue as we continue to deliver a competitive, motivating pay framework that is tightly aligned to shareholder experience. We look forward to receiving your support at the AGM on 17 January 2024.

**Andy Smith**  
Chair of the Remuneration Committee  
20 November 2023

## REMUNERATION AT A GLANCE

The strategy is working and delivering excellent long-term value for shareholders.

Diploma’s Strategy: build high-quality, scalable businesses for sustainable organic growth.



### REMUNERATION IN OUR DECENTRALISED BUSINESS AS WE SCALE:

#### EXECUTIVE DIRECTORS

- Stretching targets, pay for performance
- Evolving reward to keep pace with our expanding Company which is bigger and more complex to lead
- Aligned with shareholders on sustainable long-term performance
- Retaining top talent

#### LEADERSHIP ROLES

- Stretching targets, pay for performance
- Same basket of financial measures as Executive Directors; locally accountable
- Top 50 participate in Diploma Performance Share Plan
- Evolving reward to keep pace with our expanding roles which are bigger and more complex
- Attracting and retaining top talent

#### WORKFORCE

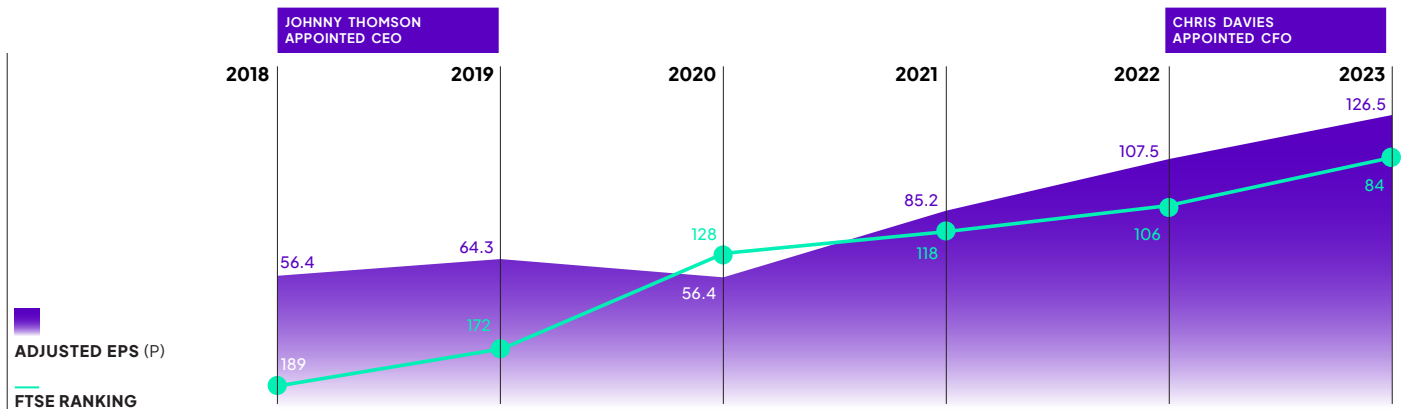
- Set locally
- Fair and competitive in local market
- Linked to colleague value proposition
- Attracting and retaining top talent



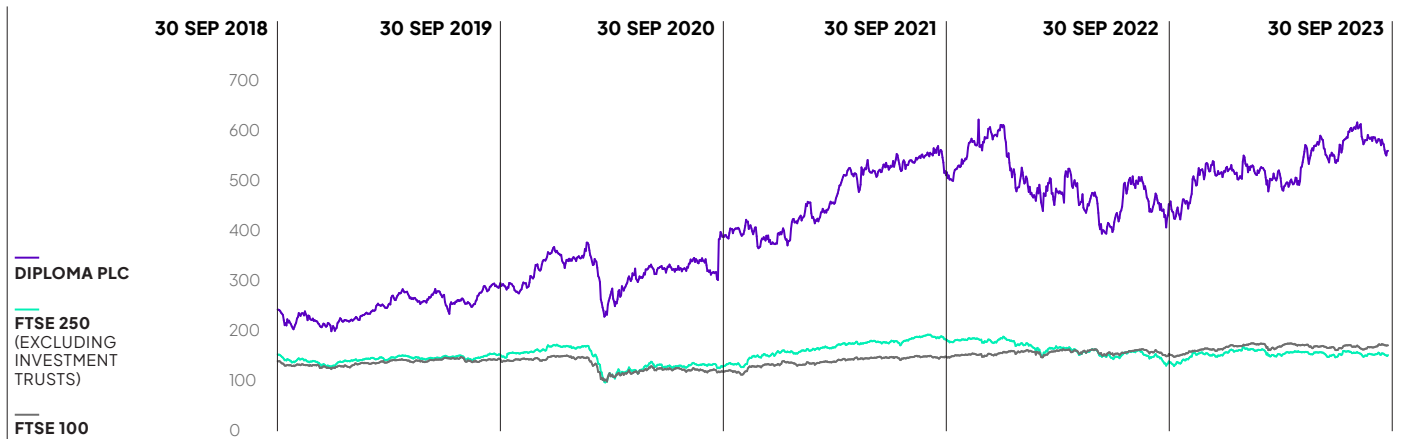
## GROWTH, VALUE AND SCALING

Diploma's trajectory over the last five years is extremely positive and has generated excellent returns for shareholders. Growth and scaling make our leadership roles more complex.

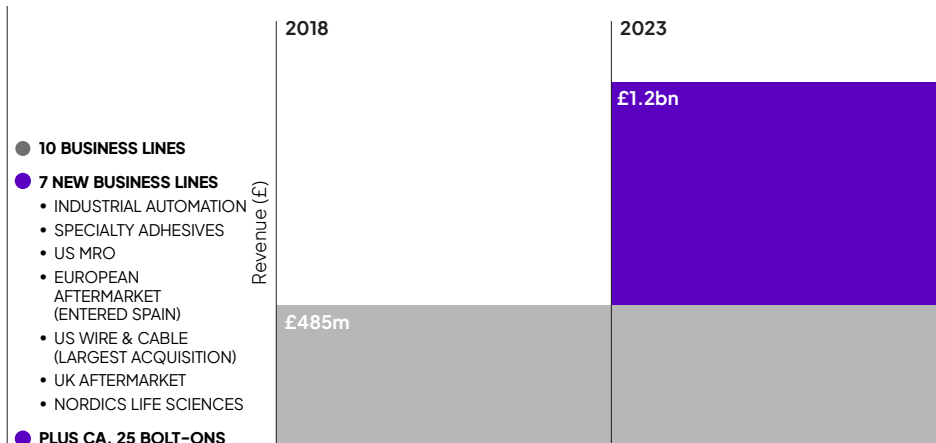
### Growth



### Value and returns (Total Shareholder Returns)



### Scaling the business and our leadership



## ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2023. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

### EXECUTIVE DIRECTORS (AUDITED)

#### Total remuneration in 2023 and 2022

	Johnny Thomson		Chris Davies <sup>1</sup>
	2023 £000	2022 £000	2023 £000
Salary	754	711	413
Taxable benefits <sup>2</sup>	26	25	18
Pension	41	71	17
<b>Total fixed</b>	<b>821</b>	<b>807</b>	<b>448</b>
Annual performance bonus	943	889	516
Long-term incentive plans – dividend equivalent (cash)	107	75	–
Long-term incentive plans – performance element	1,725	1,725	–
Long-term incentive plans – share appreciation element	522	262	–
Long-term share-based remuneration <sup>3</sup>	2,354	2,062	–
Other <sup>4</sup>	–	–	395
<b>Total variable</b>	<b>3,297</b>	<b>2,951</b>	<b>911</b>
<b>Single total figure</b>	<b>4,118</b>	<b>3,758</b>	<b>1,359</b>

1 Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022, replacing Barbara Gibbes who stepped down as CFO and an Executive Director on 30 September 2022.

2 Taxable benefits comprises cash allowance in lieu of a car, private medical, life assurance and income protection.

3 Dividend equivalents are included in long-term share-based remuneration and total variable pay.

4 In line with the Remuneration Policy, during the year Chris Davies received £186,000 in cash and £208,700 of restricted shares (7,518 shares at a share price of 2,776p) that are subject to a holding period of two years. These mirror the cash and share-based variable remuneration arrangements that are foregone in order to join the Group.

#### Executive Directors' base salary (unaudited)

On 14 November 2023, the Committee approved an 8.75% increase in base salary for the CEO and a 13.3% increase in base salary for the CFO. Explanations of how the Committee has considered remuneration in the workforce are in the Chair's letter on pages 103 to 105.

	Salary from 1 October 2023 £000	Salary from 1 October 2022 £000	Increase in salary
Johnny Thomson	820	754	8.75%
Chris Davies (appointed 1 November 2022) <sup>1</sup>	510	450	13.33%

1 Chris Davies was appointed Group CFO on 1 November 2022. His annualised salary for 2022 was £450,000.

**Pension (audited)**

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

	2023		2022	
	Contribution rate % of base salary	Pension allowance paid as cash £000	Contribution rate % of base salary	Pension allowance paid as cash £000
Johnny Thomson	10 / 4	41	10	71
Chris Davies	4	17	-	-

**ANNUAL PERFORMANCE BONUS (AUDITED)****Bonus payout for year ended 30 September 2023**

The Board approves a stretching budget each year. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2023. The following table summarises the performance assessment by the Committee in respect of 2023 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2023	Overall assessment against targets <sup>1</sup>
Adjusted operating profit (calculated on a constant currency basis) 50% of bonus opportunity	Minimum: £201.3m On-target: £211.9m Maximum: £222.5m	Adjusted operating profit for FY23 was £238.9m at exchange rates consistent with the FY23 targets. The maximum threshold was met and the maximum award is payable.
Revenue (calculated on a constant currency basis) 25% of bonus opportunity	Minimum: £1,087.2m On-target: £1,144.4m Maximum: £1,201.6m	Revenue for FY23 was £1,207.4m at exchange rates consistent with the FY23 targets. The maximum threshold was met and the maximum award is payable.
Free cash flow (reported) 25% of bonus opportunity	Minimum: £124.1m On-target: £130.6m Maximum: £137.1m	Free cash flow for the year was £163.8m. The maximum threshold was met and the maximum award is payable.

<sup>1</sup> All figures for FY23 are stated at the exchange rates that were used to set the FY23 targets.

**Bonus awarded to each of the Executive Directors for year ended 30 September 2023**

	Base salary		2023 actual bonus – as a percentage of 2022 base salary			2023 bonus	
	£000	Minimum	On-target	Maximum	Financial objectives	Total bonus	£000
Johnny Thomson	754	5%	63%	125%	125%	125%	943
Chris Davies	450	5%	63%	125%	125%	125%	516 <sup>1</sup>

<sup>1</sup> Chris Davies' bonus is prorated for the period from 1 November 2022 to 30 September 2023.

In line with the Remuneration Policy, minimum shareholding requirement for the CEO is 300% of base salary and 250% of base salary for other Executive Directors. In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (300%) and therefore his bonus for the year will be paid as cash. 50% of the 2023 bonus for Chris Davies will be paid as cash and 50% will be deferred into shares until he reaches his minimum shareholding requirement (250%) set out in the Policy.

**Bonus awards for year ended 30 September 2024**

In the financial year beginning 1 October 2023, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue (both metrics measured on a constant currency basis) and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report & Accounts, due to their commercial sensitivity.

## ANNUAL REPORT ON REMUNERATION CONTINUED

**LONG-TERM INCENTIVE AWARDS (AUDITED)**

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

**Performance conditions**

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2023 (PSP 2020), 2024 (PSP 2021), 2025 (PSP 2022) and 2026 (PSP 2023).

Vesting of the PSP 2020 and PSP 2021 awards are based 50% on growth in adjusted EPS and 50% on relative TSR performance. Vesting of the PSP 2022 and PSP 2023 awards are based on 75% growth in adjusted EPS and 25% on relative TSR performance. In order for any payment to be earned under the EPS element of awards, the Committee must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underpin will be measured as the ROATCE in the third year of the performance condition and as defined in note 28 of the consolidated financial statements.

**EPS**

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

Adjusted EPS growth (over three years)	% of awards vesting
14% p.a. (PSP 2020)	100
13% p.a. (PSP 2022) (PSP 2023)	100
12% p.a. (PSP 2021)	100
5% p.a.	25
Below 5% p.a.	Nil

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 28 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 a recognised broad equity market index of which the Company is a member. PSP awards 2020, 2021, 2022 used the FTSE 250 Index (excluding Investment Trusts). PSP award 2023 will use the FTSE 100 Index (excluding Investment Trusts) which follows the Company's promotion to the FTSE 100 Index in August 2023. When analysing the impact of moving the relative TSR comparator group from FTSE 250 to FTSE 100, we completed a retrospective comparison on PSP 2020, PSP 2019 and PSP 2018 and moving comparator group made no difference to the vesting outcome. Hence, the Committee agreed that awards which were granted when the Company was part of the FTSE 250 would continue to be compared against this index and those granted after promotion would be measured against the FTSE 100. The performance targets are as follows:

Adjusted EPS growth (over three years)	% of awards vesting
Upper quartile	100
Median	25
Below median	Nil

Where the Company's TSR performance is between these percentage bands, vesting of the award is calculated based on ranking.



**AWARDS VESTING IN 2023 (AUDITED)**

The PSP award granted on 23 November 2020 (PSP 2020) to Johnny Thomson, was subject to the performance conditions as set out on page 110 and independently assessed over a three-year period ended 30 September 2023. The outcome of this award is presented in the table below:

**Adjusted earnings per share**

	Base EPS	EPS at 30 Sep 2023	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2020)	56.4p	<b>126.5p</b>	30.9%	14%	50%	50%

The Committee has reviewed the ROATCE outturn and concluded that 18.1% is in line with expectations. The Committee reviewed the topic of windfall gains for the 2020 grant and it determined that as a result of the share price increase at the time of grant, there was no windfall gain concern. It was therefore the view of the Committee that the formulaic vesting should proceed without any adjustments.

**TSR growth against FTSE 250 (excluding Investment Trusts)**

	TSR at 30 Sep 2023	Median	Upper quartile	Maximum award	Vested award
PSP (2020)	<b>20.2% p.a.</b>	5.2% p.a.	12.1% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson at 30 September 2023 in respect of this award<sup>1</sup>.

	Share price at date of grant pence	Share price at 30 Sep 2023 pence	Proportion of award vesting	Shares vested number	Performance element <sup>2</sup> £000	Share appreciation element <sup>3</sup> £000	Total £000
Johnny Thomson PSP (2020)	2,306	3,004	<b>100%</b>	<b>74,804</b>	1,725	522	2,247

<sup>1</sup> Details of the PSP (2020) shares which vested to Barbara Gibbes at 30 September 2023 have been explained on page 112 as payment for loss of office.

<sup>2</sup> The performance element represents the face value of awards that vested, having met the performance conditions set out above.

<sup>3</sup> The share appreciation element represents the additional value generated through appreciation of the share price from the date the award was granted to the end of the three-year performance period on 30 September 2023.

**DIVIDEND EQUIVALENT PAYMENTS (AUDITED)**

Dividend equivalent payments of £106,895 (2022: £74,881) are payable to Johnny Thomson in respect of the PSP (2020) award which vested on 30 September 2023. Dividend equivalent payments cover all payments made in the three-year vesting period.

**LONG-TERM INCENTIVE PLAN – AWARDS GRANTED IN THE YEAR (AUDITED)**

Johnny Thomson and Chris Davies received a grant of the PSP 2022 award on 18 January 2023 and 28 November 2022 respectively in the form of nil-cost options. This award was based on a share price of 2,848p and 2,862p respectively, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the awards. The PSP 2022 award for Johnny Thomson was 300% of base salary and for Chris Davies was 200% of base salary prorated based on his start date of 1 November 2022. Additionally, in line with the Remuneration policy, Chris Davies also received grants of the PSP 2021 award on 28 November 2022 in the form of nil-cost options to replace variable remuneration awards foregone in order to join the Group. This award was based on a share price of 2,862p being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the awards.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the participating Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for this award are set out on page 110.

**OUTSTANDING SHARE-BASED PERFORMANCE AWARDS (AUDITED)**

Set out is a summary of the share-based awards outstanding at 30 September 2023, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out were granted based on a face value of 300% (250% for PSP 2021 and PSP 2020) of base salary to Johnny Thomson and a face value of 200% of base salary, prorated based on his start date of 1 November 2022, to Chris Davies. No awards will vest unless the performance conditions set out on page 110 are satisfied.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## DIPLOMA PLC 2020 (AS AMENDED) PERFORMANCE SHARE PLAN (AUDITED)

	Market price at date of award <sup>1</sup>	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2022	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2023
<b>Johnny Thomson</b>									
PSP (2020)	2,306p	1,725	30 Sep 2023	30 Sep 2023	74,804	-	<b>74,804</b>	-	-
PSP (2021)	3,118p	1,777	30 Sep 2024	30 Sep 2024	57,007	-	-	-	<b>57,007</b>
PSP (2022)	2,848p	2,262	30 Sep 2025	30 Sep 2025	-	<b>79,424</b>	-	-	<b>79,424</b>
<b>Chris Davies</b>									
PSP (2021) <sup>2</sup>	2,862p	220	30 Sep 2024	30 Sep 2024	-	<b>7,694</b>	-	-	<b>7,694</b>
PSP (2022)	2,862p	823	30 Sep 2025	30 Sep 2025	-	<b>28,773</b>	-	-	<b>28,773</b>

1 The market price is the mid-market share price at the close of business on the day before the grant date as disclosed on page 111.

2 In line with the Remuneration Policy, Chris Davies was granted 7,694 shares as part of the PSP (2021) award to replace share based payment arrangements forgone in order to join the Group.

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

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of options exercised during the year and outstanding at 30 September 2023 are set out later in this report.

## PAYMENTS FOR LOSS OF OFFICE (AUDITED)

In line with the approved Remuneration Policy as disclosed in the 2022 Annual Report, during 2023, Barbara Gibbes received a total payment of £341,807 for loss of office from the Company equivalent to base salary, pension allowance, benefits and legal costs. Barbara also received £516,718 (17,201 shares granted at a share price of 2,306p and vested at a share price of 3,004p) in connection with 100% vesting of her PSP (2020) award, which included a share appreciation benefit of £120,063. Dividend equivalent payments of £24,581 are payable to Barbara in respect of the PSP (2020) award. As at 30 September 2023, Barbara had 6,829 share-based awards outstanding under the PSP 2021 Performance Share Plan which were granted on 29 November 2021 at a share price of 3,118p, with a vesting date of 30 September 2024.

## CHAIR AND NON-EXECUTIVE DIRECTORS' REMUNERATION (AUDITED)

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

	Total fees	
	2023 £000	2022 £000
David Lowden	<b>289</b>	207
Andy Smith	<b>70</b>	67
Anne Thorburn	<b>80</b>	77
Geraldine Huse	<b>57</b>	55
Dean Finch	<b>57</b>	55
Jennifer Ward <sup>1</sup>	<b>19</b>	-

1 The fee for Jennifer Ward was prorated in 2023 following her appointment on 1 June 2023.

The Non-Executive Directors received a basic annual fee of £57,250 (2022: £54,500) during the year and additional fees are paid of £12,500 (2022: £12,000) for chairing a Committee of the Board or £10,500 (2022: £10,000) for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chair of the Company. The fees for Non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. From 1 October 2023, there has been a 6.1% increase to the Non-Executive Director annual fee to £60,750 and a 6.2% increase to the Chair's annual fee to £306,000. The additional fee for chairing a Committee of the Board has increased by 6% to £13,250 per annum and the additional fee for acting as Senior Independent Director has increased by 9.5% to £11,500 per annum. There were no taxable employment benefits for Non-Executive Directors in 2023 and 2022.

## EXECUTIVE DIRECTORS' INTERESTS (AUDITED)

### In options over shares

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

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

The nil-cost options outstanding at 30 September 2023 and the movements in the number of shares during the year are as follows:

	Year of vesting	Options as at 1 Oct 2022	Exercised in year	Vested during the year <sup>3</sup>	Options unexercised as at 30 Sep 2023	Exercise price <sup>4</sup>	Earliest normal exercise date	Expiry date
Johnny Thomson <sup>1,2</sup>	2022	85,481	85,481	–	–	£1	Nov 2022	Nov 2029
	2023	–	–	74,804	<b>74,804</b>	£1	Nov 2023	Nov 2030

- 1 Johnny Thomson exercised 85,481 options on 22 November 2022 at a market price of 2,800p per share and the total proceeds before tax was £2,393,468 less the exercise price of £1.
- 2 On 22 November 2022, the aggregate number of shares received by the participant was reduced by 40,177 shares as part of arrangements under which the company settled the PAYE liability that arose as a result of the exercise in full by the Executive Director of options held over shares.
- 3 The closing price of an ordinary share on 30 September 2023 was 3,004p (2022: 2,324p).
- 4 All awards have a notional exercise price of £1 per award.

### Directors' interests in ordinary shares

	As at 30 Sep 2023			As at 30 Sep 2022		
	Ordinary shares	Options vested but unexercised	Options with performance measures	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	<b>148,624</b>	<b>74,804</b>	<b>136,431</b>	102,330	85,481	131,811
Chris Davies	<b>4,974</b>	–	<b>36,467</b>	–	–	–

The minimum shareholding requirement (MSR) is 300% for the CEO and 250% for the CFO. As of 30 September 2023, Johnny Thomson's shareholding was 720% of salary and therefore he has met his MSR. Chris Davies' shareholding was 32% of salary and 50% of his Annual Performance Bonus will be deferred into shares until he reaches his MSR as set out in the Policy.

The shareholding calculations are in line with the Company's Shareholding Policy and includes shares from vested PSP awards.

As of 20 November 2023, there have been no changes to these interests in ordinary shares of the Company.

## ANNUAL REPORT ON REMUNERATION CONTINUED

**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 2023	As at 30 Sep 2022
David Lowden	2,896	2,500
Andy Smith	7,941	7,545
Anne Thorburn	5,441	5,045
Geraldine Huse	2,441	2,045
Dean Finch	1,036	640
Jennifer Ward <sup>1</sup>	-	-

<sup>1</sup> Jennifer Ward was appointed on 1 June 2023.

