

DIPLOMA PLC



# Consistently delivering value

Diploma PLC  
Annual Report & Accounts 2021



## HIGHLIGHTS (YEAR ENDED 30 SEPTEMBER 2021)

### Strong financial performance and strategic progress

#### Revenue

**£787.4m**

2020: £538.4m

**+46%**

#### Statutory operating profit

**£104.3m**

2020: £69.8m

**+49%**

#### Statutory earnings per share

**56.1p**

2020: 43.5p

**+29%**

#### Total dividend per share

**42.6p**

2020: 30.0p

**+42%**

### A strong performance against our financial model

#### Revenue growth

**46%**

Model: 10%+

#### Underlying revenue growth

**12%**

Model: mid-single digit

#### Adjusted operating profit margin<sup>1</sup>

**18.9%**

Model: 17%+

#### Free cash flow conversion<sup>2</sup>

**103%**

Model: ca. 90%+

#### Net debt/EBITDA

**1.1x**

Model: <2.0x

#### ROATCE

**17.4%**

Model: high teens

#### Adjusted EPS growth<sup>1</sup>

**51%**

Model: double-digit

#### Dividend cover

**2.0x**

Model: ca. 2.0x

<sup>1</sup> Before acquisition related charges and acquisition related finance charges.

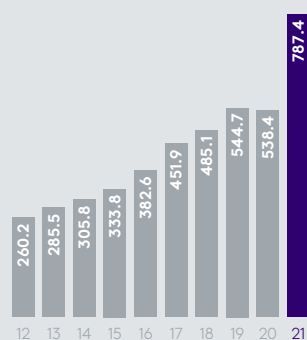
<sup>2</sup> Before cash flows on acquisitions, disposals and dividends.

Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted operating profit, adjusted profit before tax, adjusted earnings per share ("EPS"), free cash flow, trading capital employed and return on adjusted trading capital employed ("ROATCE"). All references in this Annual Report & Accounts to "underlying" revenues or operating profits refer to reported results on a constant currency basis and after adjusting for any contribution from acquired or disposed businesses. The narrative in the Annual Report & Accounts is based on these alternative measures and an explanation is set out in note 2 to the consolidated financial statements.

### Sustaining our track record of compounding growth

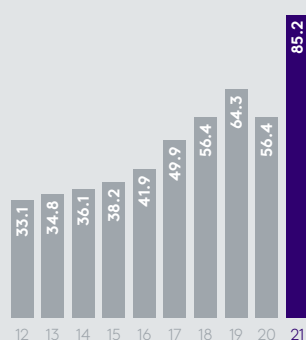
#### Revenue growth (£m)

**13% p.a.<sup>1</sup>**



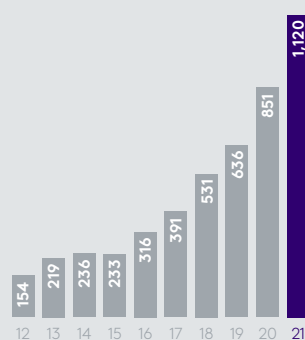
#### Adjusted EPS growth (pence)

**12% p.a.<sup>1</sup>**



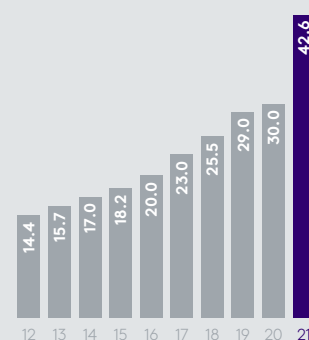
#### TSR growth (TSR index 2011 = 100)

**27% p.a.<sup>1</sup>**



#### Dividend growth (pence)

**14% p.a.<sup>1</sup>**



<sup>1</sup> 10-year compound.

## INSIDE THIS REPORT

### Contents

#### Strategic Report

- IFC Group at a Glance
- IFC Financial Highlights
- 02 Our Business Explained
- 10 Chairman's Statement
- 12 CEO Review
- 16 Key Performance Indicators
- 18 Sector Reviews
- 24 Finance Review
- 28 Internal Control and Risk Management
- 34 Delivering Value Responsibly
- 48 Section 172 Statement

#### Governance

- 50 Corporate Governance
- 52 Board of Directors
- 60 Audit Committee Report
- 64 Nomination Committee Report
- 67 Remuneration Committee Report

#### Financial Statements

- 86 Directors' Report
- 88 Consolidated Income Statement
- 89 Consolidated Statement of Comprehensive Income
- 89 Consolidated Statement of Changes in Equity
- 90 Consolidated Statement of Financial Position
- 91 Consolidated Cash Flow Statement
- 92 Notes to the Consolidated Financial Statements
- 113 Group Accounting Policies
- 118 Parent Company Statement of Financial Position
- 118 Parent Company Statement of Changes in Equity
- 119 Notes to the Parent Company Financial Statements
- 120 Independent Auditors' Report
- 126 Subsidiaries of Diploma PLC
- 128 Financial Calendar, Shareholder Information and Advisors
- IBC Five Year Record



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

### Johnny Thomson CEO Review

📄 See more on pages 12-14



### Colleague engagement

We were delighted with the results of our first Colleague Engagement Survey, with a strong response rate and an encouraging engagement index score of 79%. Our success in the year is testament to the outstanding commitment of our colleagues who have worked tirelessly to maintain high levels of customer service.

