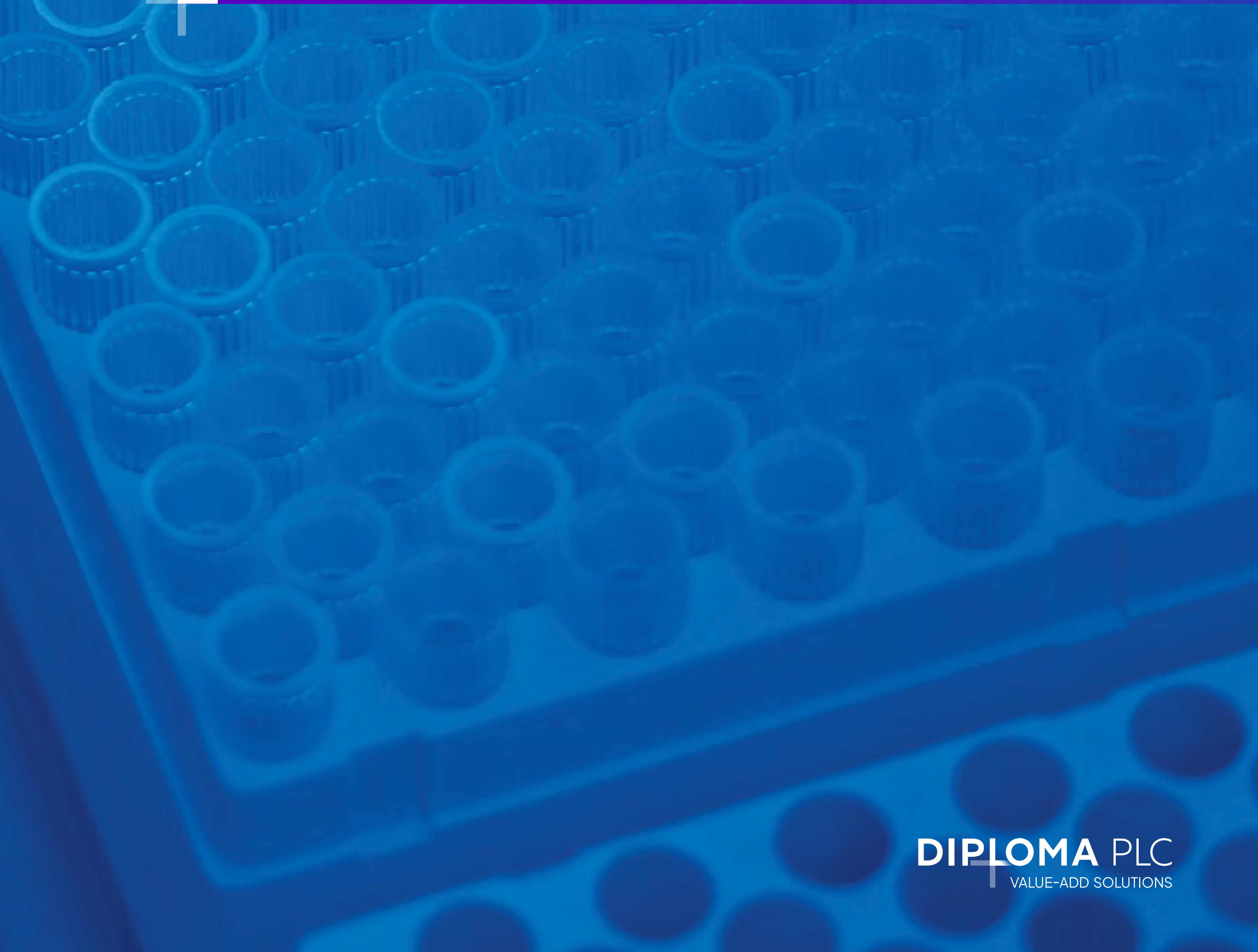
DIPLOMA DELIVERS

ANNUAL REPORT AND ACCOUNTS
2023



DIPLOMA PLC
VALUE-ADD SOLUTIONS

CONTENTS

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.

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.