As of 20 November 2023, there have been no changes to these interests in ordinary shares of the Company.

**REMUNERATION IN CONTEXT****Chief Executive pay ratio (unaudited)**

The table below sets out the Chief Executive pay ratios as at 30 September 2023.

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

The employee data was measured on 30 September 2023, using the most up-to-date bonus estimates. The approach used was the same as the single total figure methodology with the exception that bonus estimates were used and colleagues who work part time were converted to full time equivalent and those who worked part of the year were annualised.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	Option A	155:1	126:1	89:1
2022	Option A	156:1	129:1	93:1
2021	Option A	228:1	180:1	126:1
2020	Option A	44:1	35:1	24:1

	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£754,000	n/a	£4,118,000
25th percentile	£24,053	31:1	£26,609
Median	£29,551	26:1	£32,670
75th percentile	£39,782	19:1	£46,272

We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. More detail on our approach to workforce pay and alignment to Executive Directors is contained on page 121. The CEO is remunerated predominantly on performance-related elements (bonus and share awards), which have delivered strong returns.

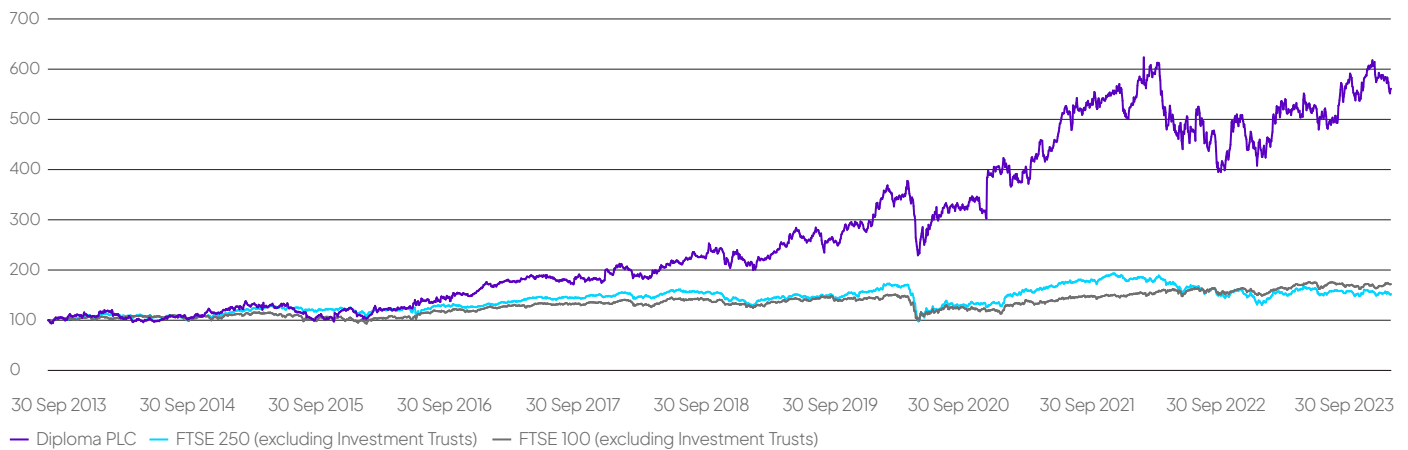
The median CEO pay ratio has remained at a similar level to prior year (2023: 126:1; 2022: 129:1). CEO pay has increased due to a base pay increase and higher share price appreciation, whilst reducing pension contributions. Total compensation for the UK workforce has increased double-digits due to higher wage increases in 2023 and higher bonuses. Median total compensation for the UK workforce has increased by 12% and median base pay has increased by 9% on prior year. Our UK businesses are moving towards the real living wage (with our businesses already accredited or in the process of being accredited and new acquisitions tasked to move towards that goal). We have also introduced life assurance for all UK colleagues who did not previously have it and have introduced further healthcare plans.



### Aligning pay with performance (unaudited)

The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2023 against the FTSE 250 Index (excluding Investment Trusts). The FTSE 250 Index (excluding Investment Trusts) was chosen because this is a recognised broad equity market index of which the Company was a member of throughout the ten years, with the exception of the final month of 2023.

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



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

#### CHIEF EXECUTIVE OFFICER REMUNERATION COMPARED WITH ANNUAL GROWTH IN TSR (UNAUDITED)

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
<b>2023</b>	<b>Johnny Thomson</b>	<b>4,118</b>	<b>100%</b>	<b>100%</b>	<b>32%</b>
2022	Johnny Thomson	3,758	100%	100%	-17%
2021	Johnny Thomson	5,242	100%	100%	+32%
2020	Johnny Thomson	999	25%	-	+34%
2019	Johnny Thomson <sup>2</sup>	1,079	72%	-	+20%
2019	John Nicholas <sup>1</sup>	62	-	-	+20%
2018	John Nicholas <sup>1</sup>	14	-	-	+36%
2018	Richard Ingram <sup>2</sup>	235	-	-	+36%
2018	Bruce Thompson <sup>2</sup>	3,842	100%	99%	+36%
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	-1%
2014	Bruce Thompson	1,846	65%	61%	+8%

1 John Nicholas was not eligible for an annual bonus or share award for service as interim Executive Chair for the period 28 August 2018 to 25 February 2019.

2 These amounts were prorated for the period served as CEO, with the exception of the annual bonus payable to Johnny Thomson, who joined the Company on 25 February 2019.

## ANNUAL REPORT ON REMUNERATION CONTINUED

## RELATIVE IMPORTANCE OF EXECUTIVE DIRECTOR REMUNERATION (UNAUDITED)

	2023 £m	2022 £m	Change £m
Total employee remuneration	210.0	177.5	32.5
Total dividends paid	70.5	56.2	14.3

## PERCENTAGE CHANGE IN REMUNERATION OF DIRECTORS AND EMPLOYEES (UNAUDITED)

Set out below is the change over the prior financial year in base salary/fees, benefits, pension and annual performance bonus of the Board and the Group's senior managers. Senior managers is a defined group of ca. 140 colleagues. The Committee chose senior managers for pay comparisons with the Board as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business. The figures for the Board are all on a full year basis to show the intended movement.

	Base salary/fee change (%) <sup>1</sup>				Taxable benefits change (%)				Bonus change (%)			
	2023 vs 2022	2022 vs 2021	2021 vs 2020	2020 vs 2019	2023 vs 2022	2022 vs 2021	2021 vs 2020	2020 vs 2019	2023 vs 2022	2022 vs 2021	2021 vs 2020	2020 vs 2019
<b>Executive Directors</b>												
Johnny Thomson <sup>2</sup>	+6	+3	No change	+3	+2	+2	+4	No change	+6	+3	+300	-64
Chris Davies <sup>3</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Non-Executive Directors<sup>4</sup></b>												
David Lowden <sup>5</sup>	+40	n/a	No change	n/a								
Andy Smith	+4	+3	No change	No change								
Anne Thorburn	+4	+6	+11	+3								
Geraldine Huse	+4	+3	No change	n/a								
Dean Finch	+4	+185	n/a	n/a								
Jennifer Ward <sup>6</sup>	n/a	n/a	n/a	n/a								
<b>Employees of the Parent Company<sup>7</sup></b>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Senior management team</b>	+6	+8	+1	+5	No change	No change	No change	No change	-6	+22	+77	-25

1 This does not take account of the voluntary pay reduction in 2020.

2 The reduction in pension was a voluntary reduction from 12.5% of base salary to 10.0% from 1 October 2021 and a further reduction to 4% from 1 January 2023.

3 Chris Davies was appointed on 1 November 2022.

4 The Non-Executive Directors do not receive any pension, bonus or taxable benefits.

5 The fee for David Lowden was prorated following his appointment as Chair on 19 January 2022. The like-for-like increase is +5%.

6 Jennifer Ward was appointed on 1 June 2023.

7 There are no employees of the Parent Company.

## EXECUTIVES AND SENIOR MANAGEMENT BELOW THE BOARD (UNAUDITED)

Set out below is a summary of the share-based awards outstanding at 30 September 2023, which have been granted to members of the Executive Team and other senior employees, including share awards which have vested during the year based on performance and share awards which have been granted both last year and during this year. The awards set out below were granted based on a fair value that varied between 10% and 100% of base salary. No awards will vest unless the performance conditions set out on page 110 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 2023.

	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 2022	Shares over which awards granted during the year	Vested during the year	Lapsed during the year	Shares over which awards held at 30 Sep 2023
PSP (2020)	2,306p	919	30 Sep 2023	39,860	-	39,860	-	-
	2,574p							
	2,682p							
PSP (2021)	3,118p	2,565	30 Sep 2024	94,172	-	-	3,802	90,370
	2,712p							
	2,862p							
PSP (2022)	3,032p	5,262	30 Sep 2025	-	190,872	-	7,007	183,865

## GOVERNANCE

### Remuneration Committee

The Committee is chaired by Andy Smith and comprises the six Independent Non-Executive Directors; David Lowden, Anne Thorburn, Dean Finch and Geraldine Huse, served on the Committee throughout the year and Jennifer Ward was appointed on 1 June 2023. The Group CEO, the Group CFO 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 2024 AGM.

### Remuneration principles and structure

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

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

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

### SERVICES FROM EXTERNAL ADVISORS (UNAUDITED)

The Committee has continued to receive its remuneration advice from Willis Towers Watson (WTW). 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. 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	187,323

### SHAREHOLDER VOTING AT PREVIOUS ANNUAL GENERAL MEETING (UNAUDITED)

The Directors' Remuneration Policy and the Remuneration Committee's Annual Report (Report) for the year ended 30 September 2022 was approved by shareholders at the AGM held on 18 January 2023, with the following votes being cast:

	Policy		2022 Report	
Votes for	104,630,292	96.18%	104,468,636	95.56%
Votes against	4,158,730	3.82%	4,849,065	4.44%
Withheld	683,816	-	155,137	-

At the AGM in January 2023, the 2022 DRR was approved with 95.56% of votes in favour. Given the positive voting outcome there was no immediate need for shareholder follow up. Consultation was conducted during 2023 on the 2023 DRR. During consultation there was an opportunity to check with shareholders if they had any outstanding issues from 2021 and none were raised.

## REMUNERATION POLICY

### REMUNERATION POLICY

This section of the Report sets out our Policy in detail. The current Policy for Executive Directors came into effect from 18 January 2023, and remains unchanged. The Policy can be found on pages 120 to 128 of the 2022 Annual Report and Accounts, which can be found on our Company website, [www.diplomaplc.com](http://www.diplomaplc.com), and a summary is set out in this Report on pages 118 to 125.

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

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

### EXECUTIVE DIRECTORS

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	<p>There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required.</p> <p>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.</p>	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for senior management more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be fair.	Pension contributions can either be paid directly into a pension savings scheme or taken as a separate cash allowance.	<p>Maximum pension contributions will be no higher than the rate offered to the majority of our UK workforce for UK-based Executive Directors.</p> <p>Maximum pension contributions for non-UK-based Executive Directors will be aligned with employees in the relevant local market.</p>	No performance metric.



Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.
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>Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee.</p> <p>Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be used to purchase shares on behalf of the Executive. The shares, which are beneficially owned by the Executive, are eligible for dividends and will only be released once the Executive reaches the minimum shareholding requirement. The remaining bonus shall be paid in cash following the relevant year end.</p> <p>Malus and clawback provisions apply to bonus awards.</p> <p>The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.</p>	<p>Maximum of 125% of base salary for the Executive Directors.</p> <p>Performance below threshold results in zero payment. Achievement of threshold performance results in payment of 5% of base salary. On-target bonus is 50% of maximum bonus.</p>	<p>Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance.</p> <p>Personal or strategic objectives, if used, will account for no more than 20% of the bonus.</p>

## REMUNERATION POLICY CONTINUED

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan (PSP)	Incentivise Executive Directors to achieve superior returns and long-term value growth.	<p>Performance assessed over rolling three-year performance periods.</p> <p>Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a 'good leaver'.</p> <p>Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant.</p> <p>Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting.</p> <p>Malus and clawback provisions apply.</p> <p>The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.</p>	<p>The maximum opportunity as a percentage of salary is 300% for the CEO and 250% for other Executive Directors.</p> <p>No more than 25% of the award will be payable at threshold performance.</p>	<p>Awards will be granted subject to a combination of financial and strategic measures closely aligned to the Company's strategy and measured over a period of no less than three years.</p> <p>Strategic non-financial objectives, if used, will account for no more than 20% of the PSP.</p>

## 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 can be reimbursed).</p>	The Chair's and Non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	No performance metric.

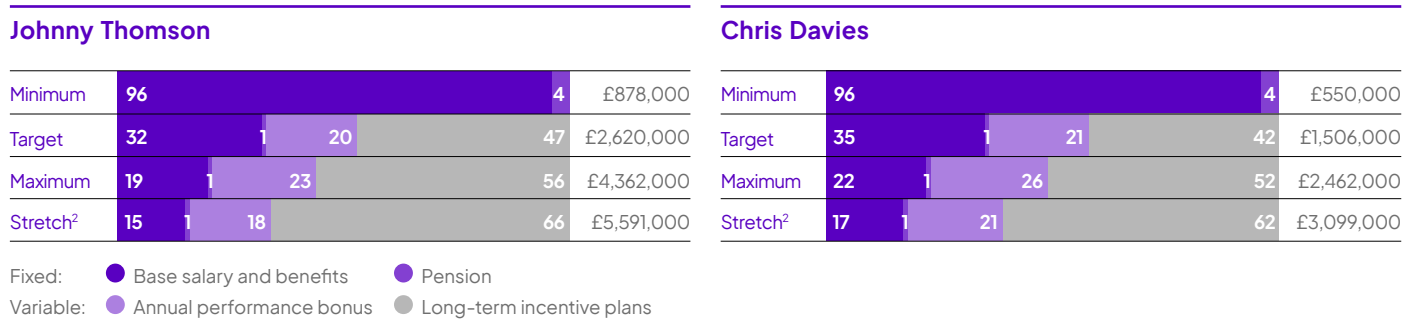
## Selection of performance measures and targets for Annual Bonus and PSP

The Annual Bonus Plan is designed to drive the annual financial and strategic objectives of the business. Performance measures selected are aligned to the Company's strategic plan and key objectives. Targets are set by reference to internal budget. Details of the measures selected for FY24 and the rationale behind the selection can be found in the Annual Report on Remuneration.

The PSP is designed to drive the delivery of the Company's longer-term objectives and support the delivery of value for shareholders. Performance measures are selected to align with these objectives and targets are set by reference to internal long-term business plans. Any major adjustment in the calculation of performance measures will be disclosed to shareholders on vesting. Details of the measures selected for FY24 and the rationale behind the selection can be found in the Annual Report on Remuneration.

## Illustration of application of Policy

Pay-for-performance: Executive Directors' potential value of 2024 remuneration packages.



1 Base salary is as at 1 October 2023; benefits are as set out on page 108.

2 Stretch is calculated on the same basis as the Maximum bar; however, it includes a share price uplift of 50% over three years for the PSP.

On-target remuneration assumes an Annual Performance Bonus Plan of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 300% of base salary (CFO: 250%) applies to each PSP award. On-target vesting of PSP awards assumes an adjusted EPS growth of 7.67% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. No dividend equivalents are assumed, and no share price growth is assumed other than in the Stretch bar.

### Consideration of shareholder views

The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published investor guidelines or appropriate regulation including the UK Corporate Governance Code.

### Differences in remuneration policy for other employees

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

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

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

## REMUNERATION POLICY CONTINUED

### Service contracts

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

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

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

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Johnny Thomson	15 Jan 2019	Rolling	1 year	1 year
Chris Davies	25 October 2022	Rolling	1 year	1 year

### Payment for loss of office

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

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

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

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

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

### Change of control

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

### Malus and clawback

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

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

### Remuneration for new appointments

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

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

- The remuneration structure will be kept simple where practicable.
- The emphasis on linking pay with performance shall continue, with variable pay representing a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with Diploma's approved Policy detailed above with a maximum aggregate variable pay opportunity of 425% of salary for the CEO and 375% for other Executive Directors. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses/an expatriate allowance paid, if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding requirement, deferral of annual performance bonus and the Holding Period for PSP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chair or Non-Executive Director will be set in line with the approved Policy.

### Committee discretion

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

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

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

- selecting the Executive Director participants and wider employee participation parameters for the annual bonus and PSP awards;
- timing of awards and grants of setting performance criteria each year;
- determining the quantum of grants and/or payments (within the limits set out in the Policy Table);
- adjusting the constituents of the TSR comparator group;
- determining the extent of vesting based on the assessment of performance;
- overriding formulaic outcomes and amending payouts under the Annual Bonus Plan and for PSP should it determine that either it is not a fair reflection of the underlying performance of the business or in exceptional circumstances;



## REMUNERATION POLICY CONTINUED

- applying or disapplying time prorating;
- dealing with leavers;
- discretion to waive or shorten the holding period for shares acquired under the PSP;
- discretion to retrospectively amend performance targets in exceptional circumstances, including making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); and
- in respect of share awards, to adjust the number of shares subject to an award in the event of a variation in the share capital of the Company.

### Policy in respect of external board appointments for Executive Directors

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

### Employee and post-employment shareholding requirements

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

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

As explained in the long-term incentive award section on page 120, Executive Directors are required to hold shares vesting under the PSP (net of tax) until the fifth anniversary of the grant (the Holding Period). The Holding Period continues to apply to post-cessation of employment except where cessation is by reason of death, if there is a change of control, or the Committee exercises its discretion.

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

## CHAIR AND NON-EXECUTIVE DIRECTORS

### Recruitment and term

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

### Fees

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

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

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

**PROVISION 40 TABLE**

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

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

## 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 82.

### SHAREHOLDERS

#### Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England and Wales under Company Number 3899848. At the date of this report there were 134,091,975 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year including the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, together with an indication of future developments is set out in the Strategic Report on pages 1 to 75, which incorporates the requirements of the Companies Act 2006 (the Act).

#### Annual General Meeting

The Annual General Meeting (AGM) will be held at 09.00am on Wednesday, 17 January 2024 in The Charterhouse, Charterhouse Square, London EC1M 6AN. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the Diploma PLC website.

#### Substantial shareholdings

At 30 September 2023, the Company had received formal notifications of the following holdings in its ordinary shares in accordance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs):

	Percentage of ordinary shares (September 2023)	Percentage of ordinary share capital (November 2023)
Capital Research Global Investors	13.0	12.97
Mawer Investment Management Limited	4.99	No change
Royal London Group	4.95	No change
The Vanguard Group, Inc	3.42	No change
Mondrian Investment Partners Limited	3.14	No change
BlackRock Inc	Below 5%	No change

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

#### Share capital

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

#### Shareholders

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

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

**Contracts of significance and change of control**

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

**Restrictions on transfer of shares**

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

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

**Share allotment**

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 18 January 2023.

**Authority to make market purchases of own shares**

An authority to make market purchases of up to 10% of the issued share capital shares was given to the Directors by a special resolution at the AGM of the Company held on 18 January 2023. In the year to 30 September 2023, the Company has not acquired any of its own shares.

**Liability insurance and indemnities**

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

**Disclosures required under Listing Rule 9.8.4C**

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

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

## DIRECTORS' REPORT CONTINUED

**Equity raise**

An allotment was made on 17 March 2023 otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which was not specifically authorised by the Company's

shareholders. The details of the allotment are set out below in accordance with LR 9.8.4R(7) and the most recently published Pre-Emption Group Statement of Principles (2022).

<b>Transaction details</b>	<p>In aggregate, equity raised of 9,350,965 New Ordinary Shares (comprising 9,297,005 Placing Shares, 3,960 Subscription Shares and 50,000 Retail Shares) represented approximately 7.5% of the Company's issued ordinary share capital.</p> <p>Settlement for the New Ordinary Shares and Admission took place at 8.00 a.m. on 21 March 2023.</p>
<b>Use of proceeds</b>	<p>The proceeds of the Placing, Subscription and Retail Offer was used to refinance the consideration paid for the acquisition of Tennessee Industrial Electronics, LLC, a market-leading, value-add distributor of aftermarket parts and repair services into the fast-growing US industrial automation end market, with a focus on robotics and computer numerical control (CNC) machines, and provide greater flexibility to execute further acquisitions.</p>
<b>Quantum of proceeds</b>	<p>In aggregate, the equity raised gross proceeds of approximately £236 million and net proceeds of approximately £232 million.</p>
<b>Discount</b>	<p>The Placing Price of 2,525 pence represented a discount of 4.2% to the closing share price of 2,636 pence on 16 March 2023.</p>
<b>Allocations</b>	<p>Soft pre-emption has been adhered to in the allocations process. Management was involved in the allocations process, which has been carried out in compliance with the MiFID II Allocation requirements. Allocations made outside of soft pre-emption were preferentially directed towards existing shareholders in excess of their pro rata, and wall-crossed accounts.</p>
<b>Consultation</b>	<p>The Joint Bookrunners undertook a pre-launch wall-crossing process, including consultation with major shareholders, to the extent reasonably practicable and permitted by law.</p>
<b>Retail investors</b>	<p>The equity raise included a Retail Offer, for a total of 50,000 Retail Shares, via the PrimaryBid platform.</p> <p>Retail investors, who participated in the Retail Offer, were able to do so at the same Placing Price as all other investors participating in the Placing and Subscription.</p> <p>The Retail Offer was made available to existing shareholders and new investors in the UK. Investors were able to participate through PrimaryBid's platform via its partner network (covering 60+ FCA registered intermediaries) and through PrimaryBid's free-to-use direct channel. Investors had the ability to participate in this transaction through ISAs and SIPPs, as well as General Investment Accounts (GIAs). This combination of participation routes meant that, to the extent practicable on the transaction timetable, eligible UK retail investors (including certificated retail shareholders) had the opportunity to participate in the equity raise alongside institutional investors.</p> <p>Allocations in the Retail Offer were preferentially directed towards existing shareholders in keeping with the principle of soft pre-emption.</p>



## NON-FINANCIAL INFORMATION

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report on pages 1 to 75 that would otherwise be required to be disclosed in this Directors' Report.

## NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

Other information that is relevant to the Directors' Report and which is incorporated by reference into this report, can be viewed in the section on Delivering Value Responsibly on pages 54 to 75 and includes:

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

Other related information can also be found as follows:

- Business model – pages 6 to 10.
- Principal risks and how they are managed or mitigated – pages 44 to 48.
- Non-financial key performance indicators – page 54.
- Employee engagement – pages 55 to 56.
- Stakeholder engagement – pages 50 to 53.
- Corporate governance statement – page 76.

## FINANCIAL

### Results and dividends

The profit for the financial year attributable to shareholders was £117.7m (2022: £94.7m). The Directors recommend a final dividend of 40.0p (2022: 38.8p) per ordinary share, to be paid, if approved, on 2 February 2024. This, together with the interim dividend of 16.5p (2022: 15.0p) per ordinary share, amounts to 56.5p for the year (2022: 53.8p).

The results are shown more fully in the audited consolidated financial statements on pages 140 to 180 and summarised in the Financial Review on pages 36 to 40.

## Independent Auditors

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

PricewaterhouseCoopers LLP (PwC) has expressed its willingness to continue in office as independent auditor and a resolution to reappoint PwC will be proposed at the AGM to be held on 17 January 2024.

## Directors' assessment of going concern

The Directors continue to adopt the going concern basis in preparing the Annual Report & Accounts. Their assessment in reaching this conclusion is set out in the notes to the consolidated financial statements on page 173.

## Statement of Directors' responsibilities for preparing the financial statements

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

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

## DIRECTORS' REPORT CONTINUED

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

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

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

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

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

**DIRECTORS' CONFIRMATIONS**

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

- the Group financial statements, which have been prepared in accordance with UK-adopted 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.

The Strategic Report and the Directors' Report were approved by the Board of Directors on 20 November 2023 and are signed on its behalf by:

**JD Thomson**  
Chief Executive Officer

**C Davies**  
Chief Financial Officer

**Registered office:**  
10–11 Charterhouse Square  
London  
EC1M 6EE

Registered Number:  
3899848

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

In our opinion:

- Diploma PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Parent Company Statements of Financial Position as at 30 September 2023; the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statements of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in the Audit Committee Report and Note 26 to the Consolidated Financial Statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

## Our audit approach

### Overview

#### Audit scope

- The Group is structured as three Sectors (Life Sciences, Seals and Controls) and we have conducted audit work across all of them. Through our full scope component audits, audit of the consolidation and additional audit procedures performed at a Group level we have achieved coverage of 69% (2022: 74%) of consolidated adjusted profit before tax and 68% (2022: 75%) of consolidated revenue.

#### Key audit matters

- Valuation of the intangibles for the DICSA and TIE acquisitions (Group)
- Carrying value of investments in subsidiaries and recoverability of intercompany receivables (Company)

#### Materiality

- Overall Group materiality: £10.8m (2022: £6.2m) based on approximately 5% of adjusted profit before tax (2022: profit before tax).
- Overall Company materiality: £6.1m (2022: £3.3m) based on 1% of total assets.
- Performance materiality: £8.1m (2022: £4.7m) (Group) and £4.6m (2022: £2.5m) (Company).

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

**Key audit matter*****Valuation of the intangibles for the DICSА and TIE acquisitions (Group)***

*Refer to page 179 Significant accounting estimates and critical judgements (Acquisition accounting) and Note 22 (Acquisitions and disposals of businesses) within the consolidated financial statements.*

The Group acquired DICSА and TIE for a combined consideration of £234.8m (net of cash acquired). Acquired intangible assets of £125.6m were identified and recognised in respect of these acquisitions.

The valuation of the acquired intangibles for these two acquisitions has been determined to be a significant risk due to its material quantum and the level of estimation associated with determination of fair values.

We have identified a significant risk associated with the valuation of the intangibles due to the magnitude of the acquisitions, the significant level of estimation involved in determining the fair value of the acquired intangibles and their sensitivity to changes in key assumptions.

The valuation of the identifiable intangible assets requires management estimation as it is dependent on a number of key assumptions including forecast revenue growth rates, discount rates and average historical customer attrition rates. In considering such assumptions, there is an inherent level of estimation uncertainty and subjectivity.

**How our audit addressed the key audit matter**

The procedures we undertook to address the significant risk identified included:

- Validation of the mathematical accuracy of management's models and appropriateness of the methodologies used to determine the fair values, with support from our internal valuation experts.
- Obtaining an understanding of the assumptions used to determine the value of acquired intangibles, and in particular considering the following key assumptions:
  - Discount rates: We engaged our valuation experts to corroborate the reasonableness of the discount rates using comparable market data, for example discount rates of other companies in similar industries.
  - Forecast revenue growth rates and margins: We compared the assumptions in respect of forecast revenue growth rates and margins to historical trading experience and the actual trading performance of the businesses post acquisition. In addition, we compared the forecasts used in the valuations to the Board approved budgets, comparable companies and industry reports.
  - Customer attrition rates: We corroborated the attrition rate assumptions and forecast cash flows to underlying support. We compared the assumptions in respect of forecast cash flows to historical customer sales and we engaged our valuation experts to assist in the evaluation of the methodology used by management.

From the procedures performed we concluded that management's estimate of the fair values of the acquired intangibles are appropriate.

## Key audit matter

### *Carrying value of investments in subsidiaries and recoverability of intercompany receivables (Company)*

Refer to the Parent Company Statement of Financial Position and Note D (“Investments”) within the Company financial statements.

At the balance sheet date, the Company had investments in subsidiaries of £372.4m (2022: £297.2m) and intercompany receivables of £246.9m (2022: £35.8m).

We have focused our audit efforts on this balance given the significance of it. The carrying amount of the Company’s investments in subsidiaries represents 60% of the Company’s total assets (2022: 89%). Given the trading performance of the underlying subsidiary investments, we do not consider the valuation of these investments to be at a high risk of material misstatement or to be subject to a significant level of impairment judgement/estimation. However, due to their materiality in the context of the Company financial statements as a whole, it is considered to be the area on which the most audit effort is focused within the audit.

## How our audit addressed the key audit matter

In assessing whether the carrying value of the Company’s investment in subsidiaries was supportable, we verified that the net asset positions of the individual investments were in excess of the carrying value of the investment in those subsidiaries. We also considered whether through the work performed throughout the audit identified any other impairment indicators regarding the recoverability of the carrying value of those investments at the balance sheet date. We have no issues to report in respect of this work.

With regards to the recoverability of intercompany receivables, we have obtained and reviewed management’s IFRS 9 assessment regarding the ability for the counterparty to settle the balances with liquid resources available at the balance sheet date taking into account other commitments.

We have no issues to report in respect of this work.

## How we tailored the audit scope

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

The Group is structured as three core Sectors (Life Sciences, Seals and Controls) with operations primarily geographically located in Australia, Canada, the USA, the UK and Continental Europe. Within the aforementioned Sectors are a number of businesses/management reporting entities which are consolidated by Group management.

The financial statements are a consolidation of multiple reporting components representing the operating businesses within these three core Sectors. Our audit scope was determined by considering the significance of each component’s contribution to adjusted profit before tax and contribution to individual financial statement line items, with specific consideration given to obtaining sufficient coverage over significant audit risks and other areas of higher risk.

We identified 18 financial reporting components across eight countries for which we determined that full scope audits would need to be performed, and one additional component in another country for which we performed audit procedures over specific large balances. Through our full scope audits, the audit of the consolidation and other audit procedures performed at a Group level, we have achieved coverage of 69% of the Group’s adjusted profit before tax and 68% 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, held in-person meetings with management from certain UK and USA businesses and discussed the audit approach and audit findings with all reporting component teams. Our attendance at each full scope component clearance meeting, reviews of the component reporting, and review and discussion of the audit working papers of a number of overseas locations, together with the additional procedures performed at Group level, gave us the evidence we needed for our opinion on the financial statements as a whole.

Our audit procedures at the Group level included the audit of the consolidation, fair value adjustments and intangible asset valuations on acquisitions, goodwill and investment impairment assessments, UK pensions and certain tax procedures. The Group engagement team also performed the audit of the Company and four UK components.



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

**The impact of climate risk on our audit**

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the financial statements and to support the disclosures made in relation to climate risk within the Strategic report, TCFD report and the Delivering Value Responsibly section.

In addition to enquiries with management, we also read management's experts report, which underpins the overall assessment of climate risk.

The Board has made commitments to achieve net zero carbon emissions across their value chain by 2045, with a 50% reduction in scope 1 & 2 emissions by 2030.

Management has assessed that there is no material impact on the financial reporting judgements and estimates arising from their considerations, consistent with previous assessments made by the Group.

Using our knowledge of the business, we evaluated management's risk assessment and related disclosures. In particular we have considered how climate risk would impact the assumptions made in the forecasts used in their goodwill impairment assessments and going concern analysis.

We also considered the consistency of disclosures in relation to climate change contained in the Strategic report, TCFD report and the Delivering Value Responsibly section within the Annual Report with the financial statements and our knowledge from our audit.

Our procedures, which included review of the disclosures made in relation to climate change in the TCFD report by our specialists did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 30 September 2023.

Our responsibility over other information is further described in the "Reporting on other information" section on our report. We have not been engaged to provide assurance over the accuracy of these disclosures.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<b>Financial statements – Group</b>	<b>Financial statements – Company</b>
<b>Overall materiality</b>	£10.8m (2022: £6.2m).	£6.1m (2022: £3.3m).
<b>How we determined it</b>	Approximately 5% of adjusted profit before tax (2022: profit before tax)	1% of total assets
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the Annual Report, adjusted profit before tax is considered as the primary measure used by the shareholders in assessing the underlying performance of the Group. This benchmark excludes the impact of adjustments in respect of amortisation of acquired intangible assets, acquisition items, profit or loss on disposal of operations, and other costs. We changed our benchmark in the current year to adjusted profit before tax which is a generally accepted auditing benchmark given the Group continues to be acquisitive in nature and is considered to be a more reasonable metric on which to measure underlying performance.	A typical measure used by shareholders in assessing the performance of a holding company and a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £450,000 and £9.9m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £8.1m (2022: £4.7m) for the Group financial statements and £4.6m (2022: £2.5m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £537,500 (Group audit) (2022: £312,000) and £305,000 (Company audit) (2022: £165,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's going concern assessment to ensure it was based upon the latest Board approved forecasts and that the cashflow assumptions were consistent with our understanding of the outlook for the sectors and the wider market;
- Testing the mathematical accuracy of the model, including forecast compliance with covenants;
- Corroborating key model inputs to independent evidence obtained over the course of the audit;
- Discussing conclusions with management across the business, including sector heads, to ensure consistency and gain perspective on the developments within the business;
- Comparison of the prior year forecasts against current year actual performance to assess management's ability to forecast accurately;
- Reviewing the latest signed financing agreements to validate covenants used in the modelling and the timing of debt maturities; and
- Reviewing management's downside and severe but plausible scenarios to ensure these appropriately reflect the risk of potential performance below forecast levels, and that there remains sufficient headroom both against covenant compliance and liquidity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 September 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### Directors' Remuneration

In our opinion, the part of the Annual Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

## Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and 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 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 Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities for preparing the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to data protection laws (including GDPR) and health and safety and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the UK Listing Rules, the Companies Act 2006, indirect and direct tax legislation and pension rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent journal entries to manipulate the financial performance and management bias in significant accounting estimates, in order to achieve management incentive scheme targets and market consensus. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- enquiring of Group and local management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of internal audit reports;
- enquiring of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations;
- reviewing minutes of meetings of those charged with governance;
- challenging assumptions and judgements made by management in their accounting estimates (due to the risk of management bias), including the inventory provision and accounting for acquisitions;
- incorporating elements of unpredictability into our work;
- reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws; and
- auditing the risk of management override of controls, including through testing certain journal entries and other adjustments for appropriateness.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



## OTHER REQUIRED REPORTING

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Annual Report on Remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 March 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 30 September 2018 to 30 September 2023.

## OTHER MATTER

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

**Richard Porter (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
London  
20 November 2023

## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Note	Adjusted <sup>1</sup> 2023 £m	Adjustments <sup>1</sup> £m	Total 2023 £m	Adjusted <sup>1</sup> 2022 £m	Adjustments <sup>1</sup> £m	Total 2022 £m
<b>Revenue</b>	3,4	<b>1,200.3</b>	<b>-</b>	<b>1,200.3</b>	1,012.8	-	1,012.8
Operating expenses	2	<b>(963.3)</b>	<b>(53.7)</b>	<b>(1,017.0)</b>	(821.6)	(46.9)	(868.5)
<b>Operating profit</b>		<b>237.0</b>	<b>(53.7)</b>	<b>183.3</b>	191.2	(46.9)	144.3
Financial expense, net	6	<b>(20.4)</b>	<b>(7.3)</b>	<b>(27.7)</b>	(11.6)	(3.2)	(14.8)
<b>Profit before tax</b>		<b>216.6</b>	<b>(61.0)</b>	<b>155.6</b>	179.6	(50.1)	129.5
Tax expense	7	<b>(52.0)</b>	<b>14.7</b>	<b>(37.3)</b>	(45.0)	10.9	(34.1)
<b>Profit for the year</b>		<b>164.6</b>	<b>(46.3)</b>	<b>118.3</b>	134.6	(39.2)	95.4
Attributable to:							
Shareholders of the Company		<b>164.0</b>	<b>(46.3)</b>	<b>117.7</b>	133.9	(39.2)	94.7
Minority interests	21	<b>0.6</b>	<b>-</b>	<b>0.6</b>	0.7	-	0.7
		<b>164.6</b>	<b>(46.3)</b>	<b>118.3</b>	134.6	(39.2)	95.4
<b>Earnings per share (p)</b>							
Adjusted/Basic earnings	9	<b>126.5p</b>		<b>90.8p</b>	107.5p		76.1p
Adjusted/Diluted earnings	9	<b>125.9p</b>		<b>90.4p</b>	107.3p		75.9p

1 Adjusted figures exclude certain items as set out and explained in the Financial Review and as detailed in notes 2, 3, 4, 6 and 7. All amounts relate to continuing operations.

The Group has re-presented the Consolidated Income Statement to reflect the analysis of expenses based on their nature. Together with note 2, this provides more information that is relevant to the users of the financial statements and better aligns to how management information is reported internally.

The notes on pages 144 to 180 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £m	2022 £m
<b>Profit for the year</b>		<b>118.3</b>	95.4
<b>Items that will not be reclassified to the Consolidated Income Statement</b>			
Actuarial (loss)/gain on the defined benefit pension schemes	25	<b>(0.9)</b>	10.6
Deferred tax on items that will not be reclassified	7,14	<b>0.2</b>	(2.8)
		<b>(0.7)</b>	7.8
<b>Items that may be reclassified to the Consolidated Income Statement</b>			
Exchange differences on translation of foreign operations		<b>(46.3)</b>	76.8
Gains on fair value of cash flow hedges	19	<b>1.8</b>	4.5
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	<b>(3.8)</b>	(0.4)
Deferred tax on items that may be reclassified	7,14	<b>0.5</b>	(1.1)
		<b>(47.8)</b>	79.8
<b>Total Other Comprehensive Income</b>		<b>(48.5)</b>	87.6
<b>Total Comprehensive (Expense)/Income for the year</b>		<b>69.8</b>	183.0
Attributable to:			
Shareholders of the Company		<b>69.3</b>	182.2
Minority interests		<b>0.5</b>	0.8
		<b>69.8</b>	183.0

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

	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
<b>At 1 October 2021</b>		6.3	188.6	12.1	0.2	329.1	<b>536.3</b>	4.7	<b>541.0</b>
Total Comprehensive Income		-	-	76.7	3.0	102.5	<b>182.2</b>	0.8	<b>183.0</b>
Share-based payments	5	-	-	-	-	2.8	<b>2.8</b>	-	<b>2.8</b>
Tax on items recognised directly in equity	7	-	-	-	-	0.4	<b>0.4</b>	-	<b>0.4</b>
Notional purchase of own shares		-	-	-	-	(2.8)	<b>(2.8)</b>	-	<b>(2.8)</b>
Acquisition of business		-	-	-	-	-	<b>-</b>	2.5	<b>2.5</b>
Disposal of business		-	-	-	-	-	<b>-</b>	(1.3)	<b>(1.3)</b>
Minority interest put option on acquisition		-	-	-	-	(1.9)	<b>(1.9)</b>	-	<b>(1.9)</b>
Minority interest put option disposal		-	-	-	-	1.2	<b>1.2</b>	-	<b>1.2</b>
Minority interest acquired	21	-	-	-	-	-	<b>-</b>	(0.3)	<b>(0.3)</b>
Dividends	8,21	-	-	-	-	(56.2)	<b>(56.2)</b>	(0.2)	<b>(56.4)</b>
<b>At 30 September 2022</b>		6.3	188.6	88.8	3.2	375.1	<b>662.0</b>	6.2	<b>668.2</b>
Total Comprehensive Income		-	-	(46.3)	(1.5)	117.1	<b>69.3</b>	0.5	<b>69.8</b>
Issue of share capital		0.5	231.6	-	-	-	<b>232.1</b>	-	<b>232.1</b>
Share-based payments	5	-	-	-	-	4.1	<b>4.1</b>	-	<b>4.1</b>
Tax on items recognised directly in equity	7	-	-	-	-	0.5	<b>0.5</b>	-	<b>0.5</b>
Notional purchase of own shares		-	-	-	-	(1.9)	<b>(1.9)</b>	-	<b>(1.9)</b>
Dividends	8,21	-	-	-	-	(70.5)	<b>(70.5)</b>	(0.3)	<b>(70.8)</b>
<b>At 30 September 2023</b>		<b>6.8</b>	<b>420.2</b>	<b>42.5</b>	<b>1.7</b>	<b>424.4</b>	<b>895.6</b>	<b>6.4</b>	<b>902.0</b>

The notes on pages 144 to 180 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 SEPTEMBER 2023

	Note	2023 £m	2022 £m
<b>Non-current assets</b>			
Goodwill	10	439.1	372.3
Acquisition intangible assets	11	520.1	455.0
Other intangible assets	11	4.2	4.1
Property, plant and equipment	12	59.2	49.6
Leases – right-of-use assets	13	71.5	62.4
Retirement benefit assets	25	6.8	6.4
Deferred tax assets	14	0.2	0.2
		<b>1,101.1</b>	950.0
<b>Current assets</b>			
Inventories	15	232.7	217.4
Trade and other receivables	16	193.1	169.9
Cash and cash equivalents	18	62.4	41.7
		<b>488.2</b>	429.0
<b>Current liabilities</b>			
Borrowings	24	(0.3)	(30.5)
Trade and other payables	17	(191.9)	(189.5)
Current tax liabilities	7	(16.6)	(11.8)
Other liabilities	20	(12.7)	(19.0)
Lease liabilities	13	(15.0)	(12.7)
		<b>(236.5)</b>	(263.5)
		<b>251.7</b>	165.5
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>			
		<b>1,352.8</b>	1,115.5
<b>Non-current liabilities</b>			
Borrowings	24	(316.8)	(340.1)
Lease liabilities	13	(65.2)	(56.4)
Other liabilities	20	(9.9)	(12.4)
Retirement benefit obligations	25	(0.3)	-
Deferred tax liabilities	14	(58.6)	(38.4)
		<b>(450.8)</b>	(447.3)
		<b>902.0</b>	668.2
<b>Net assets</b>			
<b>Equity</b>			
Share capital		6.8	6.3
Share premium		420.2	188.6
Translation reserve		42.5	88.8
Hedging reserve		1.7	3.2
Retained earnings		424.4	375.1
<b>Total shareholders' equity</b>		<b>895.6</b>	662.0
Minority interests	21	6.4	6.2
<b>Total equity</b>		<b>902.0</b>	668.2

The consolidated financial statements on pages 140 to 180 were approved by the Board of Directors on 20 November 2023 and signed on its behalf by:

**JD Thomson**  
Chief Executive Officer

**C Davies**  
Chief Financial Officer

The notes on pages 144 to 180 form part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2023

	Note	2023 £m	2022 £m
<b>Operating profit</b>		<b>183.3</b>	144.3
Acquisition related and other charges		<b>53.7</b>	46.9
Non-cash items and other		<b>24.5</b>	18.1
Increase in working capital		<b>(4.2)</b>	(28.7)
<b>Cash flow from operating activities</b>	23	<b>257.3</b>	180.6
Interest paid, net (including borrowing fees)		<b>(26.7)</b>	(15.0)
Tax paid		<b>(41.4)</b>	(40.6)
<b>Net cash inflow from operating activities</b>		<b>189.2</b>	125.0
<b>Cash flow from investing activities</b>			
Acquisition of businesses (net of cash acquired)		<b>(258.5)</b>	(173.0)
Deferred consideration paid	20	<b>(12.3)</b>	(7.1)
Proceeds from sale of business (net of cash disposed)	22	<b>21.5</b>	13.7
Purchase of property, plant and equipment	12	<b>(21.6)</b>	(14.3)
Purchase of other intangible assets	11	<b>(1.5)</b>	(1.1)
Proceeds from sale of property, plant and equipment		<b>1.5</b>	9.9
<b>Net cash used in investing activities</b>		<b>(270.9)</b>	(171.9)
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital		<b>236.1</b>	-
Share issue costs		<b>(4.2)</b>	-
Dividends paid to shareholders	8	<b>(70.5)</b>	(56.2)
Dividends paid to minority interests	21	<b>(0.3)</b>	(0.2)
Acquisition of minority interests	21	<b>-</b>	(0.3)
Notional purchase of own shares on exercise of share options		<b>(1.9)</b>	(2.8)
Proceeds from borrowings		<b>579.5</b>	154.8
Repayment of borrowings		<b>(617.3)</b>	(20.0)
Principal elements of lease payments		<b>(13.9)</b>	(10.9)
<b>Net cash inflow from financing activities</b>		<b>107.5</b>	64.4
Net increase in cash and cash equivalents		<b>25.8</b>	17.5
Cash and cash equivalents at beginning of year		<b>41.7</b>	24.8
Effect of exchange rates on cash and cash equivalents		<b>(5.1)</b>	(0.6)
<b>Cash and cash equivalents at end of year</b>	18	<b>62.4</b>	41.7



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2023

### 1. GENERAL INFORMATION

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10–11 Charterhouse Square, London EC1M 6EE. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as ‘the Group’) and were authorised by the Directors for publication on 20 November 2023. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements of the Parent Company, Diploma PLC, have been prepared in accordance with FRS 101 (Reduced Disclosure Framework) and are set out in a separate section of the Annual Report & Accounts on pages 181 to 183. A full list of subsidiary and other related undertakings is set out on pages 185 to 187.