📄 **Colleague engagement**  
See more on page 40



### Delivering Value Responsibly

2021 was a year of good progress with establishing a Group-wide approach to ESG and a key performance index framework. ESG is also increasingly embedded in our commercial strategy. Positive Impact revenue is already an important component of our revenue, and at the heart of our growth strategy.

📄 **Delivering Value Responsibly**  
See more on pages 34-47

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

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

A well-diversified and resilient business

**Revenue by Sector\***



**Revenue by geography\*\***

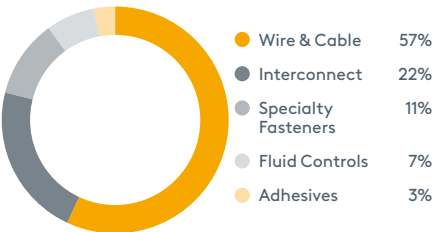


1 By destination.



## Controls\*

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

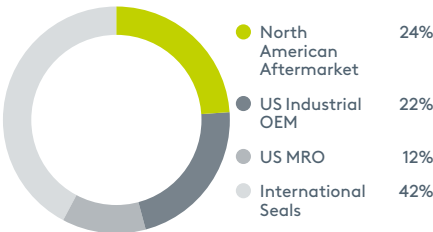


See more on page 18



## Seals\*

The Seals Sector businesses supply a range of seals, gaskets, cylinders, components and kits used in heavy mobile machinery and specialised industrial equipment.

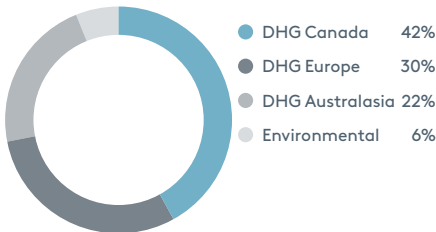


See more on page 20



## Life Sciences\*

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



See more on page 22

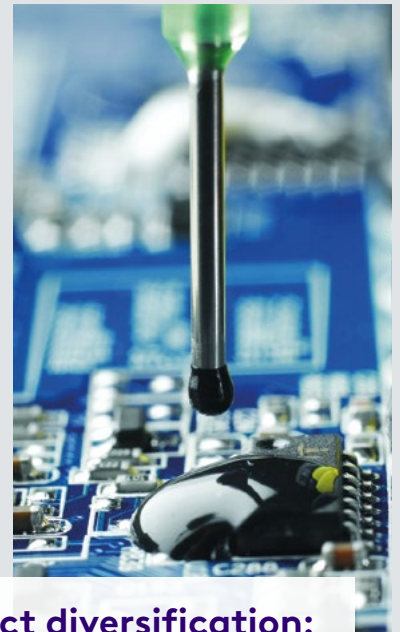
\* Pro forma – assuming acquisitions and disposals concluded in the year had taken place at 1 October 2020.



## Geographic diversification: Life Sciences

The acquisitions of Simonsen & Weel and Kungshusen in Scandinavia have added significant scale to our European Life Sciences footprint, diversifying the Sector into new markets with well-funded healthcare systems. Both businesses are a strong fit with our value-add model and offer exciting prospects for growth.

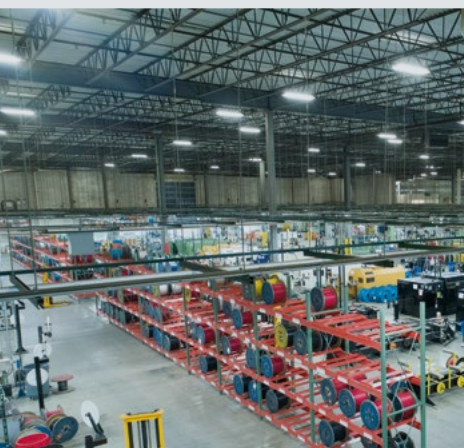
 **Life Sciences Sector Review**  
See more on pages 22-23



## Investing in growth: Acquisitions

2021 was a year of strong strategic progress, including £462m invested in strategically important acquisitions to accelerate growth. Windy City Wire, part of our Controls Sector, has had an outstanding first year as part of the Group.