→ READ MORE ABOUT OUR BUSINESS ON PAGE 6

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: <2.0x

ROATCE
18.1%
Model: High teens

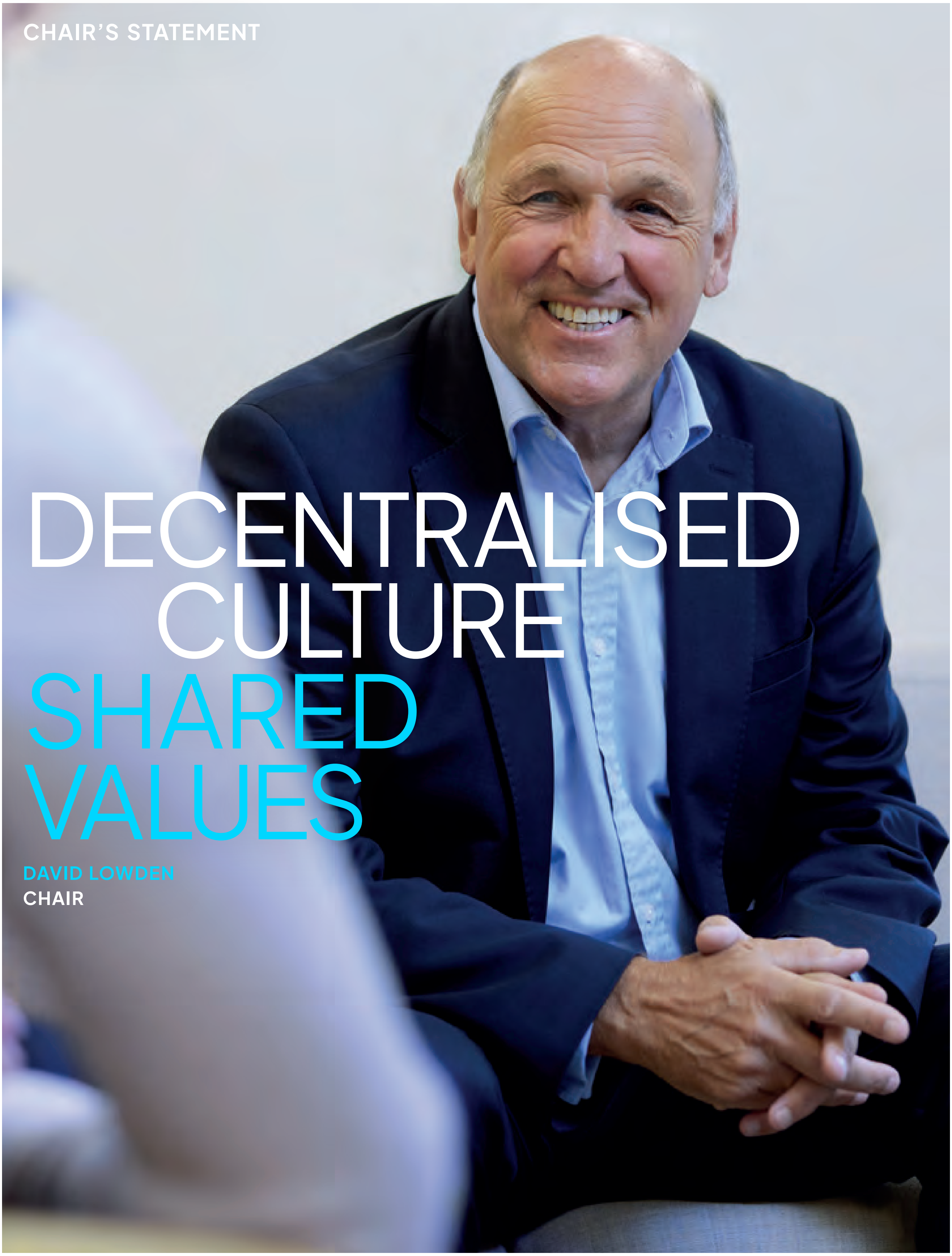
Dividend growth
5%
Model: 5%

Strategic Report
Corporate Governance
Financial Statements
Other Information

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 DICSA, 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.

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

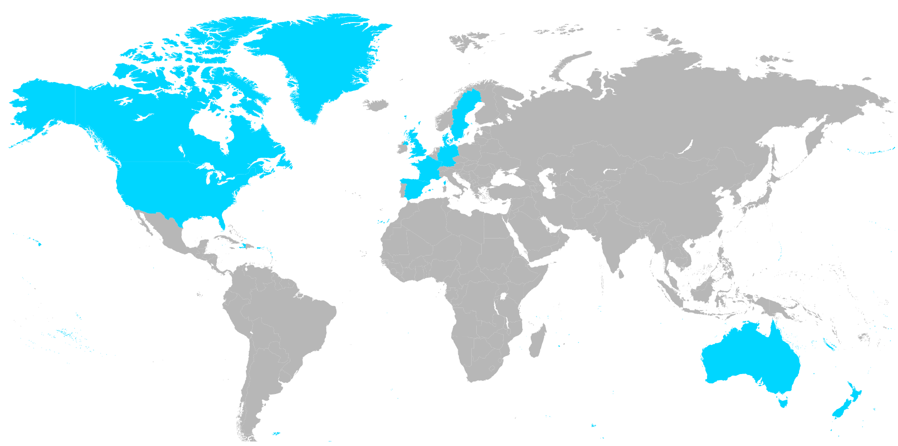
REVENUE BY SECTOR*

CONTROLS
44%

SEALS
39%

LIFE SCIENCES
17%

REVENUE BY GEOGRAPHY*



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

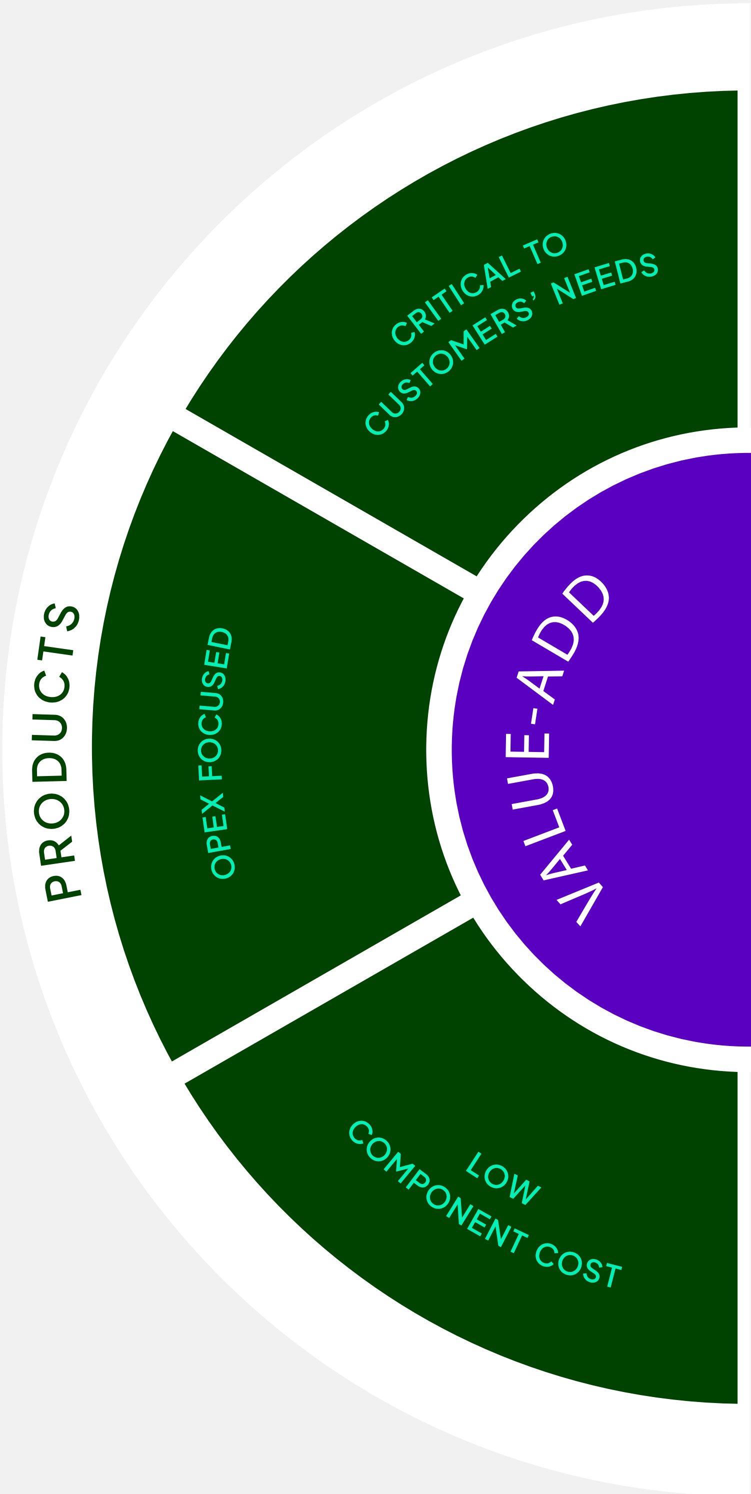
* Pro forma revenue is stated after total adjustments of £75.6m to Reported revenue for acquisitions and disposals completed during the year.