### 2. ANALYSIS OF OPERATING EXPENSES/INCOME

	Adjusted 2023 £m	Adjustments £m	Total 2023 £m	Adjusted 2022 £m	Adjustments £m	Total 2022 £m
Cost of inventories sold	652.1	5.9	658.0	561.3	-	561.3
Employee costs (note 5)	206.2	3.8	210.0	173.1	4.4	177.5
Depreciation of property, plant and equipment (note 12)	12.8	-	12.8	10.4	-	10.4
Depreciation of right-of-use assets (note 13)	14.8	-	14.8	12.7	-	12.7
Amortisation (note 11)	1.0	52.9	53.9	0.4	42.4	42.8
Net impairment losses on trade receivables (note 16)	2.5	-	2.5	3.4	-	3.4
Other operating expenses/(income)	73.9	(8.9)	65.0	60.3	0.1	60.4
<b>Operating expenses</b>	<b>963.3</b>	<b>53.7</b>	<b>1,017.0</b>	<b>821.6</b>	<b>46.9</b>	<b>868.5</b>

Adjustments relate to acquisition related and other charges as defined in note 28.2 of £53.7m (2022: £46.9m) and comprise principally of £52.9m (2022: £42.4m) of amortisation of acquisition intangible assets, £6.3m of acquisition related expenses (2022: £10.5m), £5.9m of fair value adjustments to inventory acquired through acquisitions recognised in cost of inventories sold (2022: £nil) and a £12.2m net gain (2022: £7.3m) on the disposal of businesses, which is set out in note 22.

### 3. BUSINESS SECTOR ANALYSIS

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

For management reporting purposes, the Group is organised into three main reportable business Sectors: Life Sciences, Seals and Controls. These Sectors are the Group’s operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures below. The CODM reviews discrete financial information at this operating segment level. The principal activities of each of these Sectors are described in the Strategic Report on pages 24 to 35. Sector revenue represents revenue from external customers; there is no material inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

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

	Life Sciences		Seals		Controls		Corporate		Group	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Revenue – existing	212.0	188.6	387.7	331.4	550.2	492.8	-	-	1,149.9	1,012.8
Revenue – acquisitions	0.9	-	31.3	-	18.2	-	-	-	50.4	-
<b>Revenue</b>	<b>212.9</b>	<b>188.6</b>	<b>419.0</b>	<b>331.4</b>	<b>568.4</b>	<b>492.8</b>	<b>-</b>	<b>-</b>	<b>1,200.3</b>	<b>1,012.8</b>
Adjusted operating profit – existing	43.1	41.0	72.2	62.6	131.9	105.8	(21.8)	(18.2)	225.4	191.2
Adjusted operating profit – acquisitions	0.1	-	6.8	-	4.7	-	-	-	11.6	-
<b>Adjusted operating profit</b>	<b>43.2</b>	<b>41.0</b>	<b>79.0</b>	<b>62.6</b>	<b>136.6</b>	<b>105.8</b>	<b>(21.8)</b>	<b>(18.2)</b>	<b>237.0</b>	<b>191.2</b>
Acquisition related and other charges	(6.8)	1.5	(23.2)	(16.6)	(23.7)	(30.5)	-	(1.3)	(53.7)	(46.9)
<b>Operating profit</b>	<b>36.4</b>	<b>42.5</b>	<b>55.8</b>	<b>46.0</b>	<b>112.9</b>	<b>75.3</b>	<b>(21.8)</b>	<b>(19.5)</b>	<b>183.3</b>	<b>144.3</b>
Operating assets	75.2	74.0	264.1	207.5	214.9	211.5	-	-	554.2	493.0
Goodwill	102.4	106.2	169.4	125.2	167.3	140.9	-	-	439.1	372.3
Acquisition intangible assets	66.5	74.9	195.4	100.2	258.2	279.9	-	-	520.1	455.0
	244.1	255.1	628.9	432.9	640.4	632.3	-	-	1,513.4	1,320.3
Unallocated assets:										
- Deferred tax assets							0.2	0.2	0.2	0.2
- Cash and cash equivalents							62.4	41.7	62.4	41.7
- Acquisition related assets							3.0	1.8	3.0	1.8
- Retirement benefit obligations							6.8	6.4	6.8	6.4
- Corporate assets							3.5	8.6	3.5	8.6
<b>Total assets</b>	<b>244.1</b>	<b>255.1</b>	<b>628.9</b>	<b>432.9</b>	<b>640.4</b>	<b>632.3</b>	<b>75.9</b>	<b>58.7</b>	<b>1,589.3</b>	<b>1,379.0</b>
Operating liabilities	(43.3)	(41.7)	(119.6)	(103.3)	(96.1)	(92.6)	-	-	(259.0)	(237.6)
Unallocated liabilities:										
- Deferred tax liabilities							(58.6)	(38.4)	(58.6)	(38.4)
- Retirement benefit obligations							(0.3)	-	(0.3)	-
- Acquisition related liabilities							(22.6)	(31.4)	(22.6)	(31.4)
- Corporate liabilities							(29.7)	(32.8)	(29.7)	(32.8)
- Borrowings							(317.1)	(370.6)	(317.1)	(370.6)
<b>Total liabilities</b>	<b>(43.3)</b>	<b>(41.7)</b>	<b>(119.6)</b>	<b>(103.3)</b>	<b>(96.1)</b>	<b>(92.6)</b>	<b>(428.3)</b>	<b>(473.2)</b>	<b>(687.3)</b>	<b>(710.8)</b>
<b>Net assets/(liabilities)</b>	<b>200.8</b>	<b>213.4</b>	<b>509.3</b>	<b>329.6</b>	<b>544.3</b>	<b>539.7</b>	<b>(352.4)</b>	<b>(414.5)</b>	<b>902.0</b>	<b>668.2</b>

## Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Capital expenditure	7.9	8.0	9.0	3.7	5.9	2.7	0.3	0.9	23.1	15.3
Depreciation and amortisation	4.0	2.9	5.0	3.5	4.6	4.6	0.2	0.2	13.8	11.2
<b>Revenue recognition</b>										
- immediately on sale	198.9	176.4	399.6	315.6	563.0	492.8	-	-	1,161.5	984.8
- over a period of time	14.0	12.2	19.4	15.8	5.4	-	-	-	38.8	28.0
	212.9	188.6	419.0	331.4	568.4	492.8	-	-	1,200.3	1,012.8

Accrued income (“contract assets”) at 30 September 2023 of £1.0m (2022: £0.1m) and deferred revenue (“contract liabilities”) of £3.1m at 30 September 2023 (2022: £3.5m) are included in trade and other receivables (note 16) and trade and other payables (note 17), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

CONTINUED

### 4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets <sup>1</sup>		Trading capital employed		Capital expenditure	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
United Kingdom	267.1	209.7	28.8	21.0	207.3	193.6	195.0	202.2	9.3	3.4
Rest of Europe	210.3	166.7	34.5	29.3	308.1	169.1	354.1	179.8	1.6	1.7
USA	537.6	465.5	132.2	104.6	470.0	464.3	567.9	557.2	4.3	8.9
Rest of world	185.3	170.9	41.5	36.3	106.3	112.0	111.2	119.3	7.9	1.3
	<b>1,200.3</b>	1,012.8	<b>237.0</b>	191.2	<b>1,091.7</b>	939.0	<b>1,228.2</b>	1,058.5	<b>23.1</b>	15.3

<sup>1</sup> Non-current assets excludes deferred tax assets, derivative assets and retirement benefit assets.

The Group has re-presented the prior year geographic segment analysis to reflect USA separately due to the increasing operations in that territory as this provides more information that is relevant to the users of the financial statements.

### 5. GROUP EMPLOYEE COSTS

#### Average number of employees

	2023	2022
Life Sciences	450	423
Seals	1,496	1,174
Controls	1,026	981
Corporate	38	36
<b>Number of employees – average</b>	<b>3,010</b>	2,614
<b>Number of employees – year end</b>	<b>3,319</b>	2,909

#### Group employee costs, including key management

	2023 £m	2022 £m
Wages and salaries	183.2	154.8
Social security costs	15.1	13.3
Other pension costs	7.6	6.6
Share-based payments	4.1	2.8
	<b>210.0</b>	177.5

#### Key management short-term remuneration, including Directors

	2023 £m	2022 £m
Salaries and short-term employee benefits	5.4	5.0
Compensation to Directors for loss of office	–	0.4
Pension costs	0.2	0.2
Share-based payments	3.0	2.4
	<b>8.6</b>	8.0

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

The Executive Directors' remuneration and their interests in shares of the Company are given on pages 102 to 125 in the Remuneration Committee Report. The charge for share-based payments of £3.0m (2022: £2.4m) relates to the Group's PSP, described in the Remuneration Committee Report.

#### Directors' short-term remuneration

	2023 £m	2022 £m
Non-Executive Directors	0.6	0.5
Executive Directors	2.7	2.6
	<b>3.3</b>	3.1

**6. FINANCIAL EXPENSE, NET**

	2023 £m	2022 £m
<b>Interest expense/(income) and similar charges</b>		
– bank facility and commitment fees	1.6	1.0
– interest income on short term deposits	(0.4)	(0.1)
– interest expense on bank borrowings	16.6	7.9
– notional interest income on the defined benefit pension scheme (note 25)	(0.4)	–
– amortisation of capitalised borrowing fees	0.2	0.2
– interest on lease liabilities	2.8	2.6
<b>Net interest expense and similar charges</b>	<b>20.4</b>	11.6
– acquisition related finance charges, net	7.3	3.2
<b>Financial expense, net</b>	<b>27.7</b>	14.8

Acquisition related finance charges as adjusted in the Consolidated Income Statement includes fair value remeasurements of put options for future minority interest purchases of £1.8m charge (2022: £1.4m charge), fair value movement and unwind of discount on acquisition liabilities of £0.4m charge (2022: £0.4m charge), £5.9m charge (2022: £1.4m charge) for the amortisation and write-off of capitalised borrowing fees on acquisition related borrowings, and interest income on previous disposal of business of £0.8m (2022: nil). Acquisition related finance charges are adjusted due to their consistent nature with acquisition related and other charges, as defined in note 28.2.

**7. TAX EXPENSE**

	2023 £m	2022 £m
<b>Current tax</b>		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	10.4	10.0
Overseas tax	31.2	30.8
	<b>41.6</b>	40.8
Adjustments in respect of prior year:		
UK corporation tax	1.2	(0.2)
Overseas tax	0.1	0.1
<b>Total current tax</b>	<b>42.9</b>	40.7
<b>Deferred tax</b>		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	(2.7)	(3.1)
Overseas	(2.9)	(3.5)
<b>Total deferred tax</b>	<b>(5.6)</b>	(6.6)
<b>Total tax on profit for the year</b>	<b>37.3</b>	34.1

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a deferred tax credit relating to the retirement benefit scheme and cash flow hedges of £0.7m was recognised in the Consolidated Statement of Comprehensive Income (2022: £3.9m charge). A further £0.5m was credited (2022: £0.4m) to the Consolidated Statement of Changes in Equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

CONTINUED

### Factors affecting the tax charge for the year

The difference between the total tax charge calculated by applying the effective blended rate of UK corporation tax of 22.0% to the profit before tax of £155.6m and the amount set out above is as follows:

	2023 £m	2022 £m
<b>Profit before tax</b>	<b>155.6</b>	129.5
Tax on profit at UK effective corporation tax rate of 22.0% (2022: 19.0%)	<b>34.2</b>	24.6
Effects of:		
higher tax rates on overseas earnings	<b>3.8</b>	6.7
adjustments in respect of UK and Overseas corporation tax in prior years	<b>1.3</b>	(0.1)
other permanent differences	<b>(2.0)</b>	2.9
<b>Total tax on profit for the year</b>	<b>37.3</b>	34.1
Tax effect on adjusting items	<b>14.7</b>	10.9
<b>Adjusted tax expense</b>	<b>52.0</b>	45.0

The tax adjustment in the consolidated income statement of £14.7m (2022: £10.9m) reflects the tax effect of the acquisition related and other charges, and acquisition related finance charges.

The Group earns its profits in the UK and overseas. The Group prepares its consolidated financial statements for the year to 30 September and the blended statutory tax rate for UK corporation tax in respect of the year ended 30 September 2023 was 22.0% (2022: 19.0%) and this rate has been used for tax on profit in the above reconciliation.

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

At 30 September 2023, the Group had outstanding tax liabilities of £16.6m (2022: £11.8m). 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. The legislation implementing these 'Pillar Two' rules in the UK was substantively enacted on 20 June 2023 and will apply to the Group from the financial year ending 30 September 2025 onwards. The Group is reviewing the legislation and monitoring the implementation of the rules outside of the UK to understand the potential impact. We have applied the temporary exception under IAS 12 from the requirement to recognise and disclose deferred taxes arising from the implementation of the Pillar Two rules.

## 8. DIVIDENDS

	2023 pence per share	2022 pence per share	2023 £m	2022 £m
Interim dividend, paid in June	<b>16.5</b>	15.0	<b>22.1</b>	18.7
Final dividend of the prior year, paid in February	<b>38.8</b>	30.1	<b>48.4</b>	37.5
	<b>55.3</b>	45.1	<b>70.5</b>	56.2

The Directors have proposed a final dividend in respect of the current year of 40.0p per share (2022: 38.8p), which will be paid on 2 February 2024 subject to approval by shareholders at the Annual General Meeting (AGM) on 17 January 2024. The total dividend for the current year, subject to approval of the final dividend, will be 56.5p per share (2022: 53.8p).

During the year, the Directors became aware that approximately £2.5m of the FY21 interim dividend declared on 17 May 2021 was paid other than in accordance with the technical requirements of the Companies Act 2006. This was because interim accounts had not been filed at Companies House prior to the declaration of the dividend. It is intended that this technical issue, which has no impact on the Company's financial position, be ratified by a shareholders' resolution to be proposed at the Annual General Meeting to be held on 17 January 2024. The approach that the Company is proposing with regard to this matter is consistent with the approach taken by other UK quoted and listed companies that have, similarly, made distributions otherwise than in accordance with the Act. Further information can be found in the Parent Company Statement of Changes in Equity on page 181.

The Diploma PLC Employee Benefit Trust holds 67,431 (2022: 71,033) shares, which are ineligible for dividends.



## 9. EARNINGS PER SHARE

### Basic and diluted earnings per share

Basic earnings per ordinary 5p share is calculated on the basis of the weighted average number of ordinary shares in issue during the year of 129,675,581 (2022: 124,533,060) and the profit for the year attributable to shareholders of £117.7m (2022: £94.7m). Basic earnings per share is 90.8p (2022: 76.1p). Diluted earnings per share is 90.4p (2022: 75.9p) and is based on the average number of ordinary shares (which includes any potentially dilutive shares) of 130,260,868 (2022: 124,855,007).

An equity placing was completed in March 2023, resulting in the issuance of 9,350,965 (7.5% increase) of 5p ordinary shares at a share price of 2,525 pence per placing share, with corresponding fees of £4.2m.

Further description of the Company's share capital is set out in note (E) to the Parent Company Financial Statements on page 183.

### Adjusted earnings per share

Adjusted EPS, which is defined in note 28, is 126.5p (2022: 107.5p).

	2023 pence per share Basic	2023 pence per share Diluted	2022 pence per share Basic	2022 pence per share Diluted	2023 £m	2022 £m
<b>Profit before tax</b>					<b>155.6</b>	129.5
Tax expense					<b>(37.3)</b>	(34.1)
Minority interests					<b>(0.6)</b>	(0.7)
<b>Earnings for the year attributable to shareholders of the Company</b>	<b>90.8</b>	<b>90.4</b>	76.1	75.9	<b>117.7</b>	94.7
Acquisition related and other charges and acquisition related finance charges, net of tax	<b>35.7</b>	<b>35.5</b>	31.4	31.4	<b>46.3</b>	39.2
<b>Adjusted earnings</b>	<b>126.5</b>	<b>125.9</b>	107.5	107.3	<b>164.0</b>	133.9

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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**10. GOODWILL**

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2021	81.4	60.0	119.3	<b>260.7</b>
Acquisitions	19.0	56.8	5.2	<b>81.0</b>
Exchange adjustments	5.8	8.4	16.4	<b>30.6</b>
At 30 September 2022	106.2	125.2	140.9	<b>372.3</b>
Acquisitions	1.3	48.1	39.5	<b>88.9</b>
Disposals	-	-	(4.3)	<b>(4.3)</b>
Exchange adjustments	(5.1)	(3.9)	(8.8)	<b>(17.8)</b>
<b>At 30 September 2023</b>	<b>102.4</b>	<b>169.4</b>	<b>167.3</b>	<b>439.1</b>

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

The key assumptions used to prepare the cash flow forecasts relate to operating margins, revenue growth rates, the discount rates and climate related risks. The operating margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates, unless there are particular factors relevant to a business. The cash flow forecasts use the budgeted figures for FY24, and then the three-year strategy cash flows for the next two years. From year four onwards a long-term growth rate of 2% is utilised.

The cash flow forecasts are discounted to determine a current valuation using market derived pre-tax discount rates; Life Sciences 13.2% (2022: 13.9%), Seals 13.3% (2022: 13.8%) and Controls 13.2% (2022: 13.8%). The equivalent post-tax discount rates for FY23 are: Life Sciences 10.0% (2022: 10.4%), Seals 10.1% (2022: 10.3%) and Controls 10.0% (2022: 10.3%). These rates are based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well-developed markets and with robust capital structures.

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

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

## 11. ACQUISITION AND OTHER INTANGIBLE ASSETS

	Customer relationships £m	Supplier relationships £m	Trade names, brands and databases £m	Technology £m	Total acquisition intangible assets £m	Other intangible assets £m
<b>Cost</b>						
At 1 October 2021	392.4	28.8	41.5	–	<b>462.7</b>	<b>7.6</b>
Additions	–	–	–	–	–	<b>1.0</b>
Acquisitions	96.2	–	3.7	–	<b>99.9</b>	<b>0.8</b>
Disposals	–	–	–	–	–	<b>(1.1)</b>
Exchange adjustments	59.3	2.1	8.5	–	<b>69.9</b>	<b>1.0</b>
At 30 September 2022	547.9	30.9	53.7	–	<b>632.5</b>	<b>9.3</b>
Additions	–	–	–	–	–	<b>1.5</b>
Acquisitions	137.3	–	6.2	0.8	<b>144.3</b>	–
Disposals	(1.1)	–	–	–	<b>(1.1)</b>	<b>(0.1)</b>
Transfers	–	–	–	–	–	<b>(0.3)</b>
Exchange adjustments	(30.2)	(1.6)	(4.4)	(0.1)	<b>(36.3)</b>	<b>(0.2)</b>
<b>At 30 September 2023</b>	<b>653.9</b>	<b>29.3</b>	<b>55.5</b>	<b>0.7</b>	<b>739.4</b>	<b>10.2</b>
<b>Amortisation</b>						
At 1 October 2021	90.8	21.1	5.9	–	<b>117.8</b>	<b>4.2</b>
Acquisitions	3.6	–	0.4	–	<b>4.0</b>	–
Charge for the year	32.0	1.8	4.6	–	<b>38.4</b>	<b>0.8</b>
Disposals	–	–	–	–	–	<b>(0.4)</b>
Exchange adjustments	13.7	1.7	1.9	–	<b>17.3</b>	<b>0.6</b>
At 30 September 2022	140.1	24.6	12.8	–	<b>177.5</b>	<b>5.2</b>
Acquisitions	4.1	–	0.2	–	<b>4.3</b>	–
Charge for the year	41.4	1.7	5.5	–	<b>48.6</b>	<b>1.0</b>
Disposals	(1.1)	–	–	–	<b>(1.1)</b>	–
Exchange adjustments	(7.8)	(1.2)	(1.0)	–	<b>(10.0)</b>	<b>(0.2)</b>
<b>At 30 September 2023</b>	<b>176.7</b>	<b>25.1</b>	<b>17.5</b>	<b>–</b>	<b>219.3</b>	<b>6.0</b>
<b>Net book value</b>						
<b>At 30 September 2023</b>	<b>477.2</b>	<b>4.2</b>	<b>38.0</b>	<b>0.7</b>	<b>520.1</b>	<b>4.2</b>
At 30 September 2022	407.8	6.3	40.9	–	455.0	4.1

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

	Economic life
Customer relationships	5–16 years
Supplier relationships	8–10 years
Trade names, brands and databases	5–11 years
Technology	5 years

Customer relationships principally relate to: Windy City Wire (£163.0m – 13 years useful life remaining), DICSА (£92.6m – 16 years useful life remaining), R&G (£38.0m – 9 years useful life remaining) and VSP (£23.7m – 6 years useful life remaining). Trade names and brands principally relate to Windy City Wire (£29.6m – 9 years useful life remaining) and DICSА (£5.9m – 10 years useful life remaining). Technology relates to DICSА (5 years useful life remaining).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

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## 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	Total £m
<b>Cost</b>					
At 1 October 2021	1.9	7.8	46.9	12.8	<b>69.4</b>
Additions	–	2.2	5.3	6.8	<b>14.3</b>
Acquisitions of businesses	1.5	2.5	2.7	–	<b>6.7</b>
Disposals	–	(0.4)	(3.2)	(1.4)	<b>(5.0)</b>
Exchange adjustments	0.2	1.1	9.5	1.5	<b>12.3</b>
At 30 September 2022	3.6	13.2	61.2	19.7	<b>97.7</b>
Additions	0.3	4.3	9.5	7.5	<b>21.6</b>
Acquisitions of businesses (note 22)	–	1.8	4.3	0.1	<b>6.2</b>
Disposals	(0.6)	(0.9)	(2.5)	(1.1)	<b>(5.1)</b>
Exchange adjustments	(0.2)	(0.8)	(5.2)	(1.3)	<b>(7.5)</b>
<b>At 30 September 2023</b>	<b>3.1</b>	<b>17.6</b>	<b>67.3</b>	<b>24.9</b>	<b>112.9</b>
<b>Depreciation</b>					
At 1 October 2021	0.9	4.0	22.3	6.8	<b>34.0</b>
Charge for the year	0.1	1.0	7.1	2.2	<b>10.4</b>
Disposals	–	(0.3)	(2.7)	(0.7)	<b>(3.7)</b>
Exchange adjustments	0.1	0.5	6.0	0.8	<b>7.4</b>
At 30 September 2022	1.1	5.2	32.7	9.1	<b>48.1</b>
Charge for the year	0.1	1.0	7.9	3.8	<b>12.8</b>
Disposals	(0.3)	(0.3)	(1.7)	(0.5)	<b>(2.8)</b>
Exchange adjustments	(0.1)	(0.3)	(3.3)	(0.7)	<b>(4.4)</b>
<b>At 30 September 2023</b>	<b>0.8</b>	<b>5.6</b>	<b>35.6</b>	<b>11.7</b>	<b>53.7</b>
<b>Net book value</b>					
<b>At 30 September 2023</b>	<b>2.3</b>	<b>12.0</b>	<b>31.7</b>	<b>13.2</b>	<b>59.2</b>
At 30 September 2022	2.5	8.0	28.5	10.6	49.6

Leasehold properties includes £3.2m (2022: £nil) of assets under construction.