 **Acquisitions to accelerate organic growth**  
See more on page 7



## Product diversification: Controls

The acquisition of Techsil adds an exciting new business line in Controls. Techsil is a high-quality, value-added distributor of specialty silicones, adhesives and sealants. The business further diversifies the Controls Sector, adding a new platform for growth.

 **Controls**  
See more on pages 18-19

## Investing in growth: Talent, Technology and Facility

We are investing in our Organisational Capabilities – Talent, Technology and Facility – to enable successful execution of our value-add model at scale. The successful transition to our new state-of-the-art facility in Louisville creates a material market share opportunity for our North American Seals business.

 **Our value-added proposition**  
See more on pages 8-9



OUR BUSINESS EXPLAINED

Diploma’s differentiated value-add distribution model has a long track record of success, delivering growth and sustainably high returns while having a positive impact on all our stakeholders.

**Our differentiated proposition**



**Essential Products**

Our revenues are generated from products critical to customer needs. We sell a range of products to varied end markets and customer segments. This creates growth opportunities, scalability and resilience.



**Essential Solutions**

Based on responsive customer service, deep technical support and added-value services which differentiate us and underpin sustainably high margins.



**Essential Values**

Our decentralised model, customer-oriented teams and culture of accountability creates empowered management teams. Decisions are made close to the customer, meaning that our businesses are agile and responsive to customer needs and changes in the market.

**Strong foundations**

**People**

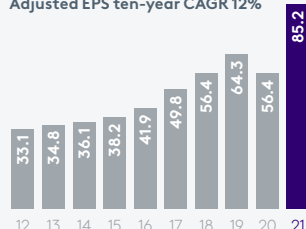
Passionate, accountable, customer-centric. Our decentralised model empowers our managers to run their businesses with the support of the Group.



**Growth**

We build high-quality, scalable businesses for organic growth and have a strong track record of compounding growth.

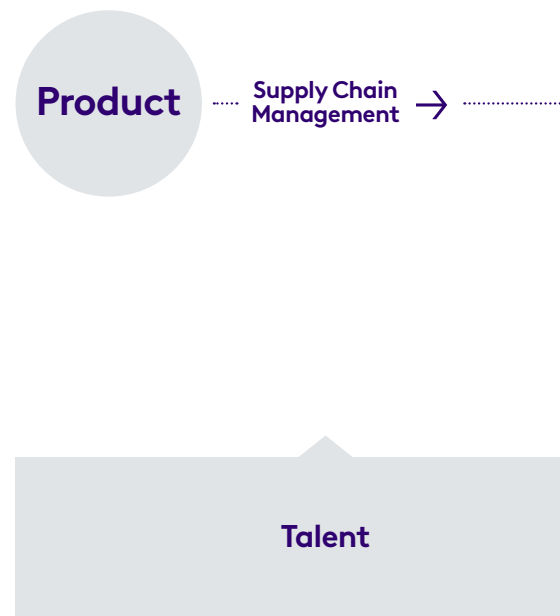
Adjusted EPS ten-year CAGR 12%



See more on pages 6-7

**Our value-add distribution model**

This model is built on strong foundations and supported by our Core Competencies and Organisational Capability.



**Value-add**

Value-add is at the heart of our success. By supplying value-add solutions, not just products, we build strong, long-term relationships with customers.



See more on pages 8-9

→ **Sustainable financial model**

Underlying revenue growth  
**Mid-single digit**

Total revenue growth  
**10%+**

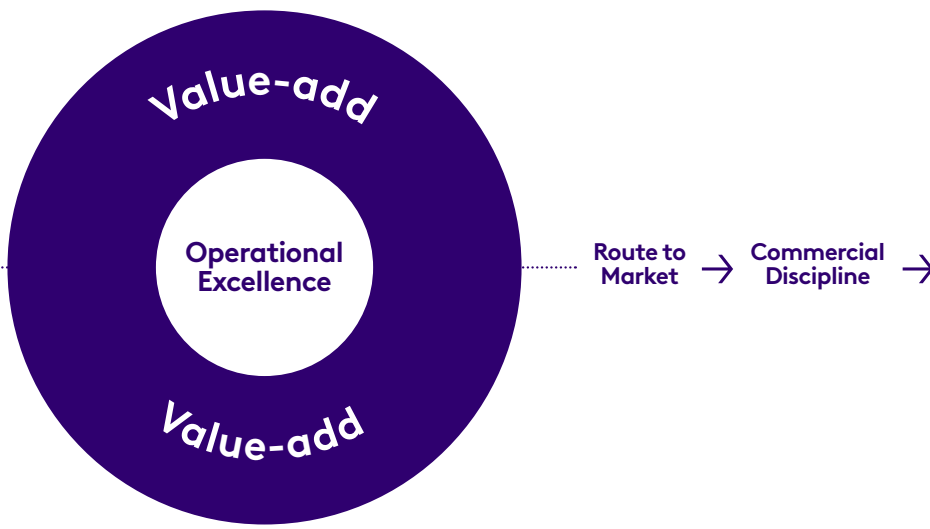
Adjusted operating margin  
**17%+**

Free cash flow conversion  
**ca. 90%+**

Net debt/EBITDA  
**<2x**

Dividend cover  
**ca. 2x**  
Adjusted EPS

ROATCE  
**High teens**



**End markets**

Technology

Facility

**Resilience**

As we grow and diversify our businesses, we continue to increase our resilience.