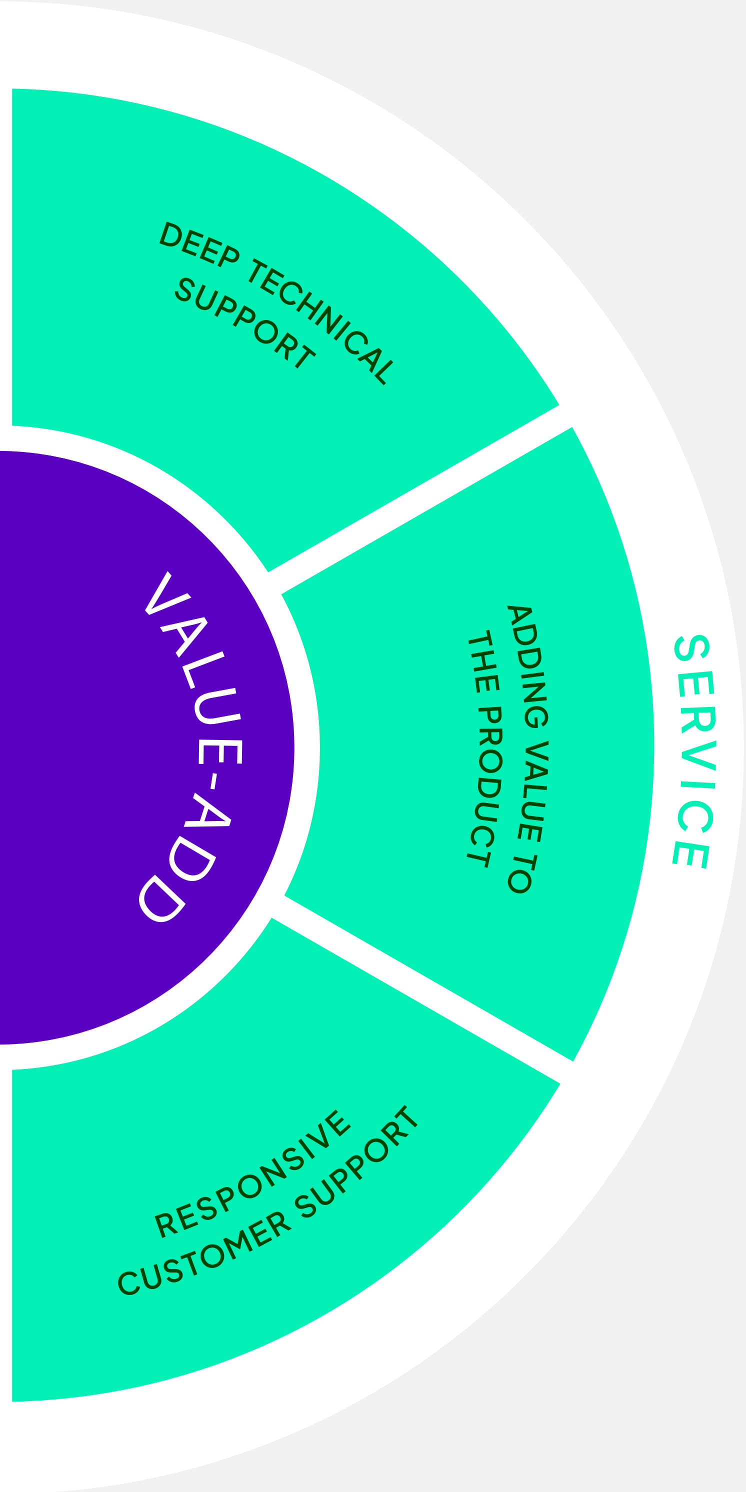
WHAT WE DO (CONTINUED)

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/

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 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...	...WITH DISCIPLINE
Organic revenue growth is our first priority **5%+**	Capital-light business model drives strong cash conversion **90%+**
Total revenue growth accelerated by quality acquisitions **10%+**	Capital stewardship focused on strong ROATCE **High teens**
Value-add drives strong operating margins **17%+**	Balance sheet discipline maintains prudent leverage **<2.0x**
Compounding EPS growth **Double-digit**	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

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.

GROW

Organic growth in three buckets

1 END MARKETS

2 GEOGRAPHIC PENETRATION

3 PRODUCT EXTENSION

COMPLEMENTARY ACQUISITIONS TO DRIVE FUTURE ORGANIC GROWTH

SCALE

VALUE-ADD BUSINESS MODEL AT SCALE

POWERFUL DECENTRALISED GROUP AT SCALE

DELIVER VALUE RESPONSIBLY*

*READ MORE ABOUT DELIVERING VALUE RESPONSIBLY ON PAGE 54

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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

- Significant
- Moderate
- Small
- White space

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	Moderate	Small	Small				Small	Small
		GASKETS	Small		Small					
		HOSES & FITTINGS			Small	Small	Small	Moderate	Small	
		PUMPS / VALVES			Small					Small
	LIFE SCIENCES	DIAGNOSTICS		Small	Small					Moderate
		SURGICAL / CRITICAL CARE		Moderate	Small				Small	Small
		ENDOSCOPY		Moderate					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/

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

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

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.

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."

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 0.9× at 30 September 2023 (2022: £328.9m and 1.4×). 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	**568.4**	492.8	+15%	+11%
Seals	**419.0**	331.4	+26%	+5%
Life Sciences	**212.9**	188.6	+13%	+8%
Group	**1,200.3**	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 DICSA for ca. £170m, establishing a platform in fluid power solutions across the European aftermarket. DICSA 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 DICSA's platform into Europe; leveraging our North American Seals Aftermarket platform to accelerate DICSA's growth in the US; and delivering consolidated procurement synergies.

Both T.I.E. and DICSA 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 5×. 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

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.

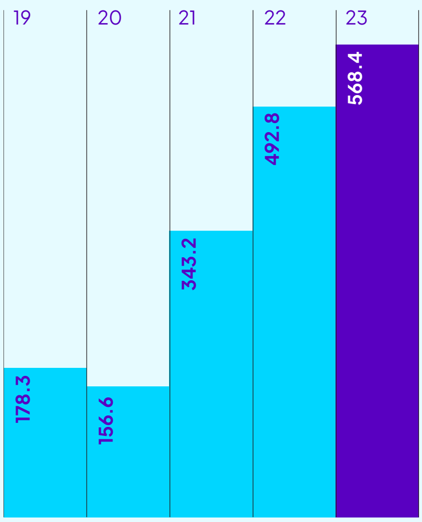
SPECIALTY FASTENERS: 12%

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.