Land included within freehold properties above which is not depreciated is £1.0m (2022: £1.0m).

Capital commitments contracted, but not provided, were £2.2m (2022: £0.2m).

Freehold properties include ca. 150 acres of land at Stamford (the Stamford Land) that comprises mostly farm land and former quarry land. In the Directors' opinion, the current fair value of its land at 30 September 2023 is £1.0m (2022: £1.0m) with a book value of £nil (2022: £nil).

### 13. 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
<b>Cost</b>					
At 1 October 2021	55.7	0.6	4.2	1.1	<b>61.6</b>
Additions	19.8	0.2	4.9	0.5	<b>25.4</b>
Disposals	(1.1)	-	(0.9)	-	<b>(2.0)</b>
Exchange adjustments	6.7	-	0.1	0.1	<b>6.9</b>
At 30 September 2022	81.1	0.8	8.3	1.7	<b>91.9</b>
Additions	24.8	0.1	2.7	0.5	<b>28.1</b>
Disposals	(1.3)	(0.1)	(1.0)	(0.1)	<b>(2.5)</b>
Exchange adjustments	(3.7)	-	(0.1)	(0.1)	<b>(3.9)</b>
<b>At 30 September 2023</b>	<b>100.9</b>	<b>0.8</b>	<b>9.9</b>	<b>2.0</b>	<b>113.6</b>
<b>Depreciation</b>					
At 1 October 2021	13.7	0.2	2.3	0.5	<b>16.7</b>
Charge for the year	10.7	0.1	1.5	0.4	<b>12.7</b>
Disposals	(0.5)	-	(0.8)	-	<b>(1.3)</b>
Exchange adjustments	1.4	-	-	-	<b>1.4</b>
At 30 September 2022	25.3	0.3	3.0	0.9	<b>29.5</b>
Charge for the year	12.3	0.1	2.0	0.4	<b>14.8</b>
Disposals	(0.7)	(0.1)	(0.5)	-	<b>(1.3)</b>
Exchange adjustments	(0.9)	-	-	-	<b>(0.9)</b>
<b>At 30 September 2023</b>	<b>36.0</b>	<b>0.3</b>	<b>4.5</b>	<b>1.3</b>	<b>42.1</b>
<b>Net book value</b>					
<b>At 30 September 2023</b>	<b>64.9</b>	<b>0.5</b>	<b>5.4</b>	<b>0.7</b>	<b>71.5</b>
At 30 September 2022	55.8	0.5	5.3	0.8	62.4

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

#### Lease liabilities

The movement on the lease liability is set out below:

	2023 £m	2022 £m
At 1 October	<b>69.1</b>	48.3
Additions	<b>29.7</b>	26.6
Disposals	<b>(0.8)</b>	(0.9)
Lease repayments	<b>(16.7)</b>	(13.5)
Interest on lease liabilities	<b>2.8</b>	2.6
Exchange movements	<b>(3.9)</b>	6.0
<b>At 30 September</b>	<b>80.2</b>	69.1
Analysed as:		
Repayable within one year	<b>15.0</b>	12.7
Repayable after one year	<b>65.2</b>	56.4

Leases of low-value assets and short-term leases are accounted for applying paragraph 6 of IFRS 16. Lease costs of £1.7m (2022: £2.0m) in respect of low-value assets, short-term leases, and variable lease payments not included in the measurement of lease liabilities have been recognised within administration costs. The total cash outflow in respect of leases was £18.4m (2022: £15.5m).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

#### 14. DEFERRED TAX

The movement on the net deferred tax liability is as follows:

	2023 £m	2022 £m
At 1 October	<b>(38.2)</b>	(21.9)
Credited to the income statement (note 7)	<b>5.6</b>	6.6
Acquisitions and disposals (note 22)	<b>(26.9)</b>	(17.6)
Accounted for in Other Comprehensive Income or directly in Equity	<b>0.7</b>	(3.9)
Exchange adjustments	<b>0.4</b>	(1.4)
<b>At 30 September</b>	<b>(58.4)</b>	(38.2)

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

	Assets		Liabilities		Net	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Property, plant and equipment	-	0.1	<b>(7.4)</b>	(5.8)	<b>(7.4)</b>	(5.7)
Goodwill and intangible assets	-	-	<b>(63.4)</b>	(42.0)	<b>(63.4)</b>	(42.0)
Retirement benefit assets/obligations	<b>0.1</b>	-	<b>(1.4)</b>	(1.0)	<b>(1.3)</b>	(1.0)
Inventories	<b>3.4</b>	3.1	<b>(0.1)</b>	(0.1)	<b>3.3</b>	3.0
Share-based payments	<b>2.0</b>	1.4	-	-	<b>2.0</b>	1.4
Trading losses	-	-	-	-	-	-
Leases	<b>1.6</b>	1.2	-	-	<b>1.6</b>	1.2
Other temporary differences	<b>7.1</b>	5.1	<b>(0.3)</b>	(0.2)	<b>6.8</b>	4.9
	<b>14.2</b>	10.9	<b>(72.6)</b>	(49.1)	<b>(58.4)</b>	(38.2)
Deferred tax offset	<b>(14.0)</b>	(10.7)	<b>14.0</b>	10.7	-	-
	<b>0.2</b>	0.2	<b>(58.6)</b>	(38.4)	<b>(58.4)</b>	(38.2)

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas withholding tax (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been recognised in respect of unremitted earnings from overseas businesses of £208.7m (2022: £184.9m) was £10.5m (2022: £9.3m).

#### 15. INVENTORIES

	2023 £m	2022 £m
Finished goods at 30 September	<b>232.7</b>	217.4

Inventories are stated net of impairment provisions of £26.7m (2022: £24.3m). During the year £4.3m (2022: £4.0m) was recognised as a charge against cost of sales, comprising the write-down of inventories to net realisable value.

**16. TRADE AND OTHER RECEIVABLES**

	2023 £m	2022 £m
Trade receivables	<b>185.3</b>	158.9
Less: loss allowance	<b>(10.1)</b>	(7.2)
	<b>175.2</b>	151.7
Other receivables	<b>9.3</b>	9.8
Prepayments and accrued income	<b>8.6</b>	8.4
At 30 September	<b>193.1</b>	169.9

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

	2023 £m	2022 £m
UK sterling	<b>43.7</b>	41.3
US dollars	<b>73.9</b>	70.1
Canadian dollars	<b>13.1</b>	12.6
Euros	<b>36.9</b>	18.0
Other	<b>17.7</b>	16.9
	<b>185.3</b>	158.9

Trade receivables at 30 September, before loss allowance, are analysed as follows:

	2023 £m	2022 £m
Not past due	<b>143.5</b>	124.9
Past due	<b>31.7</b>	26.8
Receivables impaired	<b>10.1</b>	7.2
	<b>185.3</b>	158.9

The ageing of trade receivables classified as past due, with no loss allowance, as at 30 September is as follows:

	2023 £m	2022 £m
Up to one month past due	<b>25.6</b>	20.7
Between one and two months past due	<b>4.0</b>	4.5
Between two and four months past due	<b>2.1</b>	1.6
	<b>31.7</b>	26.8

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

	2023 £m	2022 £m
At 1 October	<b>7.2</b>	3.6
Charged against profit, net	<b>2.5</b>	3.4
Set up on acquisition	<b>0.9</b>	0.6
Utilised by write-off	<b>(0.5)</b>	(0.4)
At 30 September	<b>10.1</b>	7.2

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

As at 30 September 2023, the Group had £9.8m (2022: £nil) of trade receivables that were covered by credit insurance in relation to DICSA.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 17. TRADE AND OTHER PAYABLES

	2023 £m	2022 £m
Trade payables	94.4	96.4
Other payables	31.8	25.8
Other taxes and social security	11.8	11.0
Accruals and deferred income	53.9	56.3
At 30 September	191.9	189.5

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

	2023 £m	2022 £m
UK sterling	24.7	24.1
US dollars	36.9	50.2
Canadian dollars	1.7	0.8
Euros	22.9	14.1
Other	8.2	7.2
	94.4	96.4

### 18. CASH AND CASH EQUIVALENTS

	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2023 Total £m	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2022 Total £m
Cash at bank	10.6	12.6	3.2	14.9	10.4	51.7	15.2	7.1	2.3	7.8	6.4	38.8
Short-term deposits	1.0	0.5	0.1	8.6	0.5	10.7	–	0.1	1.8	–	1.0	2.9
At 30 September	11.6	13.1	3.3	23.5	10.9	62.4	15.2	7.2	4.1	7.8	7.4	41.7

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

### 19. 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 co-operation with the Group's operating businesses. The treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

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

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

#### a) Credit risk

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

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

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

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

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

	Carrying amount	
	2023 £m	2022 £m
Trade receivables	175.2	151.7
Other receivables	9.3	9.8
Cash and cash equivalents	62.4	41.7
At 30 September	246.9	203.2

There is no material difference between the book value of the financial assets and their fair value at each reporting date. An analysis of the ageing and currency of trade receivables and the associated loss allowance is set out in note 16. An analysis of cash and cash equivalents is set out in note 18.

#### Impairment of financial assets

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

The expected loss rates are based on the payment profiles of revenues over a period of 48 months ended 30 September 2023 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information including macroeconomic factors by obtaining and reviewing relevant market data affecting the ability of the customers to settle the receivables.

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

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

#### b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group continually monitors net cash and forecasts cash flows to ensure that sufficient resources are available to meet the Group's requirements in the short, medium and long term.

On 17 July 2023, the Group entered into a new committed multi-currency revolving credit facility agreement ("RCF") with an aggregate principal amount of £555.0m. The RCF is due to expire in July 2028 with an option to extend for two further 12-month periods. The RCF replaced the Group's previous debt facility agreement which as at 30 September 2022 comprised an RCF with an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m (\$127.5m), a bullet term loan for an aggregate principal amount of £59.1m (\$66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m.

Additionally, compliance with bank covenants is monitored regularly and during 2023 all bank covenant tests were complied with. The applicable financial covenants are interest cover and leverage, whereby EBITDA must be at least 4x net finance charges (as defined by the SFA); and the ratio of net debt to EBITDA must not exceed 3.5x.

The Group's debt facilities are subject to interest at variable rates. During FY22 and FY23, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$200.0m (£163.9m) of debt. The effective fixed rate debt was 52% of total debt.

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### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

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

	2023 £m	2022 £m
Expiring within one year	–	–
Expiring after one year	<b>234.1</b>	204.0

The Group's financial liabilities at 30 September are as follows:

	2023 £m	2022 £m
Trade payables	<b>94.4</b>	96.4
Other payables	<b>31.8</b>	25.8
Other liabilities	<b>22.6</b>	35.0
Borrowings	<b>317.1</b>	370.6
	<b>465.9</b>	527.8

The maturities of the financial liabilities are as follows:

	2023 £m	2022 £m
Less than one year	<b>139.1</b>	171.7
One to two years	<b>6.6</b>	48.7
Two to five years	<b>320.2</b>	307.4
	<b>465.9</b>	527.8

There is no material difference between the book value of these financial liabilities and their undiscounted value at each reporting date, nor are they relevant to the Group's reporting.

#### c) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars and Euros. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 16, 17 and 18, respectively.

The Group holds forward foreign exchange contracts in certain of the Group's businesses to hedge forecast transactional exposure to movements in the US dollar, Euro, UK Sterling and Swedish Krona. These forward foreign exchange contracts are classified as cash flow hedges and are stated at fair value. The notional value of forward contracts as at 30 September 2023 was £68.6m (2022: £35.0m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2023 was £0.1m asset (2022: £1.3m asset).

For hedges of foreign currency transactions, the Group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty. The amount removed from Other Comprehensive Income as a result of the maturing of the hedged instrument and taken to the Consolidated Income Statement in cost of sales during the year was £1.3m debit (2022: £0.4m debit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £0.1m credit (2022: £1.4m credit).

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

	2023 £m	2022 £m
Decrease in adjusted operating profit (at average rates)		
US dollar: UK sterling	<b>13.1</b>	10.3
Canadian dollar: UK sterling	<b>2.8</b>	2.6
Euro: UK sterling	<b>2.5</b>	1.7
Decrease in total equity (at spot rates)		
US dollar: UK sterling	<b>11.3</b>	12.6
Canadian dollar: UK sterling	<b>14.2</b>	12.9
Euro: UK sterling	<b>7.0</b>	5.4



**d) Interest rate risk**

Interest rate risk is the risk that changes in interest rates will affect the Group's results. The Group's interest rate risk arises primarily from its cash funds and borrowings. The Group uses interest rate swaps to hedge a proportion of the external borrowings. These interest rate swaps are classified as cash flow hedges and are stated at fair value. The notional value of interest rate swap contracts as at 30 September 2023 was £163.9m (2022: £89.6m). The net fair value of interest rate swap contracts used as hedges at 30 September 2023 was £2.3m asset (2022: £3.1m asset) and is included within Trade and other receivables on the balance sheet. The amount removed from Other Comprehensive Income as a result of the settlement of interest rate swaps, and taken to the Consolidated Income Statement in finance costs during the year was a debit of £2.5m (2022: £nil). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £1.7m credit (2022: £3.1m credit).

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

An increase of 1% in interest rates would have a ca. £2.4m (2022: £1.4m) impact on adjusted profit before tax.

**e) Fair values**

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

**Derivatives**

Forward exchange contracts are designated as level 2 assets (in the 'fair value hierarchy') and valued at year end forward rates, adjusted for the forward points to the contract's value date with gains and losses taken to equity. No contract's maturity date is greater than 24 months from the year end.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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### Trade and other receivables/payables

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

### Borrowings

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

### Other liabilities

The carrying amount of the items included within note 20 represents a discounted value of the expected liability which is deemed to reflect the fair value and are designated as level 3 assets (in the 'fair value hierarchy').

### f) Capital management risk

The Group's capital structure comprises the retained earnings reserve (£424.4m), cash funds (£62.4m) and medium-term bank borrowing facilities (£316.8m). The Group's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain robust capital ratios to support the development of the business including executing acquisitions and providing strong returns to shareholders.

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

## 20. OTHER LIABILITIES

	2023 £m	2022 £m
Future purchases of minority interests	9.2	7.4
Deferred consideration	13.4	24.0
At 30 September	22.6	31.4
Analysed as:		
Due within one year	12.7	19.0
Due after one year	9.9	12.4

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

	2023 £m	2022 £m
At 1 October	7.4	5.2
Minority interest put options arising on acquisition	-	1.9
Minority interest put options removed on disposal	-	(1.2)
Exchange movements	-	0.1
Fair value remeasurements	1.8	1.4
At 30 September	9.2	7.4

At 30 September 2023, the Group's minority interests retained put options to sell their minority interests of 10% in M Seals, 5% in Techsil, 2% in R&G Fluid Power Group and 5% in Pennine Pneumatic Services.

At 30 September 2023, the estimate of the financial liability to acquire these outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2023. This led to a remeasurement of the options and the liability increased by £1.8m (2022: £1.4m increase) reflecting a revised estimate of the future performance of these businesses and in aggregate, £1.8m (2022: £1.4m) has been debited to the Consolidated Income Statement in respect of this remeasurement of the liability.

Deferred consideration comprises the following:

	1 Oct 2022 £m	Additions £m	Discount unwind £m	Payments £m	Revaluation £m	Foreign Exchange £m	30 Sep 2023 £m
Biospecifix	0.3	-	-	(0.3)	-	-	-
Kungshusen	5.4	-	0.2	(1.7)	(3.8)	(0.1)	-
Techsil	1.2	-	0.1	(1.3)	-	-	-
AHW	4.9	-	0.3	-	0.2	(0.5)	4.9
R&G	8.6	-	-	(6.3)	(1.5)	-	0.8
AMG Sealing	0.5	-	0.1	(0.2)	-	-	0.4
Hydraproducts	0.5	-	-	(0.2)	-	-	0.3
ACT	2.3	-	-	(2.0)	-	(0.3)	-
Silicone Solutions	0.3	-	-	(0.3)	-	-	-
Eurobond	-	0.2	-	-	-	-	0.2
ITG	-	0.2	-	-	-	-	0.2
Fluid Power Services	-	0.7	0.1	-	-	-	0.8
Hedley	-	2.0	0.1	-	(0.8)	-	1.3
Valves Online	-	0.6	-	-	-	-	0.6
GP&S	-	1.4	-	-	-	-	1.4
GM Medical	-	0.4	-	-	-	-	0.4
Hex	-	1.6	0.1	-	-	0.1	1.8
Lantech	-	0.3	-	-	-	-	0.3
	<b>24.0</b>	<b>7.4</b>	<b>1.0</b>	<b>(12.3)</b>	<b>(5.9)</b>	<b>(0.8)</b>	<b>13.4</b>

At 30 September 2023, the estimate of the financial liability in relation to outstanding deferred consideration was reassessed by the Directors, based on their current estimate of the most likely outcome in respect of performance-based conditions, foreign exchange rates and the latest relevant discount rates as at 30 September 2023.

## 21. MINORITY INTERESTS

	£m
At 1 October 2022	4.7
Acquisition of business	2.5
Minority interest acquired	(0.3)
Disposal of business	(1.3)
Share of profit	0.7
Dividends paid	(0.2)
Exchange adjustments	0.1
At 30 September 2022	6.2
Share of profit	0.6
Dividends paid	(0.3)
Exchange adjustments	(0.1)
<b>At 30 September 2023</b>	<b>6.4</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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### 22. ACQUISITIONS AND DISPOSALS OF BUSINESSES

#### Acquisition of Tennessee Industrial Electronics, LLC

On 6 March 2023, the Group acquired 100% of the share capital of Tennessee Industrial Electronics, LLC (“T.I.E.”), a distributor of aftermarket parts and repair services into the US industrial automation end market. The total investment, net of cash acquired was £75.1m (\$90.3m).

The provisional fair value of T.I.E.’s net assets acquired excluding acquisition intangibles, related deferred tax and cash is £10.8m following fair value adjustments of £1.0m. The principal fair value adjustments relate to a net increase in inventory (£0.2m) and provisions held against trade receivables (£0.4m), recognition of previously unrecognised liabilities (£0.3m) and write down of property plant and equipment (£0.5m).

Acquisition expenses of £1.5m have been recognised in respect of this transaction in the financial year.

From the date of acquisition to 30 September 2023, T.I.E. contributed £16.6m to revenue and £4.0m to adjusted operating profit. If it had been acquired at the beginning of the financial year, it would have contributed on a pro forma basis £28.3m to revenue and £6.9m to adjusted operating profit. However, these amounts should not be viewed as indicative of the results that would have occurred if T.I.E. had been completed at the beginning of the year.

#### Acquisition of Distribuidora Internacional Carmen, S.A.U.

On 12 July 2023, the Group acquired 100% of the share capital of Distribuidora Internacional Carmen, S.A.U. (“DICSA”). DICSA, based in Spain, is engaged in the manufacture and commercialisation of stainless steel fittings and in the distribution of hydraulic and pneumatic conductions and components. The total investment, net of cash acquired is £159.7m (€186.6m).

The provisional fair value of DICSA’s net assets acquired excluding acquisition intangibles, related deferred tax and cash is £45.4m following fair value adjustments of £1.4m. The principal fair value adjustments relate to a net increase in provisions held against inventory (£0.2m) and trade receivables (£0.1m), recognition of previously unrecognised liabilities (£1.0m) and write down of property plant and equipment (£0.1m).

Acquisition expenses of £2.7m have been recognised in respect of this transaction in the financial year.

From the date of acquisition to 30 September 2023, DICSA contributed £16.5m to revenue and £4.0m to adjusted operating profit. If it had been acquired at the beginning of the financial year, it would have contributed on a pro forma basis £79.5m to revenue and £19.2m to adjusted operating profit. However, these amounts should not be viewed as indicative of the results that would have occurred if DICSA had been completed at the beginning of the year.

#### Other acquisitions

The Group completed a further ten acquisitions in the year. This comprised the trade and assets of Shrinktek Polymers International Limited (“Shrinktek”) (11 January 2023), Eurobond Adhesives Limited (“Eurobond”) (23 March 2023) and International Technologies Group, LLC (“ITG”) (30 March 2023); 100% of the share capital of Fluid Power Services Limited (“FPS”) (3 October 2022), Hedley DMB Limited (“Hedley”) (4 October 2022), Valves Online Limited (“Valves Online”) (14 March 2023), Gaskets, Packings & Seals Enterprises, LLC (“GP&S”) (14 April 2023), GM Medical Group A/S (“GM Medical”) (11 July 2023), Hex Technology, LLC (“Hex”) (17 July 2023) and Lantech Solutions Limited (“Lantech”) (18 September 2023).