- Controls
- Seals
- Life Sciences

**M&A**

Successful track record and disciplined approach. Focus on acquiring high-quality businesses that fit strategically to accelerate our growth and drive returns.



See more on page 7

**Strong returns and balance sheet**

Strong free cash flow conversion and balance sheet give us flexibility to invest in growth; our growth strategy is financially disciplined, with ROATCE a key metric in measuring the value we create.

Net debt/EBITDA	ROATCE
<b>1.1x</b>	<b>17.4%</b>
Model: <2.0x	Model: High teens

## STRATEGY

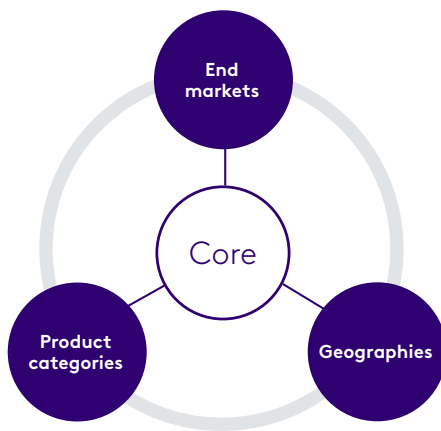
## A year of significant strategic progress

We have a consistent strategy that is based on the strong foundations of our value-add distribution model.

Our strategy is based on continuity, shaped by our purpose of delivering value and making a difference to our colleagues, customers, suppliers and communities, underpinned by our culture.

It will continue to evolve as the Group grows larger and more complex. As we grow, we will also invest in maintaining our strong foundations and in developing our Core Competencies and Organisational Capability.

### Focus our growth Sustainable double-digit growth



Underlying revenue growth

**12%**

Invested in acquisitions to accelerate our growth

**£462m**

Underlying revenue growth versus 2019

**7%**

Disciplined portfolio management

Disposal of a1-CBISS and, since the year end, Kentek


Reported revenue growth:

**46%**



#### Strategy in action: Acquisitions to accelerate underlying growth

The acquisition of Windy City Wire has been a step change for the Controls Sector and accelerated growth for the Group. It has expanded our presence in the US, and given the Sector access to high growth technology-enabled markets.

 To read more about our growth priorities, please see pages 6-7

### Strengthen our Core Competencies Continuous improvement

#### Route to Market

- Defining/growing/prioritising addressable markets in key business lines
- Positioning in structural growth end segments, including Positive Impact revenue
- B2B sales process and capability
- Digitalisation

#### Supply Chain

- Proactive procurement processes
- Category management
- Environmental & social criteria for partnership

#### Operational Excellence

- Standard core warehouse processes/systems
- Machining & automation
- Health & Safety culture
- Waste and emissions reduction

#### Commercial Discipline

- Pricing



#### Strategy in action: Specialty Fasteners

Within the Controls Sector, our Fasteners business has successfully diversified revenues through focusing on new sectors such as high-performance cars, space and general industrial, which have delivered strong double-digit growth in the year.

 To read more about the performance of the Controls Sector, please see pages 18-19



## Organisational Capability & Development

### Evolving our capability for scale

#### Talent

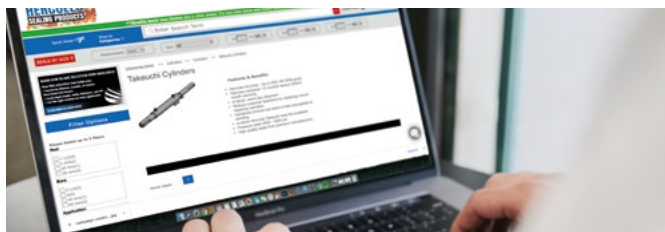
- Developing organisational structure for scale
- Development, succession planning, talent management processes
- Evolving sales, supply chain, finance capability
- Colleague engagement: communication, flexible working, mental health, diversity and inclusion

#### Technology

- Measured and decentralised approach
- E-commerce: leverage webstore capability
- Digitalising operations: warehouse management and financial backbone


#### Facility

- Upgrading facilities for scale and environmental considerations
- Machining and automation
- Careful network consolidation



#### Strategy in action: VSP webstore

Leveraging the expertise of our North American Aftermarket businesses' market-leading webstore, VSP has developed its own webstore offering to support and enable future growth.