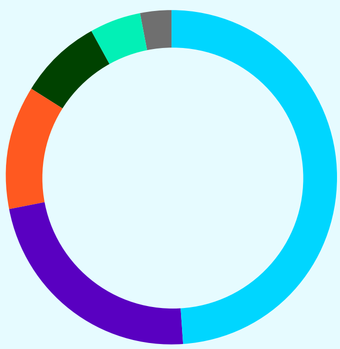
SPECIALTY ADHESIVES: 3%

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 £

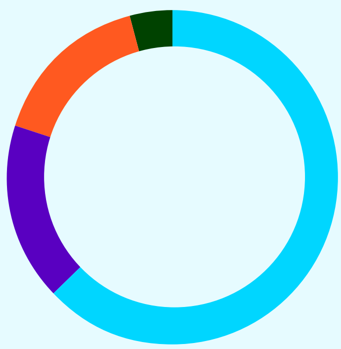


REVENUE BY SEGMENT[1]



- 49% Windy City Wire
- 8% Wire & Cable (UK)
- 23% Interconnect
- 5% Industrial Automation
- 12% Specialty Fasteners
- 3% Specialty Adhesives

REVENUE BY GEOGRAPHY[1]



- 63% North America
- 16% Continental Europe
- 17% UK
- 4% Other

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

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.

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.

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.

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.

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.

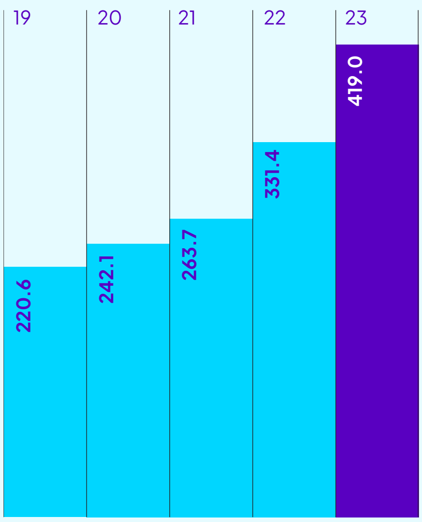
EUROPEAN AFTERMARKET: 16%

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.

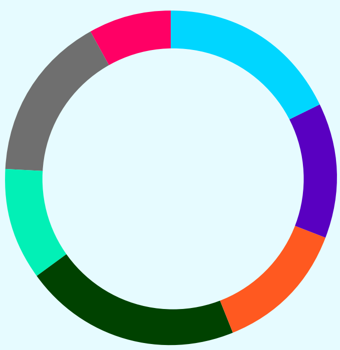
AUSTRALIA: 8%

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.

REPORTED REVENUE £

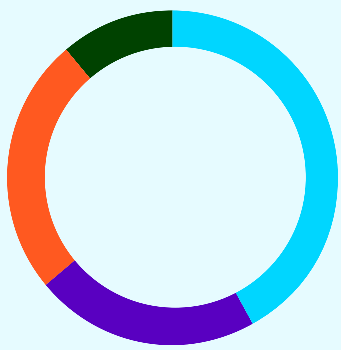


REVENUE BY SEGMENT[1]



- 18% NA Aftermarket
- 13% US OEM
- 13% US MRO
- 21% UK Aftermarket
- 11% European OEM
- 16% European Aftermarket
- 8% Australia

REVENUE BY GEOGRAPHY[1]



- 42% North America
- 22% UK
- 25% Europe
- 11% International/other

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

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.

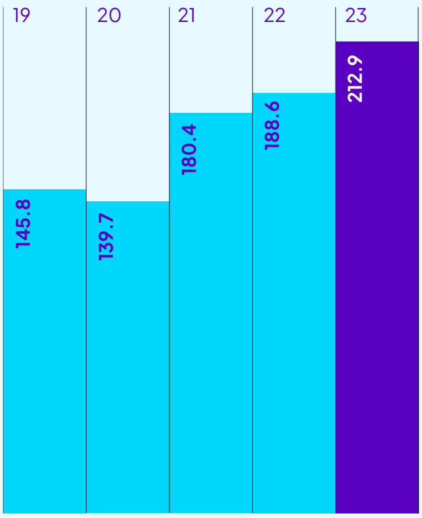
EUROPE: 39%

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.

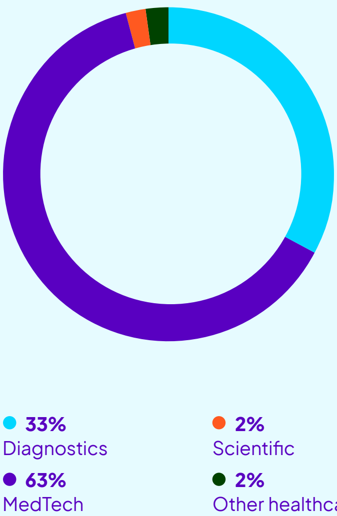
AUSTRALASIA: 19%

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.

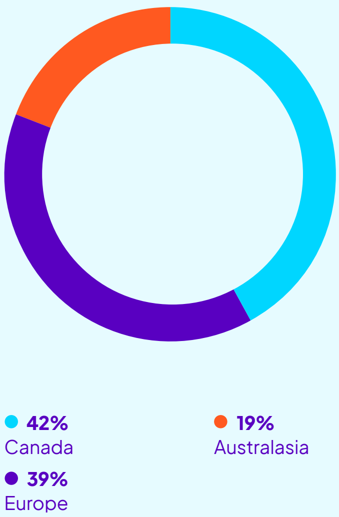
REPORTED REVENUE £



REVENUE BY SEGMENT[1]



REVENUE BY GEOGRAPHY[1]



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

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	**8%**	5%
Total revenue accelerated by quality acquisitions	**19%**	10%
Value-add drives strong operating margins	**19.7%**	17%+
Compounding EPS growth	**18%**	double-digit

Delivered with discipline

	FY23	Model
Capital-light business model drives strong cash conversion	**100%**	90%+
Capital stewardship focused on strong ROATCE	**18.1%**	High teens
Balance sheet discipline maintains prudent leverage	**0.9×**	<2.0×
Return to shareholders with a progressive dividend	**5%**	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
Revenue	**1,200.3**	**–**	**1,200.3**	1,012.8	–	1,012.8
Operating expenses	**(963.3)**	**(53.7)**	**(1,017.0)**	(821.6)	(46.9)	(868.5)
Operating profit	**237.0**	**(53.7)**	**183.3**	191.2	(46.9)	144.3
Financial expense, net	**(20.4)**	**(7.3)**	**(27.7)**	(11.6)	(3.2)	(14.8)
Profit before tax	**216.6**	**(61.0)**	**155.6**	179.6	(50.1)	129.5
Tax expense	**(52.0)**	**14.7**	**(37.3)**	(45.0)	10.9	(34.1)
Profit for the year	**164.6**	**(46.3)**	**118.3**	134.6	(39.2)	95.4
Earnings per share (p)						
Adjusted/Basic	**126.5p**		**90.8**	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).