The combined initial consideration for these acquisitions was £23.6m, net of cash acquired of £2.4m. Deferred consideration with a fair value of £7.4m is payable based largely on the performance of the businesses in the period subsequent to their acquisitions.

Acquisition expenses of £0.9m have been recognised in respect of these transactions in the financial year.

The provisional fair value of the total net assets acquired excluding intangibles, related deferred tax and cash is £5.4m.

The following table summarises the consideration paid for the acquisitions completed in the year and fair value of assets acquired and liabilities assumed, with fair values being provisional pending completion of a final valuation of T.I.E. and DICSA.

	T.I.E.		DICSA		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets <sup>1</sup>	-	25.9	-	99.7	-	18.2	-	<b>143.8</b>
Deferred tax	-	-	-	(24.9)	-	(2.0)	-	<b>(26.9)</b>
Property, plant and equipment	1.3	0.8	4.7	4.6	0.8	0.8	<b>6.8</b>	<b>6.2</b>
Inventories	11.2	11.4	35.4	35.2	3.3	3.4	<b>49.9</b>	<b>50.0</b>
Trade and other receivables	4.3	3.9	18.8	18.7	4.9	4.8	<b>28.0</b>	<b>27.4</b>
Trade and other payables	(5.0)	(5.3)	(12.1)	(13.1)	(3.4)	(3.6)	<b>(20.5)</b>	<b>(22.0)</b>
<b>Net assets acquired</b>	<b>11.8</b>	<b>36.7</b>	<b>46.8</b>	<b>120.2</b>	<b>5.6</b>	<b>21.6</b>	<b>64.2</b>	<b>178.5</b>
Goodwill	-	38.4	-	39.5	-	9.4	-	<b>87.3</b>
Minority interests	-	-	-	-	-	-	-	-
Cash paid		79.6		174.3		26.0		<b>279.9</b>
Cash acquired		(4.5)		(14.6)		(2.4)		<b>(21.5)</b>
								<b>258.4</b>
Deferred consideration		-		-		7.4		<b>7.4</b>
<b>Total investment</b>		<b>75.1<sup>2</sup></b>		<b>159.7</b>		<b>31.0</b>		<b>265.8</b>

- 1 On the acquisitions completed in the current year, acquired intangibles relate to customer relationships (£136.8m), brand (£6.2m) and technology (£0.8m).  
2 Diploma acquired T.I.E. on a cash free/debt free basis. The total investment amounts to £75.1m being cash paid net of cash acquired. Of the initial cash paid, the vendor directed the funds in escrow to settle outstanding debt of £11.7m, which is excluded from the purchase consideration in accordance with IFRS 3.

### Acquisitions revenue and adjusted operating profit

From the date of acquisition to 30 September 2023, each acquired business contributed the following to Group revenue and adjusted operating profit:

	Acquisition date	Revenue £m	Adjustments <sup>2</sup> £m	Pro forma revenue £m	Operating profit <sup>1</sup> £m	Adjustments <sup>2</sup> £m	Pro forma operating profit <sup>1</sup> £m
FPS	03 Oct 2022	3.0	-	3.0	0.7	-	0.7
Hedley	04 Oct 2022	3.7	-	3.7	0.5	-	0.5
Shrinktek	11 Jan 2023	1.0	0.4	1.4	0.3	0.1	0.4
T.I.E.	06 Mar 2023	16.6	11.7	28.3	4.0	2.9	6.9
Valves Online	14 Mar 2023	1.9	1.6	3.5	0.4	0.3	0.7
Eurobond	23 Mar 2023	0.6	0.5	1.1	0.4	0.3	0.7
ITG	30 Mar 2023	0.4	0.4	0.8	0.1	-	0.1
GP&S	14 Apr 2023	5.6	6.6	12.2	1.1	1.3	2.4
GM Medical	11 Jul 2023	0.9	3.4	4.3	0.1	0.4	0.5
DICSA	12 Jul 2023	16.5	63.0	79.5	4.0	15.2	19.2
Hex	17 Jul 2023	0.1	0.4	0.5	-	-	-
Lantech	18 Sep 2023	0.1	2.7	2.8	-	0.8	0.8
		<b>50.4</b>	<b>90.7</b>	<b>141.1</b>	<b>11.6</b>	<b>21.3</b>	<b>32.9</b>

1 Adjusted operating profit.

2 Pro forma revenue and adjusted operating profit has been extrapolated (as prescribed under IFRS) from the actual results reported since acquisition to indicate what these businesses would have contributed if they had been acquired at the beginning of the financial year on 1 October 2022. These amounts should not be viewed as confirmation of the results of these businesses that would have occurred if these acquisitions had been completed at the beginning of the year.

### Disposals

On 31 March 2023, the Group disposed of its interest in Hawco Limited ("Hawco") for total proceeds of £24.5m. Cash of £21.5m was received, net of cash disposed of £2.0m and with a further £1.0m deferred for 12 months.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

### 23. RECONCILIATION OF OPERATING PROFIT TO CASH FLOW FROM OPERATING ACTIVITIES

	2023 £m	2022 £m
<b>Operating profit</b>	<b>183.3</b>	144.3
Acquisition related and other charges (note 2)	<b>53.7</b>	46.9
<b>Adjusted operating profit</b>	<b>237.0</b>	191.2
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	<b>28.6</b>	23.9
Share-based payments expense (note 5)	<b>4.1</b>	2.8
Defined benefit pension scheme payment in excess of interest	<b>(0.6)</b>	(0.6)
Profit on disposal of assets	<b>(1.1)</b>	(1.6)
Acquisition and disposal expenses paid	<b>(6.0)</b>	(6.5)
Other non-cash movements	<b>(0.5)</b>	0.1
<b>Non-cash items and other</b>	<b>24.5</b>	18.1
Operating cash flow before changes in working capital	<b>261.5</b>	209.3
Decrease/(increase) in inventories	<b>10.8</b>	(35.6)
Increase in trade and other receivables	<b>(8.8)</b>	(10.6)
(Decrease)/increase in trade and other payables	<b>(6.2)</b>	17.5
<b>Increase in working capital</b>	<b>(4.2)</b>	(28.7)
<b>Cash flow from operating activities</b>	<b>257.3</b>	180.6

### 24. NET DEBT

The movement in net debt during the year is as follows:

	2023 £m	2022 £m
Net increase in cash and cash equivalents	<b>25.8</b>	17.5
Decrease/(increase) in bank borrowings	<b>43.8</b>	(131.3)
	<b>69.6</b>	(113.8)
Effect of exchange rates and other non-cash movements	<b>4.6</b>	(33.7)
<b>Decrease/(increase) in net debt</b>	<b>74.2</b>	(147.5)
Net debt at beginning of year	<b>(328.9)</b>	(181.4)
Net debt at end of year	<b>(254.7)</b>	(328.9)

Comprising:

Cash and cash equivalents	<b>62.4</b>	41.7
Bank borrowings:		
- Revolving credit facility, including accrued interest	<b>(321.1)</b>	(201.0)
- Overdraft facilities	<b>(0.3)</b>	-
- Term loan, including accrued interest	<b>-</b>	(174.3)
- Capitalised debt fees	<b>4.3</b>	4.7
	<b>(317.1)</b>	(370.6)
<b>Net debt at end of year</b>	<b>(254.7)</b>	(328.9)
Analysed as:		
Repayable within one year	<b>(0.3)</b>	(30.5)
Repayable after one year	<b>(316.8)</b>	(340.1)

On 17 July 2023, the Group entered into a new committed multi-currency revolving credit facility agreement ("RCF") with an aggregate principal amount of £555.0m. The RCF is due to expire in July 2028 with an option to extend for two further 12-month periods. The RCF replaced the Group's previous debt facility agreement which as at 30 September 2022 comprised an RCF with an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m (\$127.5m), a bullet term loan for an aggregate principal amount of £59.1m (\$66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m.

The Group's debt facilities are subject to interest at variable rates. During FY22 and FY23, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$200.0m (£163.9m) of debt. The effective fixed rate debt was 52% of total debt.

At 30 September 2023, the Group's Net Debt/EBITDA ratio is 0.9x, as illustrated in note 28.

As at 30 September 2023, the Group has utilised £320.9m of the revolving facility. There remains £234.1m undrawn on the revolving facility. Borrowings include £0.2m (2022: £1.0m) of accrued interest and the carrying amount of capitalised debt fees is £4.3m (2022: £4.7m).

As at 30 September 2023 the Group's net debt is £254.7m (2022: £328.9m) and excludes lease liabilities of £80.2m (2022: £69.1m).

## 25. RETIREMENT BENEFIT ASSET AND OBLIGATIONS

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

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

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

	2023 £m	2022 £m
Diploma Holdings PLC UK Pension Scheme	6.8	6.4
Kubo Pension Scheme	(0.3)	-
Pension scheme net asset	6.5	6.4

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

	2023 £m	2022 £m
Diploma Holdings PLC UK Pension Scheme	0.4	-
Kubo Pension Scheme	0.5	0.5
Amounts credited to the Consolidated Income Statement	0.9	0.5

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

### Diploma Holdings PLC UK Pension Scheme

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to meet the Statutory Funding Objective. The most recent triennial actuarial valuation carried out as at 30 September 2022 reported that the Scheme had a funding surplus of £2.2m and held assets which covered 107% of its liabilities at that date. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2025 and the results of the valuation will be reported in the 2026 Annual Report & Accounts. There were no Scheme amendments, curtailments or settlements during the year.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- **Investment risk:** The Scheme holds investments in asset classes that have volatile market values and while these assets are expected to provide broadly matching real returns over the long term, the short-term volatility can cause additional funding to be required if deficits emerge.
- **Interest rate risk:** The Scheme's liabilities are assessed using market yields on high-quality corporate bonds to discount the liabilities. As the Scheme is predominantly invested in government bonds, the value of the assets is expected to move broadly in the same way as the liabilities.
- **Inflation risk:** A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to funding deficits emerging.
- **Mortality risk:** In the event that members live longer than assumed, deficits may emerge in the Scheme.

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

	2023 £m	2022 £m
Market value of Scheme assets:		
Equities <sup>1</sup>	–	20.7
Gilts	24.5	3.9
Buy-In policy <sup>2</sup>	7.0	7.3
Cash	0.1	–
	<b>31.6</b>	31.9
Present value of Scheme liabilities	<b>(24.8)</b>	(25.5)
Pension scheme net asset	<b>6.8</b>	6.4

1 Quoted market price in an active market.

2 The Buy-In policy was valued on the same basis as the underlying pensioner liabilities.

In addition to the Buy-in policy, the pension scheme holds £1.8m of historic annuity policies. Their inclusion would have no impact on the net IAS 19 financial position, as the insurance policy exactly matches the related obligation, and members are paid directly by insurers.

### b) Amounts charged to the Consolidated Income Statement

	2023 £m	2022 £m
Charged to operating profit	–	–
Interest cost on liabilities	<b>(1.3)</b>	(0.8)
Interest on assets	1.7	0.8
Credited to financial expense, net (note 6)	<b>0.4</b>	–
Amounts credited to the Consolidated Income Statement	<b>0.4</b>	–

### c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2023 £m	2022 £m
Investment loss on Scheme assets in excess of interest	<b>(1.1)</b>	(6.5)
Effect of changes in financial assumptions on Scheme liabilities	1.2	15.4
Effect of changes in demographic assumptions on Scheme liabilities	–	0.3
Experience adjustments on Scheme liabilities	<b>(0.7)</b>	(0.7)
Actuarial (loss)/gain charged in the Consolidated Statement of Comprehensive Income	<b>(0.6)</b>	8.5

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income, since the transition to IFRS, is £1.8m (2022: £1.2m).

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

	2023 £m	2022 £m
Asset/(deficit) as at 1 October	6.4	(2.7)
Amounts credited to the Consolidated Income Statement	0.4	–
Contributions paid by employer	0.6	0.6
Net effect of remeasurements of Scheme assets and liabilities	(0.6)	8.5
Asset as at 30 September	6.8	6.4

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

	2023 £m	2022 £m
At 1 October	25.5	41.0
Experience adjustments on Scheme liabilities	0.7	0.7
Interest cost on liabilities	1.3	0.8
Impact from changes in actuarial assumptions	(1.2)	(15.7)
Benefits paid	(1.5)	(1.3)
At 30 September	24.8	25.5

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

	2023 £m	2022 £m
At 1 October	31.9	38.3
Interest on assets	1.7	0.8
Return on Scheme assets	(1.1)	(6.5)
Contributions paid by employer	0.6	0.6
Benefits paid	(1.5)	(1.3)
At 30 September	31.6	31.9

The actual return on the Scheme assets (including interest on assets) during the year was a gain of £0.6m (2022: £5.7m loss).

## Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2023, the major categories of assets were as follows:

	2023 %	2022 %
North America equities	–	28
UK equities	–	12
European equities (non-UK)	–	11
Asia-Pacific and Emerging Markets equities	–	12
Gilts	78	14
Buy-In policy	22	23

## Principal actuarial assumptions for the Scheme at balance sheet dates

		2023 %	2022 %	2021 %	2020 %
Inflation rate	– RPI	3.4	3.6	3.4	2.9
	– CPI	3.0	3.2	3.0	1.9
Expected rate of pension increases	– CPI	3.0	3.2	3.0	1.9
Discount rate		5.6	5.3	2.0	1.5

The increase in the Scheme surplus was due to a combination of a slight rise in corporate bond yields, which has led to a higher discount rate and therefore a lower value being placed on the liabilities, and a slight fall in the market's expectation of future inflation, which has also reduced the value placed on the liabilities. The Scheme had 78% of its assets in bonds as at 30 September 2023, with no exposure to LDI.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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### Demographic assumptions

Mortality table used:	S3PA
Year the mortality table was published:	CMI 2021
Allowance for future improvements in longevity:	Year of birth projections, with a long-term improvement rate of 1.0%
Allowance made for members to take a cash lump sum on retirement:	Members are assumed to take 100% of their maximum cash sum (based on current commutation factors)
The weighted average duration of the defined benefit obligation is around 13 years	

### Sensitivities

The sensitivities of the 2023 pension liabilities to changes in assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	6.0	1.5
Inflation	Increase by 0.5%	2.8	0.7
Life expectancy	Increase by one year	2.4	0.6

### Risk mitigation strategies

When setting the investment strategy for the Scheme, the Trustees, in conjunction with the employer, take into account the liability profile of the Scheme. Annuity policies have been taken out in respect of some historic pensioners, but the Scheme has not purchased annuities for retirements since 2005. In addition to these individual annuity policies, the Trustees have purchased a Buy-In policy for all existing pensioners as at 1 September 2018. The Buy-In policy secures the Scheme against both market and mortality risk relating to these pensioners. The Scheme however remains liable ultimately for the liabilities, should the insurance company which sold the liabilities go into insolvent liquidation.

In FY23, the Trustees have considered all asset classes and have gained exposure to fixed interest index-linked Gilts and bulk annuity. The Trustees consider these assets to reduce the risk of the assets failing to meet the liabilities over the long term.

### 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 2022, 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: none).

### The Kubo Pension Scheme (the Kubo Scheme)

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

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

	2023 £m	2022 £m
Assets of the Kubo Scheme <sup>1</sup>	14.3	13.5
Actuarial liabilities of the Kubo Scheme	(14.6)	(13.5)
Pension scheme net deficit	(0.3)	-

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



**b) Amounts charged to the Consolidated Income Statement**

	2023 £m	2022 £m
Service cost	(0.5)	(0.5)
Amount charged to operating profit in the Consolidated Income Statement	(0.5)	(0.5)

**c) Analysis of movement in the pension deficit**

	2023 £m	2022 £m
At 1 October	-	(2.2)
Amounts charged to the Consolidated Income Statement	(0.5)	(0.5)
Contributions paid by employer	0.5	0.5
Net effect of remeasurements of Kubo Scheme assets and liabilities	(0.3)	2.1
Exchange adjustments	-	0.1
<b>At 30 September</b>	<b>(0.3)</b>	-

**d) Amounts recognised in the Consolidated Statement of Comprehensive Income**

The actuarial loss charged to the Consolidated Statement of Comprehensive Income is £0.3m (2022: £2.1m gain).

	2023 £m	2022 £m
Investment gain/(loss) on Scheme assets in excess of interest	0.3	(1.3)
Effect of changes in financial assumptions on Scheme liabilities	(0.9)	4.2
Effect of changes in demographic assumptions on Scheme liabilities	-	-
Experience adjustments on Scheme liabilities	(0.1)	(0.4)
Adjustment in respect of IFRIC 14	0.4	(0.4)
Actuarial (loss)/gain charged in the Consolidated Statement of Comprehensive Income	(0.3)	2.1

**Principal actuarial assumptions for the Kubo Scheme at balance sheet dates**

	2023	2022
Expected rate of pension increase	0%	0%
Expected rate of salary increase	1.3%	1.0%
Discount rate	2.0%	2.3%
Interest credit rate	1.5%	1.0%
Mortality	BVG2020	BVG2020

**Sensitivities**

The sensitivities of the 2023 pension liabilities to changes in assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.25%	3.8	0.5
Life expectancy	Increase by one year	1.8	0.3

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

	£m
Best estimate of employer's contribution in 2024	0.5
Best estimate of employees' contribution in 2024	0.4

The weighted average duration of the defined benefit obligation is approximately 15 years (2022: 15 years).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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### 26. AUDITORS' REMUNERATION

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

	2023 £m	2022 £m
Fees payable to the auditors for the audit of:		
– the Company's Annual Report & Accounts	1.3	1.1
– the Company's subsidiaries	0.3	0.4
Audit fees	1.6	1.5

Non-audit fees of £75,700 (2022: £29,200) were paid to the Group's auditor for carrying out an interim review (2022: 'agreed upon procedures') on the Half Year Announcement (which is unaudited), and subscription costs for access to a market-wide technical accounting database.

### 27. EXCHANGE RATES

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

	Average		Closing	
	2023	2022	2023	2022
US dollar (US\$)	1.23	1.27	1.22	1.12
Canadian dollar (C\$)	1.66	1.63	1.65	1.53
Euro (€)	1.15	1.18	1.15	1.14
Swiss franc (CHF)	1.13	1.20	1.12	1.10
Australian dollar (AUD)	1.85	1.79	1.89	1.74

### 28. ALTERNATIVE PERFORMANCE MEASURES

The Group reports under International Financial Reporting Standards (IFRS) and references alternative performance measures where the Board believes that they help to effectively monitor the performance of the Group and support readers of the Financial Statements in drawing comparisons with past performance. Certain alternative performance measures are also relevant in calculating a meaningful element of Executive Directors' variable remuneration and our debt covenants. Alternative performance measures are not considered to be a substitute for, or superior to, IFRS measures. The definitions of the alternative performance measures and the comparisons to their closest IFRS measures can be found on pages 188–189.

#### 28.1 Revenue Growth

As a multi-national Group of companies who trade in a large number of currencies and also acquire and sometimes dispose of companies, organic performance is also referred to throughout the Annual Report. These strip out the effects of the movement in exchange rates and of acquisitions and disposals. The Board believe that this allows users of the financial statements to gain a better understanding of how the Group has performed.

A reconciliation of the movement in revenue compared to the prior year is given below.

	£m	%
<b>September 2022 Reported revenue</b>	1,012.8	
Organic	87.8	8
Acquisitions and Disposals	82.1	8
Exchange	17.6	3
<b>September 2023 Reported revenue</b>	<b>1,200.3</b>	<b>19</b>

The Organic revenue growth percentage is the incremental revenue generated under Diploma's ownership compared to the revenue in the same period prior to acquisition, at prior period exchange rates.

The impact of acquisitions on growth is the revenue of the acquiree prior to the acquisition by Diploma for the comparable period at prior year exchange rates. The impact of disposals on growth is the removal of the revenue of the disposed entity in the comparable post disposal period at prior year exchange rates. The Acquisitions and Disposals growth percentage is calculated as the impact of acquisition and disposals divided by the reported revenue in the prior period.

Exchange translation movements are assessed by re-translating current year reported values to prior year exchange rates.

## 28.2 Adjusted operating profit and adjusted operating margin

Adjusted operating profit is the operating profit before adjusting items that would otherwise distort operating profit, currently and more recently being amortisation of acquisition intangible assets or goodwill, acquisition expenses, post-acquisition related remuneration costs and adjustments to deferred consideration, the costs of a significant restructuring or rationalisation and the profit or loss relating to the sale of businesses. These are treated as adjusting items (referred to as acquisition related and other charges) as they are considered to be significant in nature and/or quantum and where treatment as an adjusting item provides all our stakeholders with additional useful information to assess the year-on-year trading performance of the Group on a like-for-like basis. Adjusted operating margin is the Group's adjusted operating profit divided by the Group's reported revenue.

A reconciliation between operating profit as reported under IFRS and adjusted operating profit is given below:

	Note	2023 £m	2022 £m
<b>Revenue</b>		<b>1,200.3</b>	1,012.8
Operating profit as reported under IFRS		<b>183.3</b>	144.3
Add: Acquisition related and other charges		<b>53.7</b>	46.9
<b>Adjusted operating profit</b>	2,3	<b>237.0</b>	191.2
<b>Adjusted operating margin</b>		<b>19.7%</b>	18.9%

## 28.3 Adjusted earnings per share

Adjusted earnings per share ("adjusted EPS") is calculated as the total of adjusted profit before tax, less income tax costs, but including the tax impact on the items included in the calculation of adjusted profit, less profit/(loss) attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year of 129,675,581 (2022: 124,533,060), as set out in note 9. The Directors believe that adjusted EPS provides an important measure of the earnings capacity of the Group.

## 28.4 Free cash flow and free cash flow conversion

Free cash flow is defined as net cash flow from operating activities, less net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations/investments (including any pre-acquisition debt like items such as pensions or tax settled post-acquisition) and proceeds from business disposals, borrowings received to fund acquisitions, net proceeds from issues of share capital and dividends paid to both minority shareholders and the Company's shareholders. "Free cash flow conversion" reflects free cash flow as a percentage of adjusted earnings. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment or distribution to shareholders.