 For more on how we are investing for scale, please see pages 8-9

## Delivering Value Responsibly

### Responsible growth



- DVR steering committee, chaired by CEO
- KPIs defined, reporting framework established
- First biannual governance meeting
- Business engagement
- First Group Colleague Engagement Survey
- Health & Safety and wellbeing workshops
- Positive Impact revenue reported across the Group
- AA rating from MSCI
- Agreed priorities for 2022



#### Strategy in action: Life-saving diagnostics in Life Sciences

Somagen Diagnostics supplies products that diagnose life-threatening diseases and is the exclusive distributor of a new range of innovative products used in cancer diagnosis.

 To read more on our ESG priorities and progress, please see page 34-47

## SUSTAINABLE GROWTH

We create and build high-quality, scalable businesses for organic growth.

Our businesses occupy strong positions in their key markets and products. Operating in fragmented markets, the Group still has very low market share.

This means that we can grow by focusing on core developed markets and products, both organically and by acquisition, without being distracted elsewhere at higher risk.

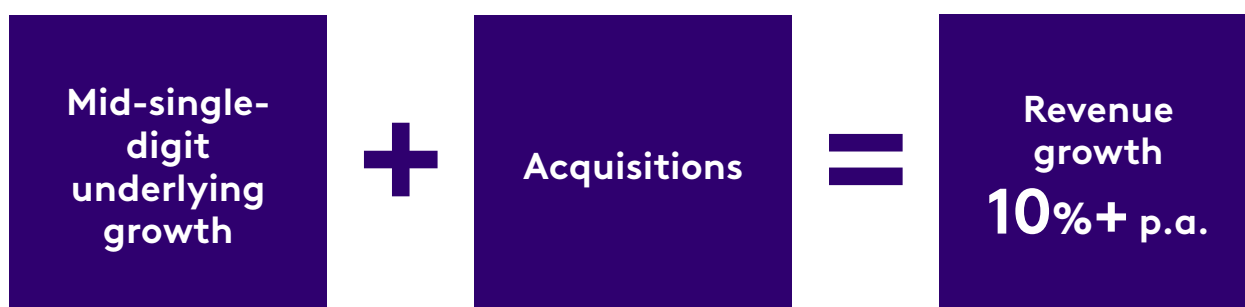
By seeking to grow the Group through expanding our addressable markets and diversifying, we increase our resilience.

Structural market trends in our existing end markets also play an important role in sustaining our growth over the long term.

## Significant growth runway



## Our model for sustainable double-digit growth



## ACQUISITIONS TO ACCELERATE ORGANIC GROWTH

Acquisitions are an integral part of our strategy, with a focus on acquiring high-quality, value-add businesses to accelerate organic growth.

Fragmented markets offer many opportunities and our strong balance sheet gives us flexibility to reinvest.

### 2021: a record year for acquisitions

During 2021 we invested £456m in ten strategically important acquisitions to accelerate our growth; we remain disciplined in our approach to acquisitions and have an active pipeline.

**Controls**



**Seals**



**Life Sciences**



### Acquisitions: exciting potential, focused and disciplined approach

#### Key target attributes

- Value-add servicing, high gross margins.
- Accessing organic growth with scale potential.
- Capable, established management teams.

#### How we add value

- Investment in underlying growth.
- Careful cross-selling.
- Management expertise, sharing of best practice.
- Some scale/integration benefits.

#### Strategic/disciplined approach

- Portfolio focus on scalable businesses.
- Structured market mapping and relationship building.
- Strong focus on ROATCE.



### Acquisitions to accelerate growth: Windy City Wire ("WCW")

#### Background

- A leading value-add distributor of premium quality, low voltage cable. Acquired in October 2020 for consideration of £348m.

#### Compelling strategic rationale

- Strong fit with our model: scalable platform with strong growth prospects, outstanding track record, attractive returns and high-calibre management team who have remained with the business.
- Expanded presence in the US, a key industrial market, and strengthened position in Controls with a core product we understand.

#### Outperforming post-acquisition

- 2021 underlying revenue growth 26% and operating margin expansion, driven by market share gains and strong leverage from a well invested platform. Business settled into the Group and delivering on huge potential, outperforming our acquisition case on revenue, profit and ROATCE.

#### Exciting growth prospects

- Extremely well placed to capture growth technology-enabled sectors – data centres, distributed antenna systems ("DAS").
- Regional expansion in lower penetrated regions in the US.
- Cross-selling opportunities into Europe and Canada.

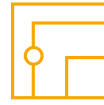
## OUR VALUE-ADD PROPOSITION

### Executing our value-add model at scale

Value-add is at the heart of our model. Our differentiated, value-add solutions and customer-focused approach create loyalty, pricing power and sustainably attractive margins.