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
Funds flow		
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)
Free cash flow	**163.8**	120.4
Acquisition and disposals[1]	**(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)
Net funds flow	**74.2**	(147.5)
Net debt	**(254.7)**	(328.9)

1 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 9× 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 0.9× (2022: 1.4×) against a banking covenant of 3.5× (2022: 3.0×). The Group maintains strong liquidity, with year end headroom (comprised of undrawn committed facilities and cash funds) of £297m (2022: £204m).

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	
Gross debt drawn at 30 September 2023			**£317.1m**	
Cash & equivalents at year end			£(62.4)m	
Net debt at 30 September 2023			**£254.7m**	

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.

Strategic Report
Corporate Governance
Financial Statements
Other Information

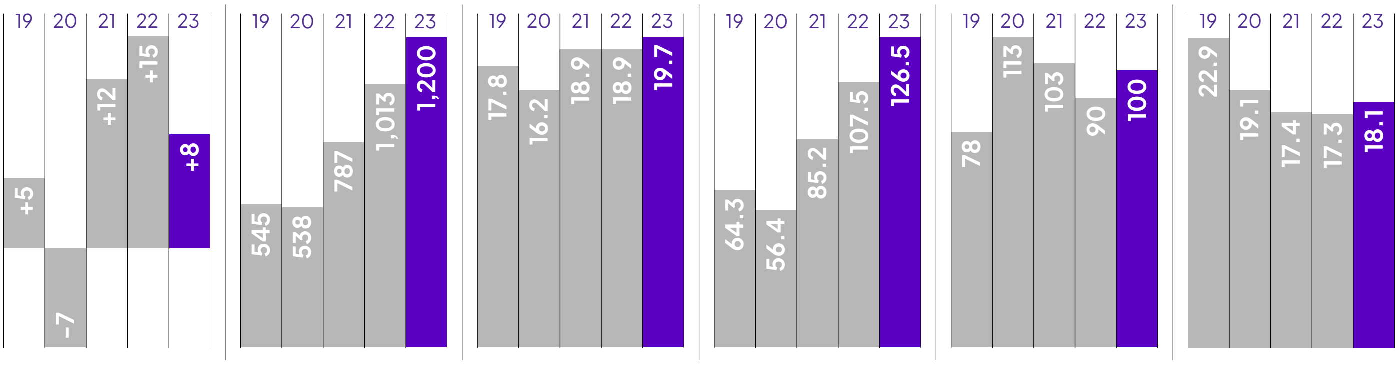
KEY PERFORMANCE INDICATORS

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

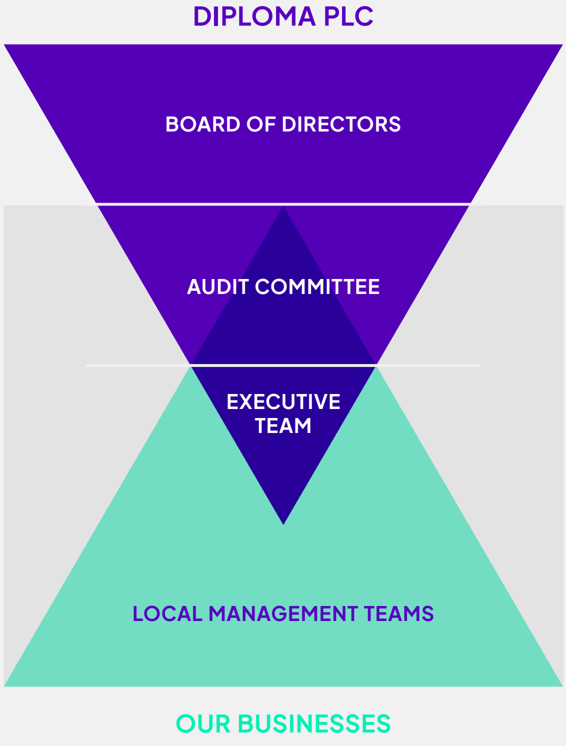
Effective risk management is a key component of the discipline that underpins sustainable quality compounding.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

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

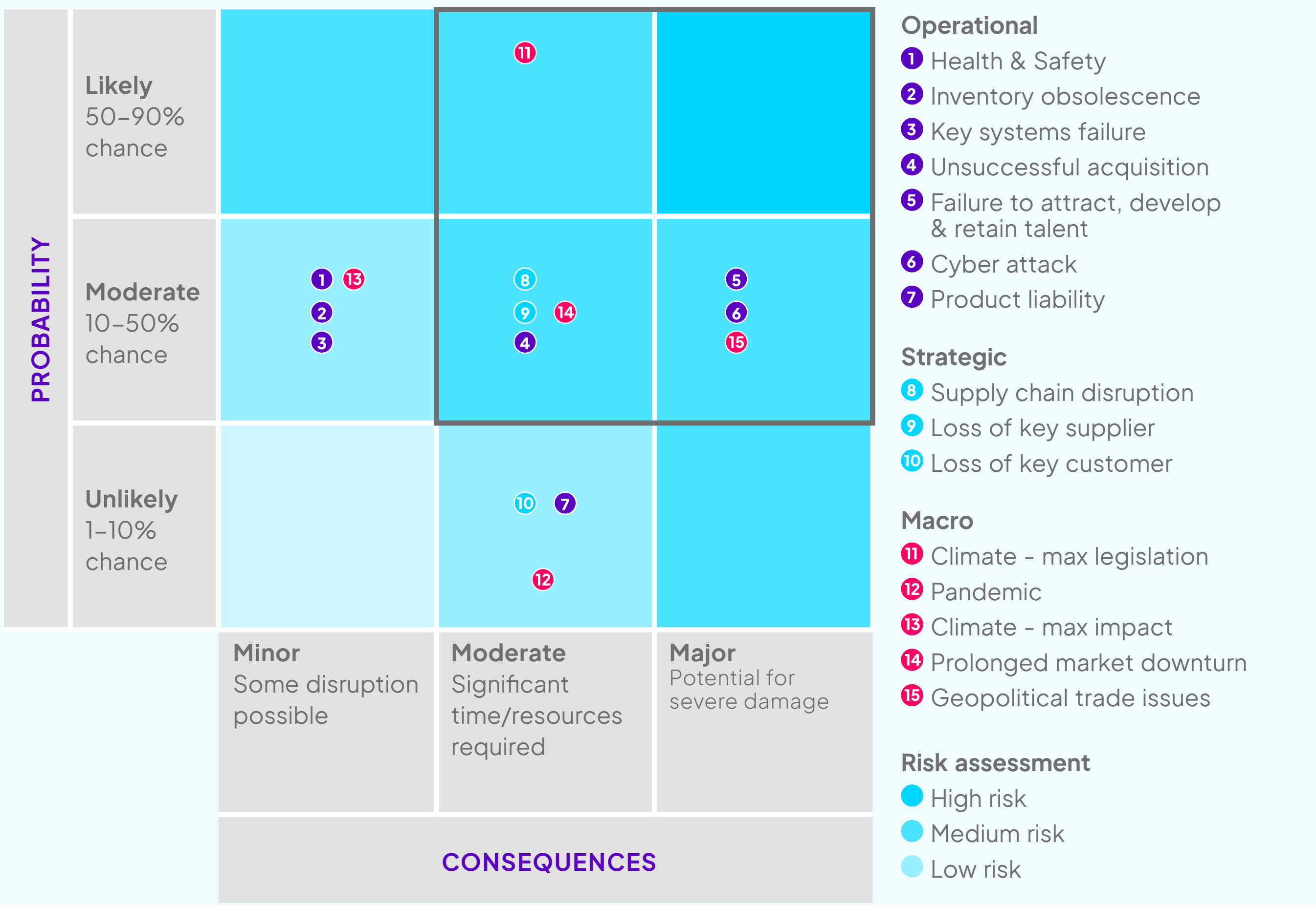
The risks summarised below represent the principal risks and uncertainties faced by the Group, and the steps taken to mitigate them. These have been determined by the Board, using the robust risk evaluation described on the previous page, as having the potential to have a material impact to the performance,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