	Note	2023 £m	2022 £m
Net increase in cash and cash equivalents		<b>25.8</b>	17.5
Add: Dividends paid to shareholders and minority interests		<b>70.8</b>	56.4
Acquisition of minority interests		-	0.3
Acquisition/disposal of businesses (including net expenses)		<b>243.0</b>	170.4
Deferred consideration paid		<b>12.3</b>	7.1
Proceeds from issue of share capital (net of fees)		<b>(231.9)</b>	-
Net repayment of/(proceeds from) borrowings (including borrowing fees)		<b>43.8</b>	(131.3)
<b>Free cash flow</b>		<b>163.8</b>	120.4
<b>Adjusted earnings<sup>1</sup></b>	9	<b>164.0</b>	133.9
<b>Free cash flow conversion</b>		<b>100%</b>	90%

<sup>1</sup> Adjusted earnings is shown on the face of the condensed consolidated income statement as profit for the year attributable to shareholders of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2023

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### 28.5 Leverage

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

	Note	2023 £m	2022 £m
Cash and cash equivalents	24	62.4	41.7
Borrowings	24	(317.1)	(370.6)
Re-translation at average exchange rates		1.2	23.1
<b>Net debt at average exchange rates</b>		<b>(253.5)</b>	<b>(305.8)</b>
Adjusted operating profit	28.2	237.0	191.2
Depreciation and amortisation of tangible and other intangible assets	2	13.8	11.2
IFRS 16 impact		(1.7)	1.2
Minority interest share of adjusted operating profit		(0.8)	(1.1)
Pro forma adjustments <sup>1</sup>		21.0	10.2
<b>EBITDA</b>		<b>269.3</b>	<b>212.7</b>
<b>Leverage</b>		<b>0.9x</b>	<b>1.4x</b>

<sup>1</sup> Annualisation of adjusted EBITDA, including that of acquisitions and disposals in the year.

### 28.6 Trading Capital Employed and ROATCE

Trading capital employed is defined as net assets less cash and cash equivalents and retirement benefit assets, after adding back borrowings (other than lease liabilities), deferred tax, retirement benefit obligations and net acquisition liabilities in respect of future purchases of minority interests, deferred consideration payable on acquisitions, and acquisition receivables in respect of previously completed disposals. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously charged to the income statement (net of deferred tax on acquisition intangible assets) and re-translated at the average exchange rates for the reporting period. 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 the annualised adjusted operating profit including that of acquisitions and disposals in the period. The Directors believe that ROATCE is an important measure of the profitability of the Group.

	Note	2023 £m	2022 £m
<b>Net assets as reported under IFRS</b>		<b>902.0</b>	<b>668.2</b>
Add/(deduct):			
– Deferred tax, net		58.4	38.2
– Retirement benefit assets, net		(6.5)	(6.4)
– Net acquisition related liabilities		19.6	29.6
– Net debt	24	254.7	328.9
<b>Trading capital employed</b>		<b>1,228.2</b>	<b>1,058.5</b>
– Historic goodwill and acquisition related charges, net of deferred tax and currency movements		189.4	99.6
<b>Adjusted trading capital employed</b>		<b>1,417.6</b>	<b>1,158.1</b>
Adjusted operating profit	28.2	237.0	191.2
Pro forma adjustments <sup>1</sup>		19.4	9.7
<b>Pro forma adjusted operating profit</b>		<b>256.4</b>	<b>200.9</b>
<b>ROATCE</b>		<b>18.1%</b>	<b>17.3%</b>

<sup>1</sup> Annualisation of adjusted operating profit, including that of acquisitions and disposals in the year.

## GROUP ACCOUNTING POLICIES FOR THE YEAR ENDED 30 SEPTEMBER 2023

### 1.1 BASIS OF PREPARATION

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

#### Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 75. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 36 to 40. In addition, pages 156 to 160 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group continues to operate against a backdrop of macroeconomic disruption, including widespread global inflation, rising interest rates, and accordingly, the Directors have considered a comprehensive going concern review. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described further on pages 44 to 48.

#### Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 24 and 28 to the consolidated financial statements.

#### Financial modelling

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

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

#### Going concern basis

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

### 1.2 BASIS OF CONSOLIDATION

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

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

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

#### 1.2.a. New accounting standards adopted

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

### 1.3 ACQUISITIONS

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

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



## GROUP ACCOUNTING POLICIES

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#### 1.4 DIVESTMENTS

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

#### 1.5 REVENUE RECOGNITION

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

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

Provision is made for returns and in the few instances where rebates are provided, though neither are material. There are no capitalised contract costs recognised by the Group.

#### 1.6 EMPLOYEE BENEFITS

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

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

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

- i) Within the Consolidated Income Statement:
  - Service cost of current members of the Kubo Scheme.
  - Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised in operating profit.
  - Any interest cost on the net deficit of the plan – calculated by applying the discount rate to the net defined benefit liability at the start of the annual reporting period.
- ii) Within the Consolidated Statement of Comprehensive Income (Other Comprehensive Income):
  - Actuarial gains and losses arising on the assets and liabilities of the plan related to actual experience and any changes in assumptions at the end of the year.

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

## 1.7 FOREIGN CURRENCIES

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

**a) Reporting foreign currency transactions in functional currency:** Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

- i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Consolidated Income Statement.
- ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated.
- iii) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and conversely, where a gain or loss on a non-monetary item is recognised in the Consolidated Income Statement, any exchange component of that gain or loss is also recognised in the Consolidated Income Statement.

**b) Translation from functional currency to presentational currency:** When the functional currency of a Group entity is different from the Group's presentational currency, its results and financial position are translated into the presentational currency as follows:

- i) Assets and liabilities are translated using exchange rates prevailing at the balance sheet date.
- ii) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used.
- iii) All resulting exchange differences are recognised in Other Comprehensive Income; these cumulative exchange differences are recognised in the Consolidated Income Statement in the period in which the foreign operation is disposed of.

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

## 1.8 TAXATION

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

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

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

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

## GROUP ACCOUNTING POLICIES

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

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

#### 1.9 PROPERTY, PLANT AND EQUIPMENT

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

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

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

The depreciation method used, residual values and estimated useful lives are reviewed and changed, if appropriate, at least at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses arising on disposals are determined by comparing sales proceeds with carrying amount and are recognised in the Consolidated Income Statement.

#### 1.10 INTANGIBLE ASSETS

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

##### a) Research and development costs

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

##### b) Computer software costs

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

##### c) Acquired intangible assets – business combinations

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

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

##### d) Goodwill – business combinations

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

### 1.11 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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

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

#### a) Impairment of goodwill

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

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

#### b) Impairment of other tangible and intangible assets

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

### 1.12 INVENTORIES

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

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

### 1.13 FINANCIAL INSTRUMENTS

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

#### a) Trade receivables and loss allowance

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

#### b) Trade payables

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

#### c) Cash and cash equivalents

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

#### d) Put options held by minority interests

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

#### e) Derivative financial instruments and hedge accounting

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

## GROUP ACCOUNTING POLICIES

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

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

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

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

#### f) Borrowings

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

Borrowings include overdraft facilities that do not have a legal right of offset.

#### 1.14 LEASES

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

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

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

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

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

#### 1.15 OTHER LIABILITIES

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

#### 1.16 DIVIDENDS

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

#### 1.17 SHARE CAPITAL AND RESERVES

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

- a) **Translation reserve** – The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign businesses.
- b) **Hedging reserve** – The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.
- c) **Retained earnings reserve** – The retained earnings reserve comprises total cumulative recognised income and expense attributable to shareholders. Bonus issues of share capital and dividends to shareholders are also charged directly to this reserve. In addition, the cost of acquiring shares in the Company and the liability to provide those shares to employees, is accounted for in this reserve.



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

### 1.18 RELATED PARTIES

There are no related party transactions (other than with key management) that are required to be disclosed in accordance with IAS 24. Details of their remuneration are given in note 5 to the consolidated financial statements.

### 1.19 ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS NOT YET EFFECTIVE

The IASB has published a number of new IFRS standards, amendments and interpretations to existing standards which are not yet effective, but will be mandatory for the Group's accounting periods beginning on or after 1 October 2023.

IFRS 17 'Insurance contracts' which is ultimately intended to replace IFRS 4, will become effective in the consolidated Group financial statements for the financial year ending 30 September 2024;

IFRS 16 amendments 'Lease liability in a sale and leaseback', which will become effective in the consolidated Group financial statements for the financial year ending 30 September 2025, subject to UK endorsement;

IAS 1 - Presentation of Financial Statements - in relation to non-current liabilities with covenants and deferral of effective date, and the Disclosure of Accounting Policies;

IAS 8 - Accounting Policies in relation to the definition of Accounting Estimates;

IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction and International tax reform - pillar two model rules.

The Group does not anticipate that the adoption of these standards and interpretations that are effective for the year ending September 2024 will have a material effect on its financial statements.

## 1.20 SIGNIFICANT ACCOUNTING ESTIMATES AND CRITICAL JUDGEMENTS

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

### 1.20.1 Acquisition accounting (estimate)

Acquisition accounting is a significant accounting estimate.

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

The significant assumptions in valuing the T.I.E. and DICSA intangible assets, which were acquired in the year, together with the sensitivity analysis, are set out below.

	T.I.E.	DICSA
Discount rate + 1% (all intangibles)	ca. £(1.4)m	ca. £(6.1)m
Discount rate - 1% (all intangibles)	ca. £1.1m	ca. £6.7m
Revenue growth rate +1% (all intangibles)	ca. £(1.0)m	ca. £0.9m
Revenue growth rate -1% (all intangibles)	ca. £1.6m	ca. £(0.1)m
Customer attrition rate +1% (customer relationships)	ca. £(1.4)m	ca. £(6.2)m
Customer attrition rate -1% (customer relationships)	ca. £1.2m	ca. £6.8m

## GROUP ACCOUNTING POLICIES

### FOR THE YEAR ENDED 30 SEPTEMBER 2023

#### CONTINUED

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

#### **1.20.2 Goodwill impairment (estimate)**

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

#### **1.20.3 Inventory provisions (estimate)**

Inventories are stated at the lower of cost and net realisable value as set out in note 1.12 of the Group Accounting Policies. In the course of normal trading activities, estimates are used to establish the net realisable value of inventory and impairment charges are made for obsolete or slow-moving inventories and against excess inventories.

The decision to make an impairment charge is based on a number of factors including management's assessment of the current trading environment, aged profiles and historical usage and other matters which are relevant at the time the consolidated financial statements are approved.

#### **1.20.4 Defined benefit pension (estimate)**

Defined benefit pensions are accounted for as set out in note 1.6 of the Group Accounting Policies. Determining the value of the future defined benefit obligation requires estimates in respect of the assumptions used to calculate present values. These include discount rate, future mortality and inflation rate. Management makes these estimates in consultation with an independent actuary. For the year ended 30 September 2023, the Defined benefit pension obligation for the UK defined benefit pension scheme is an asset rather than an obligation due to the increase in bond yields impacting on discount rate and a fall in the market's expectations of future inflation, whilst the Kubo defined benefit pension scheme is a net liability. Detail of the estimates and key sensitivities made in calculating the defined benefit asset at 30 September 2023 are set out in note 25 to the consolidated financial statements.

## PARENT COMPANY STATEMENT OF FINANCIAL POSITION

### AS AT 30 SEPTEMBER 2023

	Note	2023 £m	2022 £m
<b>Fixed assets</b>			
Investments	D	<b>372.4</b>	297.2
<b>Debtors: amounts falling due within one year</b>		<b>-</b>	-
Amounts owed by Group undertakings		<b>246.9</b>	35.8
<b>Creditors: amounts falling due within one year</b>		<b>(1.6)</b>	-
Amounts owed to Group undertakings		<b>-</b>	-
<b>Net assets</b>		<b>617.7</b>	333.0
<b>Capital and reserves</b>			
Share capital	E	<b>6.8</b>	6.3
Share premium		<b>420.2</b>	188.6
Retained earnings <sup>1</sup>		<b>190.7</b>	138.1
<b>Total shareholders' equity</b>		<b>617.7</b>	333.0

1 Includes profit after tax for the year of £122.8m (2022: £125.5m).

The financial statements of Diploma PLC and the notes on 181 to 183, which form part of these financial statements, company number 3899848, were approved by the Board of Directors on 20 November 2023 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 2023

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total shareholders' equity £m
At 1 October 2021		6.3	188.6	67.6	<b>262.5</b>
Total Comprehensive Income	A	-	-	125.5	<b>125.5</b>
Dividends paid	F	-	-	(56.2)	<b>(56.2)</b>
Settlement of LTIP awards		-	-	1.2	<b>1.2</b>
At 30 September 2022		6.3	188.6	138.1	<b>333.0</b>
Total Comprehensive Income	A	-	-	122.8	<b>122.8</b>
Shares Issued		0.5	231.6	-	<b>232.1</b>
Dividends paid	F	-	-	(70.5)	<b>(70.5)</b>
Settlement of LTIP awards		-	-	0.3	<b>0.3</b>
At 30 September 2023		<b>6.8</b>	<b>420.2</b>	<b>190.7</b>	<b>617.7</b>

During the year, the Directors became aware that approximately £2.5m of the FY21 interim dividend declared on 17 May 2021 was paid other than in accordance with the technical requirements of the Companies Act 2006. This was because interim accounts had not been filed at Companies house prior to the declaration of the dividend. It is intended that this technical issue, which has no impact on the Company's financial position, be ratified by a shareholders' resolution to be proposed at the Annual General Meeting to be held on 17 January 2024. The approach that the Company is proposing with regard to this matter is consistent with the approach taken by other UK quoted and listed companies that have, similarly, made distributions otherwise than in accordance with the Act.

The Directors will propose a resolution at the Annual General Meeting to be held on 17 January 2024 to authorise the appropriation of distributable profits to the payment of the interim dividend and remove the right of the Company to pursue shareholders or directors for repayment. The effect of this resolution will be to return all parties to the position that they would have been in, had the FY21 interim dividend been made in full compliance with the Companies Act 2006. As the Directors believe that passing this resolution will be in the best interests of the members, no adjustment has been made to the Statement of Changes in Equity presented above.

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2023

### A) ACCOUNTING POLICIES

#### a.1) Basis of accounting

The Parent Company Financial Statements (the Financial Statements) have been prepared consistently in accordance with the Companies Act 2006 and FRS 101 (Reduced Disclosures Framework). The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. The Financial Statements, which are prepared on a historical cost basis, are presented in UK sterling and all values are rounded to the nearest 100,000 except when otherwise indicated.

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, and registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 10–11 Charterhouse Square, London EC1M 6EE. The financial statements were authorised by the Directors for publication on 20 November 2023.

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

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

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

#### a.2) Total Comprehensive Income

Total Comprehensive Income comprises dividends received from subsidiaries and interest payable or receivable on intercompany balances at the UK base rate, plus 1.5% and that are repayable on demand.

#### a.3) Dividend income

Dividend income is recognised when received. Final dividend distributions are recognised in the Company's Financial Statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

#### a.4) Investments

Investments are stated at cost less provision for impairment.

#### a.5) Diploma PLC Employment Benefit Trust and employee share schemes

Shares held by the Diploma PLC Employee Benefit Trust (the Trust) are stated at cost and accounted for as a deduction from shareholders' equity in accordance with IAS 32, as applied by FRS 101. Shares that are held by the Trust are not eligible for dividends until such time as the awards have vested and options have been exercised by the participants.

#### a.6) Auditors' remuneration

Fees payable to the auditors for the audit of the Company's financial statements of £3,500 (2022: £3,500) were borne by a fellow Group undertaking.

**B) DIRECTORS' AND EMPLOYEES' REMUNERATION**

No remuneration is paid directly by the Company; information on the Directors' remuneration (which is paid by a subsidiary company) and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 102 to 125 and note 5 to the Consolidated Financial Statements on page 146.

The Company had no employees (2022: none).

**C) COMPANY PROFIT AND LOSS ACCOUNT**

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. There were no gains or losses either in the current or preceding years recognised in Other Comprehensive Income. The Company's profit for the year was £122.8m (2022: profit of £125.5m), before settlement of LTIP awards.

**D) INVESTMENTS**

	2023 £m	2022 £m
Shares in Group undertakings held at cost		
<b>At 30 September</b>	<b>372.4</b>	297.2

A full list of subsidiary and other related undertakings is set out on pages 185 to 187. Investments in subsidiaries are reviewed annually for any indicators of impairment. No indicators have been noted (2022: none).

**E) SHARE CAPITAL**

	2023 Number	2022 Number	2023 £m	2022 £m
Issued, authorised and fully paid ordinary shares of 5p each				
<b>At 30 September</b>	<b>134,034,491</b>	124,616,170	<b>6.8</b>	6.3

An equity placing was completed in March 2023, resulting in the issuance of 9,350,965 (7.5% increase) of 5p ordinary shares at a share price of 2,525 pence per placing share, with corresponding fees of £4.2m. The equity placing resulted in total net proceeds of £231,939,152 recognised as an increase to share capital of £467,548 and an increase to share premium of £231,471,604.

As described in the Remuneration Committee Report on page 108, restricted shares (net 3,984 shares at a share price of 2,776 pence per share) were issued to Chris Davies that are subject to a holding period of two years to replace share-based payment arrangements forgone in order for him to join the Group. The issue of the shares was recognised as an increase to share capital of £199 and an increase to share premium of £110,497.

During the year, 66,974 ordinary shares in the Company (2022: 72,262) were transferred from the Trust to participants on an after income tax basis in connection with the exercise of options in respect of awards which had vested under the 2011 Long-Term Incentive Plan, as set out in the Remuneration Committee Report.

A further 63,372 shares were issued to the Trust during the year at 5p par value, recognised as an increase to share capital of £3,169.

At 30 September 2023, the Trust held 67,431 (2022: 71,033) ordinary shares in the Company representing 0.1% of the called up share capital. The market value of the shares at 30 September 2023 was £2.0m (2022: £1.7m).

**F) DIVIDENDS**

Details in respect of dividends proposed and paid during the year by the Company are included in note 8 to the consolidated financial statements.



## GLOSSARY

<b>AGM</b>	Annual General Meeting	<b>GP&amp;S</b>	Gaskets, Packings & Seals Enterprises, LLC, a Diploma Seals Sector business
<b>ACT</b>	Anti-Corrosion Technology, a Diploma Seals Sector business	<b>The Group</b>	The Company and its subsidiaries
<b>ARGA</b>	The Audit, Reporting and Governance Authority	<b>Hedley</b>	Hedley DMB Limited, a Diploma Seals Sector business
<b>The Board</b>	The Board of Directors of the Company	<b>Hex</b>	Hex Technology, LLC, a Diploma Seals Sector business
<b>CAGR</b>	Compound annual growth rate	<b>IFRS</b>	International financial reporting standards
<b>CBAM</b>	Carbon border adjustment mechanism	<b>ITG</b>	International Technologies Group, LLC, within Diploma Seals Sector
<b>CGU</b>	Cash-generating unit	<b>KPI</b>	Key performance indicator
<b>CODM</b>	Chief operating decision maker	<b>LTI</b>	Lost time incident
<b>The Code</b>	The UK Corporate Governance Code 2018	<b>LTIP</b>	Long-term incentive plan
<b>The Company</b>	Diploma PLC	<b>MD</b>	Managing Director
<b>Consolidated Financial Statements</b>	The Financial Statements for the Group from the year ended 30 September 2023	<b>MRO</b>	Maintenance, repair and overhaul
<b>Constant Currency</b>	Compares current period's results with the prior period's results translated at the current period's exchange rates	<b>MSR</b>	Minimum shareholding requirement
<b>CNC</b>	computer numerical control	<b>Non-Executive Directors</b>	The Non-Executive Directors of the Company
<b>CRROs</b>	Climate-related risks and opportunities	<b>OEM</b>	Original equipment manufacturer
<b>DEI</b>	Diversity, equity and inclusion	<b>PILON</b>	Payment in lieu of notice
<b>DRR</b>	Directors' remuneration report	<b>PPA</b>	Purchase price allocation
<b>DVR</b>	Delivering value responsibly – our ESG programme	<b>PSP</b>	Performance share plan
<b>DICSA</b>	Distribuidora Internacional Carmen S.A.U.	<b>PwC</b>	PricewaterhouseCoopers LLP
<b>Directors</b>	The Directors of the Company	<b>R&amp;G</b>	R&G Fluid Power Group, a Diploma Seals Sector business
<b>DTRS</b>	The Financial Conduct Authority's Disclosure Guidance and Transparency Rules	<b>RCF</b>	Revolving credit facility
<b>EBITDA</b>	Earnings before interest and tax plus depreciation and amortisation	<b>the Regulations</b>	EU Audit Directive and Audit Regulation 2014
<b>EBT</b>	Employee Benefit Trust	<b>ROATCE</b>	Return on adjusted trading capital employed
<b>EPS</b>	Earnings per share	<b>s172</b>	Section 172 of the Companies Act 2006
<b>ERP</b>	Enterprise resource planning	<b>SBTi</b>	Science-Based Targets initiative
<b>ESG</b>	Environmental, social and governance	<b>The Scheme</b>	The Diploma Holdings PLC UK Pension Scheme
<b>EV</b>	Electric vehicle	<b>Shrinktek</b>	Shrinktek Polymers International Limited, within Diploma Controls Sector
<b>Executive Directors</b>	The Executive Directors of the Company	<b>SLT</b>	Senior leadership team
<b>Eurobond</b>	Eurobond Adhesives Limited, within Diploma Controls Sector	<b>SMT</b>	Senior management team
<b>FCA</b>	Financial Conduct Authority	<b>TCFD</b>	Task force on climate-related financial disclosures
<b>FRC</b>	The Financial Reporting Council	<b>TDC</b>	Total direct compensation
<b>FPS</b>	Fluid Power Services Limited, a Diploma Seals Sector business	<b>T.I.E.</b>	Tennessee Industrial Electronics, a Diploma Controls Sector business
<b>GHG</b>	Greenhouse gas emissions	<b>TSR</b>	Total shareholder return
<b>GIA</b>	General investment accounts	<b>Valves Online</b>	Valves Online Limited, a Diploma Seals Sector business
<b>GM Medical</b>	GM Medical Group A/S, a Diploma Life Sciences Sector business	<b>WTW</b>	Willis Towers Watson

## SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*		Registered office address*
<b>Seals</b>		Grimsby Hydraulic Services Limited <sup>2</sup> & (98% owned)	A
HB Sealing Products, Inc.	D	Pneumatic Services Limited <sup>2</sup> & (93.1% owned)	A
HKX, Inc.	E	AMG (Brighouse) Limited <sup>2</sup> & (98% owned)	A
RTD Seals Corp.	C	Millennium Coupling Company Limited <sup>2</sup> & (98% owned)	A
VSP Technologies, Inc.	C	Fluid Power Products Limited <sup>1</sup> & (98% owned)	A
HB Sealing Products Limited	Q	Industrial Hose & Pipe Fittings Limited <sup>2</sup> & (98% owned)	A
M Seals A/S <sup>(90% owned)</sup>	M	Millennium Engineering (2012) Limited <sup>2</sup> & (98% owned)	A
M Seals AB <sup>(90% owned)</sup>	N	Anti-Corrosion Technology Pty Limited	AH
M Seals UK (Technical Distribution) Limited (previously M Seals UK Limited) <sup>2</sup>	A	Distribuidora Internacional Carmen, S.A.U.	AI
Diploma (Tianjin) Trading Co. Limited	V	DICSA America LLC	AJ
FPE Seals Limited <sup>2</sup>	A	Distribuidora Internacional Carmen SRL	AK
DMR Seals (Holdings) Limited <sup>2</sup>	A	Gaskets, Packings & Seals Enterprises, LLC	AL
DMR Gaskets Limited <sup>2</sup>	A	Valves Online Limited <sup>2</sup> & (98% owned)	A
M Seals UK (Engineered Seals Division) Limited (previously DMR Seals Limited) <sup>2</sup>	A	Lantech Solutions Limited <sup>2</sup> & (98% owned)	A
FPE Seals BV	J	Fluid Power Services Limited <sup>2</sup> & (98% owned)	A
Kubo Tech AG	K	Hedley DMB Limited <sup>2</sup> & (98% owned)	A
Kubo Tech GmbH	L	Hedley Hydraulics (Holdings) Limited <sup>2</sup> & (98% owned)	A
PumpNSeal Australia Pty Limited	R	Hedley Hydraulics Limited <sup>2</sup> & (98% owned)	A
TotalSeal Group Australia Pty Limited	S	Hedley Connectors Limited <sup>1</sup> & (98% owned)	A
TotalSeal New Caledonia SAS	U	Hex Technology, LLC	AQ
Fitt Management Pty Limited	AB	Ecohydraulics Limited <sup>1</sup> & (98% owned)	A
Fitt Resources Pty Limited	AB		
Fitt Trading Pty Limited	AB		
Merseyflex Limited <sup>2</sup> & (98% owned)	A		
R&G Investments Limited <sup>2</sup> & (98% owned)	A		
One Stop Fluid Power Limited <sup>2</sup> & (98% owned)	A		
Pearson Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
Northern Hose & Hydraulics Limited <sup>1</sup> & (98% owned)	A		
Exeter Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
North Devon Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
Pressurelines Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
Somerset Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
West Cornwall Hose & Hydraulics Limited <sup>2</sup> & (98% owned)	A		
Pearson Hydraulics Limited <sup>2</sup> & (98% owned)	A		
Henry Gallacher Limited <sup>2</sup> & (98% owned)	A		
Fluidair Power Limited <sup>2</sup> & (98% owned)	A		
GHS Limited <sup>2</sup> & (98% owned)	A		
Global Hydraulic Services Limited <sup>2</sup> & (98% owned)	A		
Pennine Pneumatic Services Limited <sup>2</sup> & (93.1% owned)	A		
Compton Limited <sup>2</sup> & (93.1% owned)	A		
Norman Walker (Machinery) Limited <sup>2</sup> & (93.1% owned)	A		
Rubberfast Limited <sup>2</sup> & (98% owned)	A		
Rubberlast Group Limited <sup>2</sup> & (98% owned)	A		
Hydraulic & Offshore Supplies Limited <sup>2</sup> & (98% owned)	A		
Lancashire Hose and Fittings Limited <sup>2</sup> & (98% owned)	A		
Hyphose Limited <sup>2</sup> & (98% owned)	A		
AMG Sealing Limited <sup>2</sup> & (98% owned)	A		
Hydraproducts Limited <sup>2</sup> & (98% owned)	A		
Century Hose & Couplings Limited (previously Century Hose Limited) <sup>2</sup> & (98% owned)	A		
Flexicon Industrial Supplies Limited <sup>2</sup> & (98% owned)	A		
Integraflex Limited <sup>2</sup> & (98% owned)	A		
Intrico Products <sup>1</sup> & (98% owned)	A		
Hose & Hydraulics Group Limited <sup>2</sup> & (98% owned)	A		

1 Dormant company.

2 These subsidiaries, which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act, with Diploma PLC providing the relevant guarantee.

All subsidiaries are wholly owned, except where otherwise indicated.

All subsidiaries are owned through ordinary shares.

\* Registered office address shown overleaf.

## SUBSIDIARIES OF DIPLOMA PLC CONTINUED

	Registered office address*		Registered office address*
<b>Controls</b>		<b>Life Sciences</b>	
IS-Rayfast Limited	A	Somagen Diagnostics Inc.	F
IS-Motorsport, Inc.	C	Acernis Medical Inc.	P
Clarendon Specialty Fasteners Limited	A	Big Green Surgical Company Pty Limited	R
Clarendon Specialty Fasteners (Asia) Limited	X	Diagnostic Solutions Pty Limited	R
Clarendon Specialty Fasteners, Inc.	B	Sphere Surgical Pty Limited	R
Clarendon Specialty Fasteners GmbH	Y	Aspire Surgical Pty Limited	R
Cabletec Interconnect Component Systems Limited <sup>1</sup>	A	Big Green Surgical NZ Limited	T
Sommer GmbH	G	Techno-Path (Distribution) Limited	W
Filcon Electronic GmbH	H	Abacus dx Pty Limited	R
Gremtek SAS	O	Abacus dx Limited	T
Gremco UK Limited <sup>1</sup>	A	Simonsen and Weel A/S	AC
Gremtek GmbH <sup>1</sup>	I	Simonsen and Weel AB	AA
Ascome SARL	O	Kungshusen Medicinska AB	AD
Cablecraft Limited <sup>1</sup>	A	Accu-Science Ireland Limited	AF
Krempfast Limited <sup>2</sup>	A	Medilink Services (NI) Limited <sup>2</sup>	AE
Abbeychart Limited <sup>1</sup>	A	GM Medical A/S	AO
IS Group (Europe) Limited <sup>1</sup>	A		
FS Cables Limited <sup>1</sup>	A		
FSC Global Limited <sup>1</sup>	A		
Shoal Group Limited	A		
Specialised Wiring Accessories Limited <sup>2</sup>	A		
M-Tec Limited <sup>1</sup> & (95% owned)	A		
Techsil Limited <sup>2</sup> & (95% owned)	A		
Glueline Limited <sup>1</sup> & (95% owned)	A		
Windy City Wire Cable & Technology Products, LLC	Z		
LJR Electronics, LLC	AG		
Buy Deutsch Connectors, LLC	AG		
Tennessee Industrial Electronics, LLC	AM		
The Parker Group, Inc.	AN		

	Registered office address*
<b>Intermediate holding companies</b>	
Diploma Holdings PLC	A 10–11 Charterhouse Square, London, EC1M 6EE, UK.
Diploma Holdings, Inc.	B 5716 Corsa Avenue, Ste 110, Westlake Village, CA 91362–7354, USA.
Diploma UK Holdings Limited (previously Pride Limited) <sup>2</sup>	C 919 North Market Street, Suite 950, Wilmington, DE 19801, USA.
Diploma Australia Holdings Limited <sup>2</sup>	D 17888 67th Court North, Loxahatchee, FL 33470–2525, USA.
Diploma Canada Holdings Limited <sup>2</sup>	E 4505 Pacific Highway East, Suite C2, Fife, WA 98424–2638, USA.
Diploma Overseas Limited	F 3400 First Canadian Centre, 350–7th Avenue SW, Calgary, Alberta T2P 3N9, Canada.
Diploma Europe Holdings Limited (previously Napier Group Limited)	G Kraichgaustrasse 5, D-73765, Neuhausen, Germany.
Williamson, Cliff Limited <sup>2</sup>	H Rotwandweg 5, D-82024, Taufkirchen/München, Germany.
Diploma One Limited <sup>1</sup>	I 20–24 Robert Bosch Strasse, 25451 Quickborn, Germany.
Diploma Two Limited <sup>1</sup>	J Industrierrein Dombosch 1, Elftweg 38, 4941 VP Raamsdonksveer, the Netherlands.
Newlandglebe Limited <sup>2</sup>	K Im Langhag 5, 8307 Illnau-Effretikon, Switzerland.
Diploma Holding Germany GmbH	L Gewerbeallee 12a, 4221 Steyregg, Austria.
Diploma Canada Healthcare Inc.	M Bybjergvej 13, DK 3060, Espergaerde, Denmark.
Diploma Australia Healthcare Pty Limited	N Industrivagen 17, SE-302, 41 Halmstad, Sweden.
Diploma Australia Seals Pty Limited	O 58 rue du Fosse blanc, 92230 Gennevilliers, France.
Techsil Group Holdings Limited <sup>2</sup> & (95% owned)	P 333 Bay St., Suite 2400, Toronto, Ontario M5H 2T6, Canada.
Techsil Holdings Limited <sup>2</sup> & (95% owned)	Q 226 Lockhart Road, Barrie, Ontario, L4N 9G8, Canada.
R&G Fluid Power Holdings Limited <sup>2</sup>	R 46 Albert Street, Preston, Victoria, 3072, Australia.
R&G Fluid Power Group Limited <sup>2</sup> & (98% owned)	S 72 Platinum Street, Crestmead, Queensland, 4132, Australia.
M Seals UK Limited <sup>2</sup>	T Office of Bendall & Cant Ltd, Southern Cross Building, 61 High Street, Auckland, New Zealand.
Diploma Iberia Holdings, SL (previously Mindrabay Invest, SL)	U 22 Avenue des Géomètres Pionniers, ZAC PANDA – 98835, Dumbéa, New Caledonia.
	V 18 Fuyuandao Road, Wuqing Development Area, Tianjin, China.
	W Fort Henry Business Park, Ballina, Co. Tipperary, Ireland.
	X 98/155 Soi Supapong 1 Yak 6, Srinakarin Road, Nongbon, Bangkok, Thailand.
	Y Kriegackerstrasse 32, 72469 Messtetten, Germany.
	Z 386 Internationale Drive Suite H Bolingbrook, IL 60440, USA.
	AA Flöjelbergsgatan 8 A, 43137 Mölndal, Sweden.
	AB 27 Awaba Street, Lisarow NSW 2250, Australia.
	AC Vejlegårdsvej 59, 2665 Vallensbæk Strand, Denmark.
	AD Kikarvägen 14, 647 35 Mariefred, Sweden.
	AE 81 Sydenham Road, Belfast, Antrim, BT3 9DJ.
	AF Unit C3, M7 Business Park, Newhall, NAAS Kildare, Ireland.
	AG 2072 Byers Rd, Miamisburg, OH, 45342–1167, USA.
	AH 3/13 Selhurst St, BRISBANE QLD 4108, Australia.
	AI Polígono Industrial Alcalde Caballero, calle Virgen del Buen Acuerdo, s/n, Zaragoza, 50014, Spain.
	AJ 2875 NE 191 STREET, STE 302, Aventura, Florida, 33180, USA.
	AK 1179, Via Emilia Ovest, Modena (MO), CAP 41123, Italy.
	AL 2323 Garfield Ave, Parkersburg, West Virginia, 26101, USA.
	AM Corporate Trust Centre, 1209 Orange Street, Wilmington, New Castle, Delaware, 19801, USA.
	AN 44810 Vic Wertz Drive, Clinton Township, Michigan, 48036, USA.
	AO Blokken 11, 1., Birkerød, 3460, Denmark.
	AP 112, Principe De Vergara, Madrid, 28002, Spain.
	AQ 500 E 4th Street Ste 601, Austin, TX 78701, USA.

1 Dormant company.

2 These subsidiaries, which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act, with Diploma PLC providing the relevant guarantee.

All subsidiaries are wholly owned, except where otherwise indicated.

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\* Registered office address shown opposite.

## ALTERNATIVE PERFORMANCE MEASURES

MEASURE	CLOSEST IFRS MEASURE	DEFINITION AND RECONCILIATION	PURPOSE
Organic growth	Reported revenue increase	Organic growth strips out the effects of the movement in exchange rates and of acquisitions and disposals.	Allows users of the financial statements to gain understanding of how the Group has performed on a like-for-like basis, excluding the effects of exchange rates and of acquisitions and disposals.
Adjusted operating profit	Operating profit	Statutory operating profit excluding separately disclosed items and can be found on the face of the Group Income Statement in the Adjusted column.	Adjusted operating profit is a key performance measure for the Executive Directors' annual bonus structure and management remuneration.  It also provides all stakeholders with additional useful information to assess the year-on-year trading performance of the Group.
Adjusted operating margin	Operating profit divided by revenue	Adjusted operating profit divided by revenue.	Adjusted operating margin is a measure used to assess and compare profitability.  It also allows for ongoing trends and performance of the Group to be measured by the Directors, management and interested stakeholders.
Adjusted earnings per share	Basic earnings per share	Adjusted earnings (being adjusted profit after tax attributable to equity shareholders) for the period attributable to shareholders of the Company divided by the weighted average number of shares in issue, excluding those held in the Employee benefit trust which are treated as cancelled.	Adjusted earnings per share is widely used by external stakeholders, particularly in the investment community.
Return on adjusted total capital employed ("ROATCE")	Operating profit and net assets	Pro forma adjusted operating profit (being the annualised adjusted operating profit including that of acquisitions and disposals) divided by adjusted trading capital employed. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets) and re-translated at the average exchange rates for the reporting period.	ROATCE gives an indication of the Group's capital efficiency and is an element of a performance measure for the Executive Directors' remuneration.
Free cash flow	Net cash generated from operating activities	The cash flow equivalent of adjusted profit after tax.	Free cash flow allows us and external parties to evaluate the cash generated by the Group's operations and is also a key performance measure for the Executive Directors' annual bonus structure and management remuneration.
Net debt	Borrowings less cash	Cash and cash equivalents (cash overnight deposits, other short-term deposits) offset by borrowings which compose of bank loans, excluding lease liabilities.	Net debt is the measure by which the Group and interested stakeholders assesses its level of overall indebtedness.



MEASURE	CLOSEST IFRS MEASURE	DEFINITION AND RECONCILIATION	PURPOSE
Earnings Before Interest and Tax plus Depreciation and Amortisation ("EBITDA")	Operating profit	EBITDA is calculated by taking adjusted operating profit and adding back depreciation and amortisation.	EBITDA is used as a key measure to understand profit and cash generation before the impact of investments (such as capital expenditure and working capital). It is also used to derive the Group's gearing ratio.
Leverage	No direct equivalent	The ratio of net debt to EBITDA over the last 12 months, after making the following adjustments to EBITDA: including any annualised EBITDA for businesses acquired by the Group during that period; the reversal of IFRS 16 accounting; the exclusion of any EBITDA businesses disposed by the Group during that period; and the exclusion of the profit or loss attributable to minority interest.	The leverage ratio is considered a key measure of balance sheet strength and financial stability by which the Group and interested stakeholders assesses its financial position.

## FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

### ANNOUNCEMENTS (PROVISIONAL DATES)

Q1 Trading Update released	17 January 2024
Annual General Meeting (2023)	17 January 2024
Half Year Results announced	20 May 2024
Q3 Trading Update released	18 July 2024
Preliminary Results announced	w/c 18 November 2024
Annual Report posted to shareholders	6 December 2024
Annual General Meeting (2024)	15 January 2025

### DIVIDENDS (PROVISIONAL DATES)

Interim announced	20 May 2024
Paid	June 2024
Final announced	w/c 18 November 2024
Paid (if approved)	February 2025

### ANNUAL REPORT & ACCOUNTS

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

### SHARE REGISTRAR

#### Computershare Investor Services PLC

The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 7020010

The Registrar's website for shareholder enquiries is:  
[www.computershare.co.uk](http://www.computershare.co.uk)

### SHAREHOLDERS' ENQUIRIES

If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

### GROUP COMPANY SECRETARY AND REGISTERED OFFICE

**John Morrison**  
10–11 Charterhouse Square  
London EC1M 6EE  
Telephone: 020 7549 5700

Registered in England and Wales, number 3899848.

### WEBSITE

Diploma's website is [www.diplomaplc.com](http://www.diplomaplc.com)

## ADVISORS

### CORPORATE STOCKBROKERS

**Deutsche Numis**  
45 Gresham Street  
London EC2V 7BF

**Morgan Stanley**  
25 Cabot Square  
London E14 4QA

### INDEPENDENT AUDITOR

**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH

### BANKERS

**Barclays Bank PLC**  
1 Churchill Place  
London E14 5HP

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

## FIVE YEAR RECORD

Year ended 30 September	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
<b>Revenue</b>	<b>1,200.3</b>	1,012.8	787.4	538.4	544.7
<b>Adjusted operating profit</b>	<b>237.0</b>	191.2	148.7	87.1	97.2
Net interest and similar charges	<b>(20.4)</b>	(11.6)	(6.8)	(2.7)	(0.7)
<b>Adjusted profit before tax</b>	<b>216.6</b>	179.6	141.9	84.4	96.5
Acquisition related and other charges <sup>1</sup>	<b>(53.7)</b>	(46.9)	(44.4)	(17.3)	(13.1)
Acquisition related finance charges, net	<b>(7.3)</b>	(3.2)	(0.9)	(0.4)	0.1
<b>Profit before tax</b>	<b>155.6</b>	129.5	96.6	66.7	83.5
Tax expense	<b>(37.3)</b>	(34.1)	(26.9)	(16.9)	(21.1)
<b>Profit for the year</b>	<b>118.3</b>	95.4	69.7	49.8	62.4
<b>Capital structure</b>					
Equity shareholders' funds	<b>895.6</b>	662.0	536.3	527.0	321.3
Minority interest	<b>6.4</b>	6.2	4.7	3.7	3.3
Add/(deduct): cash and cash equivalents	<b>(62.4)</b>	(41.7)	(24.8)	(206.8)	(27.0)
borrowings	<b>317.1</b>	370.6	206.2	-	42.1
retirement benefit (asset)/obligations, net	<b>(6.5)</b>	(6.4)	4.9	18.3	17.8
net acquisition related liabilities <sup>2</sup>	<b>19.6</b>	29.6	23.7	11.5	11.3
deferred tax, net	<b>58.4</b>	38.2	21.9	7.9	8.3
<b>Reported trading capital employed</b>	<b>1,228.2</b>	1,058.5	772.9	361.6	377.1
Add: historic goodwill and acquisition related charges, net of deferred tax	<b>189.4</b>	99.6	129.6	99.4	84.3
<b>Adjusted trading capital employed</b>	<b>1,417.6</b>	1,158.1	902.5	461.0	461.4
Net (decrease)/increase in net (debt)/funds	<b>69.6</b>	(113.8)	(395.5)	224.0	(51.9)
Add: dividends paid	<b>70.8</b>	56.4	53.2	23.4	30.1
acquisition of businesses (including minority interests), net of disposals	<b>255.3</b>	177.8	450.5	14.9	78.3
proceeds from issue of share capital (net of fees)	<b>(231.9)</b>	-	0.6	(189.8)	-
<b>Free cash flow<sup>3</sup></b>	<b>163.8</b>	120.4	108.8	72.5	56.5
<b>Per ordinary share (p)</b>					
Basic earnings	<b>90.8</b>	76.1	56.1	43.5	54.7
Adjusted earnings <sup>4</sup>	<b>126.5</b>	107.5	85.2	56.4	64.3
Free cash flow <sup>3</sup>	<b>126.3</b>	96.7	87.4	64.0	49.9
Dividends	<b>56.5</b>	53.8	42.6	30.0	29.0
Total shareholders' equity <sup>5</sup>	<b>668</b>	532	431	423	284
Dividend cover <sup>6</sup>	<b>2.2</b>	2.0	2.0	1.9	2.2
<b>Ratios</b>	<b>%</b>	%	%	%	%
Return on adjusted trading capital employed ("ROATCE") <sup>7</sup>	<b>18.1</b>	17.3	17.4	19.1	22.9
Working capital: revenue	<b>16.0</b>	15.6	15.8	16.0	16.5
Adjusted operating margin	<b>19.7</b>	18.9	18.9	16.2	17.8

1 Acquisition related and other charges comprise the amortisation and impairment of acquisition intangible assets, acquisition related expenses, fair value adjustments to inventory acquired through acquisitions recognised in cost of inventories sold, adjustments to deferred consideration, profits/losses on disposal of businesses and other one-off costs.

2 Net acquisition related liabilities comprise amounts payable for the future purchases of minority interests, deferred consideration and acquisition related receivables.

3 Free cash flow is defined in note 28 to the consolidated financial statements. Free cash flow per share is the free cash flow balance divided by the weighted average number of ordinary shares in issue during the year.

4 Adjusted earnings per share is calculated in accordance with note 9 to the consolidated financial statements.

5 Total shareholders' equity per share has been calculated by dividing total shareholders' equity by the number of ordinary shares in issue at the year end.

6 Dividend cover is calculated on adjusted earnings as defined in note 28 to the consolidated financial statements.

7 ROATCE represents adjusted operating profit, before acquisition related and other charges (adjusted for the full year effect of acquisitions and disposals), as a percentage of adjusted trading capital employed. Trading capital employed and adjusted trading capital employed are calculated as defined in note 28 to the consolidated financial statements.



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