Our businesses design their individual business models to provide solutions that respond to customer needs. All of our businesses supply products critical to customer needs together with a combination of added-value services, responsive customer service and deep technical support. Prioritising customer solutions is key to our success.

As we grow, we must strengthen our Core Competencies and invest in our Organisational Capability in order to execute our value-add model at greater scale.



#### Added-value services

If we did not provide these, customers would have to pay other service providers or make investment in additional in-house resource.



#### Responsive customer service

Such as next day delivery from stock of essential but low value items.



#### Deep technical support

We work closely with our customers to design our products into their specific applications.

## Strengthen the Core Competencies of our business model

Our Core Competencies differentiate us, protect us from disruption and deliver outstanding performance for our customers. As Diploma grows, we must continue to focus on and develop our Core Competencies in order to execute our value-add model at scale.

### Supply Chain

Our suppliers are integral to our success. Strategic sourcing and our Group Supplier Code ensure a sustainable supply chain and the right outcomes for our customers.

### Operational Excellence

As we scale, we must ensure that we have the processes and systems in place to execute our customer proposition and minimise our waste and emissions.

### Route to Market

Developing the strategy, channels, process and capability to address our market opportunity successfully.

### Commercial Discipline

Our financial model must fit our customers' financial requirements and also reward our businesses fairly. Pricing is critical to ensuring that we are competitive and profitable.

## Develop Organisational Capability

We drive our Core Competencies by investing in and developing the Organisational Capability that provides competitive advantage and enables continuous improvement.

### Talent

We have great people. As our Group grows, we offer colleagues the right support, development and opportunity to grow too.

### Technology

We continue to invest in technology and digitalisation that supports our Core Competencies and unlocks the operational potential of our businesses.

### Facility

We are strategic about our facilities in order to improve our efficiency, quality, agility and distribution footprint whilst reducing our environmental impact.

## Added-value services at Windy City Wire

Smart kits are one solution from WCW. They allow integrators to package up consumables. For a 200-room job, WCW will package the consumables by room, label them accordingly with a list of the contents, and deliver them alongside the rackpacks from one of WCW's 19 locations. The customer not only saves significant time that would have been spent checking and organising inventory by room, but they can also order, track and receive all their inventory at one time and on a single purchase order instead of many.



## Responsive customer service at North American Seals Aftermarket

Hercules Aftermarket kits are sold into repair shops trying to fix old, out-of-warranty, heavy machinery. These machines are costly for their owners if they are out of service. The repair shop may not know how to fix the model but doesn't know which seals that specific model needs. They can call Hercules, whose technical specialists can identify the seals needed. Hercules has those seals in stock, is able to label and package the needed parts into a kit and deliver them to the repair shop before 10am the next day. The machine can be quickly repaired and back in use, saving the owner lost revenues.

## Deep technical support at Big Green Surgical ("BGS")

BGS worked closely with Australia's Therapeutic Goods Administration to get approval to bring to market an innovative non-permanent, non-invasive gastric balloon.

The balloon is contained in a capsule that is swallowed by the patient. The capsule is attached to a very thin catheter that the doctor uses to inflate the balloon with water once it reaches the stomach. X-rays are used to ensure the balloon is correctly positioned and filled before the catheter is removed.

BGS was on-site with the attending physician when the first balloon placement was successfully completed in April 2021.



## CHAIRMAN'S STATEMENT

# Strong performance and progress



I am delighted with how we have navigated the challenges of the last year, demonstrating the resilience and agility of our model."

**John Nicholas**  
Chairman



As I approach the end of my time as Chairman of Diploma, it gives me great pleasure to report another successful year, building on the Group's long track record of growth.

Our financial results are strong and I am delighted with how we have navigated the challenges of the last year, demonstrating the resilience and agility of our model. FY 2021 has also been a year of strategic progress, including through acquisitions and with the Group's environmental, social and governance ("ESG") agenda.

I shall leave the Group knowing that it is well positioned to deliver continued growth and to adapt to the rapidly changing world in which it operates.

### Successfully navigating challenges

The Covid-19 pandemic has been a true test of our resilience in all aspects – strategy, business model, colleagues and culture, which combined have enabled us to deliver strong results. The last year has also demonstrated the strength of our decentralised model, with our businesses empowered to take local decisions to ensure the safety and wellbeing of our colleagues while also responding rapidly to the changing environment.

Having proven the strengths of our model in the early stages of the pandemic, FY 2021 brought new challenges. The easing of lockdowns and subsequent sharp recovery in demand to unprecedented levels led to supply chain disruption, inflation and labour pressures. Our businesses adapted quickly, with our colleagues working tirelessly to maintain high levels of customer service. The Group not only navigated these challenges, but also continued to deliver strong results and, more importantly, to make progress against our longer-term strategy. With some sense of normality returning, the management team has also reflected on the learnings from the pandemic, embracing new ways of working and opportunities to accelerate the strategy.