Increase No change
Decrease New risk

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
UNSUCCESSFUL ACQUISITION **Risk category** Operational **Board risk appetite** Cautious **Change in risk** No change The acquisition pipeline remains healthy and we retain our disciplined approach to acquiring high-quality, value-enhancing businesses.	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.	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** No change 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.

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
CYBER ATTACK **Risk category** Operational **Board risk appetite** Cautious **Change in risk** – The risk of cyber attacks remains high.	Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses and serve their customers' needs. Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable. Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber attack may also lead to disruption, including fraud.	The decentralised nature of the Group, including stand-alone IT systems for each business, limits the potential impact to any individual business. There is good support and back-up built into local IT systems. All businesses in the Group have a robust cyber security programme and we regularly engage with cyber security experts to continuously improve and strengthen our IT systems. A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business. Business continuity plans exist for each business with ongoing testing.
SUPPLY CHAIN DISRUPTION **Risk category** Strategic **Board risk appetite** Cautious **Change in risk** ↓ 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.	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.	We maintain strong relationships with suppliers and keep customers updated of any changes to retain key business. Meeting with key customers regularly to gain insight into their product requirements and market developments. We work with our supply chain partners to help them meet our standards of acceptable working conditions, financial stability, ethics and technical competence. 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.

Increase · No change · Decrease · New risk

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
LOSS OF KEY SUPPLIER **Risk category** Strategic **Board risk appetite** Cautious **Change in risk** Decrease The continued growth and diversification of the Group effectively reduces the materiality of any loss of supplier.	The risk that a key supplier revokes a supply agreement and accesses the market through a competitor or directly. In certain businesses there is a disintermediation risk where a supplier may go direct to market rather than via a distributor.	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. We continue to pursue diversification strategies and regularly seek alternative sourcing. Long-term, multi-year exclusive contracts have been signed with suppliers with change of control clauses, where applicable, for protection or compensation in the event of acquisition.
CLIMATE – MAX LEGISLATION **Risk category** Macro **Board risk appetite** Tolerant **Change in risk** New risk This is a new risk identified by our TCFD scenario analysis.	The risk of increasing environmental legislation that adds cost or complexity to products and services and/or renders some products obsolete.	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 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. 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.

Increase | No change | Decrease | New risk

PRINCIPAL RISK	RISK DESCRIPTION AND ASSESSMENT	MITIGATION
PROLONGED MARKET DOWNTURN **Risk category** Macro **Board risk appetite** Averse **Change in risk** No change This risk remains at a similar level to last year and is addressed continuously in our risk management process.	Adverse changes in the major markets that the businesses operate in can result in slowing revenue growth due to reduced or delayed demand for products and services, or margin pressures due to increased competition.	The businesses identify key market drivers and monitor trends and forecasts, as well as maintaining close relationships with key customers, who may give an early warning of slowing demand. A number of characteristics of the Group's businesses moderate the impact of economic and business cycles: • The Group's businesses operate in three different Sectors with different characteristics and across a number of 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** Increase 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.

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

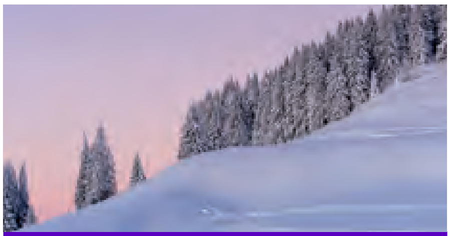
We are committed to maintaining an open and constructive dialogue with our shareholders, keeping them informed on performance and strategy so that they can fairly value the Company and ensure our continued access to capital.

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

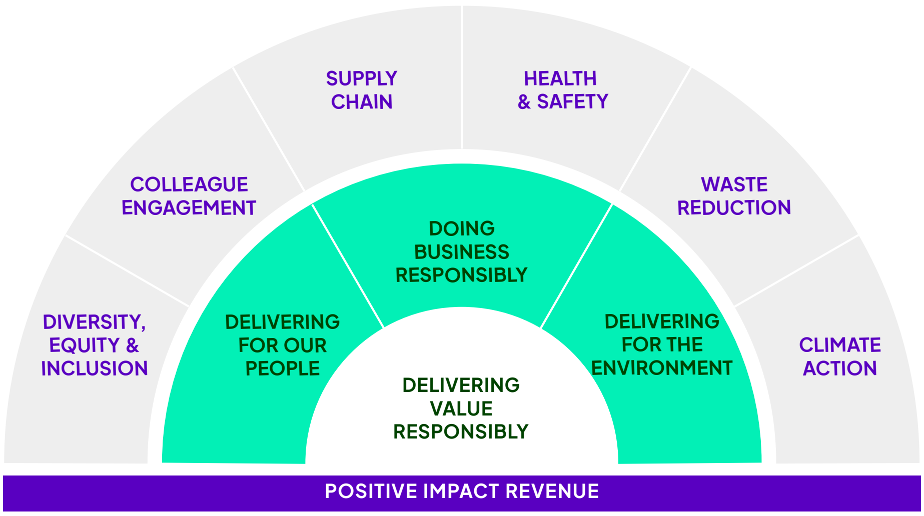
As a result of the aforementioned engagement activities, the following actions were taken:

- 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.

COLLEAGUE ENGAGEMENT
80%
2022: 79%

KEY SUPPLIERS ALIGNED TO SUPPLIER CODE
73%
2022: 59%

EMISSIONS INTENSITY (TONNES PER £1M REVENUE)
7.2
2022: 7.4

WOMEN IN SENIOR MANAGEMENT TEAM POSITONS
28%
2022: 27%

LOST TIME INCIDENT RATE (LTIS PER 1,000 EMPLOYEES)
9.5
2022: 10.6

WASTE TO LANDFILL
32%
2022: 60%

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."

PERFORMANCE AGAINST OUR TARGET

FOCUS AREA	FY30 TARGET	FY23 PERFORMANCE AGAINST TARGET	FY22 COMMITMENTS	FY23 PERFORMANCE AGAINST COMMITMENTS
COLLEAGUE ENGAGEMENT **STATUS: ON TRACK**	Maintain an engagement index of 70%+	• Engagement index score of 80% - an increase on FY22 score of 79%	• Build out our learning management system • Continued focus on wellbeing and mental health • HR network to support best practice • Continued leadership development	• Our learning management system, 'Purple Portal' has been rolled out across the Group • Continued focus on mental health during the year: celebrations of world mental health day, business-led initiatives, and Group-led workshops • Bolstered HR capability with HR network established and HR leadership event held in US • Successful delivery of our Leadership at Scale Development Programme • Colleague engagement plans in place at every business
DIVERSITY, EQUITY & INCLUSION **STATUS: ON TRACK**	Women to represent 40%+ of Senior Management Team (SMT)	• Female talent retention and planning part of business and strategy reviews • DEI policy implemented across the Group • 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	• Succession planning • Implementing the Diversity, Equity and Inclusion Policy across the Group • Further learning and knowledge sharing	• Increase in female representation at SMT

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

Strategic Report
Corporate Governance
Financial Statements
Other Information

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.

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.

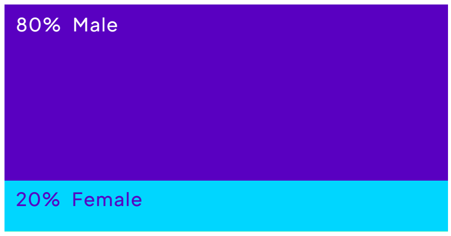
Fostering inclusion - we continue to focus on fostering a culture of inclusion and community. We were pleased to see this reflected in the results of our recent colleague engagement survey.

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.

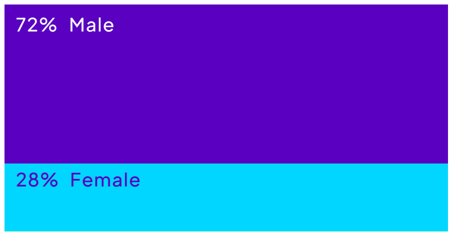
Finally, a huge thanks to our colleagues across the globe who deliver for our customers and colleagues every day.

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
SUPPLY CHAIN MANAGEMENT **STATUS: ON TRACK**	85% of key suppliers aligned to supplier code	• 73% of suppliers aligned to code, up from 59% in FY22.	• Continue to ensure alignment of key suppliers with Supplier Code • Align our Supply Chain Policy and processes with our net zero targets • Build our understanding of supplier emissions	• Strong progress during the year led by meaningful engagement with suppliers
HEALTH & SAFETY **STATUS: ON TRACK**	Zero Harm FY23 target: 5% reduction on lost time incident rate (LTI rate)	• 10% reduction on LTI rate	• Build positive mental health and wellbeing • Continuous improvement and focus on Health & Safety culture • Ensure process in place to reduce risks identified by potential hazard reporting	• Steady performance against LTI rate undermined by increase in severity of incidents

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.

Percentage of identified key suppliers aligned with our Supplier Code

73%

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.

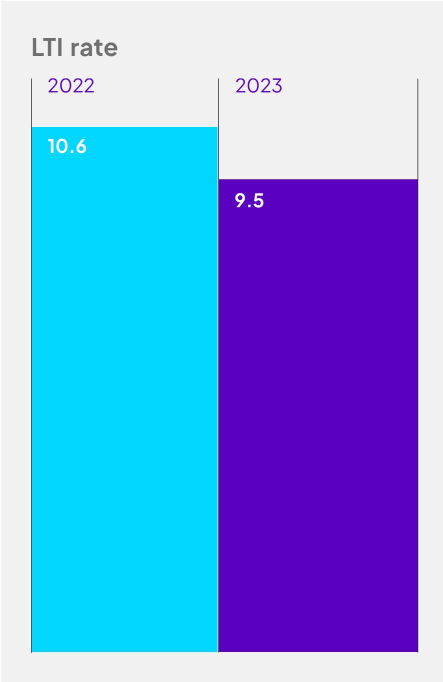
Businesses are responsible for developing and implementing procedures and frameworks to suit their specific circumstances and risk level. However, we expect all businesses to comply with the standards and requirements of our Group policy.

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.

PERFORMANCE AGAINST OUR TARGET

FOCUS AREA	FY30 TARGET	FY23 PERFORMANCE AGAINST TARGET	FY22 COMMITMENTS	FY23 PERFORMANCE AGAINST COMMITMENTS
CLIMATE ACTION **STATUS: ON TRACK**	50% reduction of Scope 1 & 2 emissions on FY22 baseline 30% reduction of Scope 3 emissions on FY22 baseline We have also set a target to reach net zero across our value chain by 2045	• Scope 1 and 2 emissions intensity reduced from 7.4 to 7.2 tonnes CO_2e per £m revenue	• Set SBTi net zero target • Build internal knowledge of Scopes 1, 2 & 3 • Set out a clear roadmap to our 2030 targets	• Calculation of Scope 3 emissions • Submission of net zero targets to the SBTi • Defined our roadmap to 2030 targets • Workshops held with all businesses and Sector leadership on how to reach operational net zero • Capital investment in facilities to increase solar coverage and improve efficiency
WASTE REDUCTION **STATUS: ON TRACK**	Less than 15% waste to landfill	• 32% to landfill, representing a 41% reduction on the prior year	• Divert waste from landfill	• Reduction in waste to landfill in every business across the Group

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.