None of what we have achieved this year would be possible without our colleagues. I would like to thank everyone at Diploma for their commitment and contribution.

### Evolving our organisation for growth

As I look back on my time with Diploma, I never cease to be impressed by what the Group has achieved. Over the last year, under the outstanding leadership of Johnny Thomson and his new Executive Team, we have delivered a step change in scale and brought additional focus to evolving our capabilities. As we continue to grow, delivering for our customers requires investment in our strong foundations and during FY 2021 we have continued to develop our Core Competencies and Capabilities. This will ensure we can deliver our value-add proposition at greater scale and at sustainably high margins.

### An effective strategy for value creation

Our strategy is focused on building high-quality, scalable businesses for organic growth. This has remained consistent throughout the years. Through having the right balance of organic and inorganic growth, together with a focus on delivering sustainably high margins and returns, it has created considerable value. I am confident that our strategy has allowed us to emerge from the pandemic stronger and that the management team's approach will allow us to continue to grow and scale while delivering value for all stakeholders.

### Strong full year results

The Group delivered strong full year results, with underlying revenue growth of 12% and a 46% year-on-year increase in reported revenues to £787.4m (2020: £538.4m). This includes a very pleasing contribution from acquisitions, particularly Windy City Wire ("WCW"). Adjusted operating profit increased 71% to £148.7m, with the Group's margin 270bps higher year-on-year at 18.9% (2020: 16.2%). All of this translated into 51% growth in adjusted earnings per share ("EPS") to 85.2p (2020: 56.4p).

The Group remains highly cash generative, with free cash conversion of 103% driving faster than expected deleveraging. With year end net debt/EBITDA of 1.1x, our balance sheet underpins our ability to invest in growth and provides good flexibility for future acquisitions.

### Delivering Value Responsibly ("DVR")

Our purpose is to consistently deliver value and reward our stakeholders, and it is important that we do so in a manner that is environmentally and socially responsible. During FY 2021, we have made important progress with establishing a Group-wide approach and are increasingly embedding DVR, our ESG programme, across our businesses. Delivering on this agenda will play a key role in our future performance and the success of our strategy. I believe that the team's thoughtful and rigorous approach is building strong foundations and establishing a solid baseline from which we can seek to deliver continuous improvement. Moreover, the essential products and solutions provided by many of our businesses have a positive impact on our environment and society in end segments which have significant growth potential for Diploma.

### Colleagues and culture

Our strong financial performance speaks for itself, but we must recognise the hard work that underpins this, particularly during what has been a difficult time for many. Our success would not be possible without our colleagues and, on behalf of the Board, I would like to thank them all for their contribution and outstanding service over this past year.

Attracting and retaining the very best talent available are fundamental to our strategy, and we believe that our culture is a key enabler in this respect. The easing of lockdowns has enabled the Board to resume face-to-face interactions with the wider management team and workforce, including site visits to IS Group and Clarendon Specialty Fasteners in August.

I was also delighted with the results of our first Group Colleague Engagement Survey, which showed encouraging engagement levels. The learnings from this survey will inform future actions and activity to ensure colleagues continue to view Diploma as a great place to work. The results and learnings were also discussed by the Board, helping to shape and inform our views on culture and diversity. Culture also formed part of our wider discussions on strategy as we seek to gently evolve a Diploma corporate identity that works hand in glove with our highly successful decentralised model.

### Dividends

The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with growth in adjusted EPS. The combination of strong results and free cash generation, supported by a robust balance sheet, has led the Board to recommend a 51% increase in the final dividend to 30.1p (2020: 20.0p<sup>1</sup>) taking the total dividend to 42.6p (2020: 30.0p). This represents dividend cover of 2.0x, in line with our model. Subject to shareholder approval at the Annual General Meeting ("AGM"), this dividend will be paid on 4 February 2022 to shareholders on the register at 21 January 2022.

### Board changes

Following the retirement of Charles Packshaw on 20 January 2021, Anne Thorburn was appointed Senior Independent non-Executive Director. Anne has served as a non-Executive Director since September 2015 and is also Chair of the Audit Committee.

We welcomed Dean Finch to the Board on 21 May 2021. Currently Group Chief Executive of Persimmon PLC, Dean is a highly experienced senior executive with deep commercial, operational and financial experience in Europe and North America. His experience of delivering success through customer service and operational excellence will benefit Diploma and the Board.

After eight years on the Board, and with a well-established management team in place, in July 2021 I announced my intention to retire as Chairman and from the Board. Anne Thorburn, together with the rest of the Nomination Committee, led a thorough selection process and in October 2021 we announced the appointment of David Lowden.