01 UNDERSTAND

As a decentralised Group, ensuring that businesses are engaged and equipped with the knowledge and support they need to effect change, is key to our success.

02 REDUCE

Businesses are challenged to make their operations as energy-efficient and low-carbon as possible and to divert Scope 1 emissions to Scope 2 wherever possible.

03 PROCURE

Procurement of renewable energy, in the short term, is a useful means of progressing against our ambitions.

Procurement should be undertaken with due diligence to ensure that it is both responsible and transparent.

04 GENERATE

Diverting Scope 1 emissions to Scope 2 and eliminating those emissions through on-site renewable energy generation is our preferred, long-term method for reaching net zero.

OUR NET ZERO ROADMAP CONTINUED

	UNDERSTAND	REDUCE	PROCURE	GENERATE
FY23 PROGRESS	• Workshops held across the Group on our Net Zero Roadmap • Scope 3 calculation undertaken, which allows us to understand our material categories at Group, Sector and entity level • Monthly meetings with Sector Finance teams to review performance	• Reduced emissions intensity • Investment into new, more efficient facilities in the Controls and Seals Sectors (expected impact in 2024) • Transitioning fleet to electric. We have tripled the number of hybrid or electric vehicles during the year	• Businesses starting to procure renewable energy	• Two new facilities built during the year with solar panels
WHAT'S NEXT (2024 – 30)	• Energy efficiency audits for key facilities • Minimum requirements for new facilities • Increase data input for Scope 3 calculation • Build engagement and knowledge of Scope 3 across the Group • Workshops and roadmap for top 10 contributors to Scope 3	• 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 • Continued facility upgrades and improvements to processes	• Continue to responsibly procure renewable energy	• Continued roll out of solar panel projects and increased coverage
BY FY30	• All businesses to understand how to reduce emissions across their value chain and have plans in place to reach net zero	• All energy reduction initiatives to have been actioned	• 100% of energy renewably procured	• Significant proportion of energy generated through solar

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.

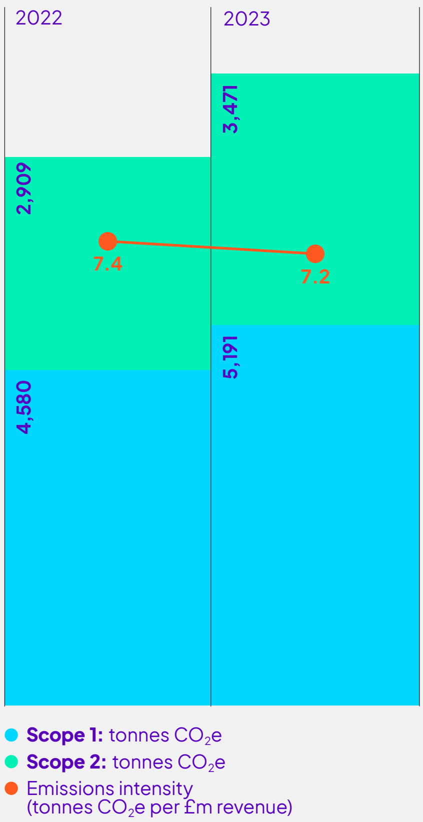
Categories 4 and 9, which relate to upstream and downstream transport and distribution are in aggregate responsible for 34% of Scope 3 emissions. Where possible, we will shift air freight to lower emission options, such as shipping or rail, and select road freight partners with electric fleets.

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.

Scope 1 and 2 emissions

8,662 CO_2e



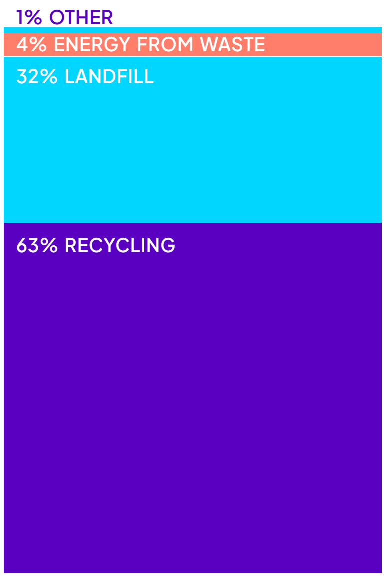
		TONNES CO_2e FY23	TONNES CO_2e FY22
GREENHOUSE GAS EMISSIONS	Scope 1 emissions	3,471	2,909
	Scope 2 emissions		
	Location-based	5,191	4,580[1]
	Market-based	5,653	4,806
	Gross emissions (Scope 1 & 2)		
	Location-based	8,662	7,489[1]
	Market-based	9,123	7,715
	Scope 3 emissions [2,3]		199,487
	Gross emissions		
	Location-based		206,976[1]
	Market-based		207,202
		TONNES CO_2e PER £1M REVENUE	
	Emissions intensity (Scope 1 and 2)	7.2	7.4
ENERGY USAGE		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[1]

3.3
metric tonnes

Total waste

3,720
metric tonnes

1 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 recommedations and the 11 recommeded 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

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.

STRATEGY CONTINUED
Identified risks and impact (Steady Path to Sustainability Scenario)

TRANSITIONAL RISK	MATERIALITY OF RISK	MITIGATION
Policy & Legal / Market: **Product decarbonisation due to stricter climate policies and market shifts**	Timeframe: **medium term** Financial impact: **low**	
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.	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.	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
Policy & Legal **Decarbonisation costs**	Timeframe: **short, medium and long term** Financial impact: **low**	
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.	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. 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.	The Group has previously navigated rising supply chain costs by successfully passing costs on to the customer.

STRATEGY CONTINUED

Identified risks and impact (Steady Path to Sustainability Scenario)

OPPORTUNITY	POTENTIAL BENEFIT
Policy & Legal / Market: **Product and market opportunities**	Timeframe: **short, medium and long term**
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.	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.
Policy & Legal / Market: **Enhanced logistics efficiency**	Timeframe: **medium**
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.	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

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 DICSA 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
1. Anti-bribery and Corruption	The Group has a policy on anti-bribery and corruption that complies with the requirements of the Bribery Act 2010. This policy is reviewed periodically to ensure continued and effective compliance in our business through our Learning Management System.	Further detail can be found on our website
2. Code of Conduct	Our Code of Conduct sets out the expected standards of conduct and behaviour of all employees across Diploma as they relate to our people, governance and the law, and stakeholder engagement.	Further detail can be found on our website
3. Diversity, Equity & Inclusion	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
4. Equal Opportunity	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
5. Environment	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
6. Climate-related Financial Disclosures	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
7. Health & Safety	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
8. Human Rights & Labour Conditions	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
9. Modern Slavery Statement	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
10. Whistleblowing	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