David brings a wealth of experience as an executive, non-Executive Director and Chair of UK listed companies, including in growing international and acquisitive services businesses. He joined the Board as non-Executive Director and Chairman designate on 19 October 2021 and, subject to election by shareholders, will take over as Chairman on my retirement at the conclusion of the Group's AGM on 19 January 2022.



**I am confident that I leave the Group in good hands, with an excellent team and exciting prospects."**

### Conclusion

During my six years as Chairman, Diploma has enjoyed considerable and consistent growth and steady evolution. The fundamental strengths of the Group's value-add model remain unchanged and there is significant opportunity for growth in our core markets and geographies.

It has been a privilege to serve as Chairman, and I wish the Group much continued success. I would like to thank the Board, Johnny and the wider team for their support during my tenure. I am confident that I leave the Group in good hands, with an excellent management team and exciting prospects.

<sup>1</sup> Based on a notional 2020 final dividend of 20.0p per share (two-thirds of the 2020 full and final dividend of 30.0p per share).

## CEO REVIEW

# Building high-quality, scalable businesses for sustainable growth



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

**Johnny Thomson**  
CEO



## A highly successful FY 2021

FY 2021 was a highly successful year for the Group, continuing our long track record of growth and value creation. Our strong performance and strategic progress are testament to our outstanding colleagues. I would like to take the opportunity to thank the entire team for their massive contribution in a challenging environment.

Our financial results are strong, exceeding all of the metrics of our financial model, with underlying growth of 12% and attractive margins at nearly 19%. This is a reflection of the resilience of our business model, the work we have put in to diversify and scale our businesses, and the actions we have taken to mitigate the trading challenges in our markets, such as inflation.

FY 2021 was also a year of strategic progress through acquisitions. We welcomed over 500 new colleagues to the Group, and invested £456m in ten high-quality businesses to accelerate our growth. This includes Windy City Wire (“WCW”) which has had an outstanding first year as part of Diploma, materially outperforming our expectations. We grew adjusted earnings per share (“EPS”) by over 50%, our free cash flow conversion was 103% and our return on adjusted trading capital employed (“ROATCE”) stepped up versus H1 to 17.4% (2020: 19.1%). Our strong balance sheet, with net debt/EBITDA of 1.1x, gives us good flexibility to continue to invest in growth.



It has also been a year of significant strategic progress. I am particularly proud of our progress with Delivering Value Responsibly (“DVR”), our environmental, social and governance (“ESG”) programme. Historically, our businesses have worked hard to make a difference to their stakeholders and pursued individual sustainability initiatives. Our Group-wide approach will now complement and enhance this activity, overseen by our DVR Steering Committee, which I lead. The framework established is increasingly embedding sustainability not just in our operations and risk management, but also puts it at the heart of our commercial strategy.

### Our outstanding colleagues

Our success would not be possible without our outstanding colleagues. Ensuring safe and flexible working environments and increasing mental health awareness remains an important area of focus.

One of the key highlights of the year was the 79% engagement score we received in our first Group Colleague Engagement Survey. This encouraging score reflects the great job our management teams have done to guide our colleagues safely through the pandemic. In an environment of labour scarcity, it is more important than ever that we differentiate ourselves in attracting, motivating and retaining talent.

### Strong financial results, ahead of all of our targets

Underlying revenues grew 12% over FY 2020, with 7% underlying growth over FY 2019. Reported revenues increased 46% year-on-year, with acquisitions contributing 38% to revenue and a WCW performance well ahead of our expectations. Growth has been balanced across all three Sectors, driven by our organic revenue initiatives and recovering demand. Supply chain disruption, labour and inflation have presented challenges, but also create an opportunity to differentiate. The strength of our adjusted operating margin, up 270bps year-on-year to 18.9%, is testament to the hard work of our businesses to mitigate these challenges and, where this has not been possible, to implement price increases.

### Delivering Value Responsibly

I am extremely pleased with our progress with DVR – our ESG programme, which is built around the five material focus areas for our businesses and stakeholders – Colleagues; Health & Safety; Diversity, Equity & Inclusion; Supply Chain; and Environment.

During the year, we have clearly defined our DVR priorities and key performance indicators (“KPIs”), established a DVR Steering Committee, which I chair, and created a reporting framework – more details are set out on pages 34-47. These metrics are now embedded in our internal reporting and business reviews, and will set a baseline against which we will seek to drive continuous improvement and set targets. The level of engagement in the businesses has been exciting to see and we are weaving our DVR priorities into our core commercial strategy.

I am particularly excited about the opportunity to have a Positive Impact on our environment and society as part of our growth strategy. Positive Impact revenue is generated from the sale of products, services and solutions that benefit our society or environment, or support the transition to a more sustainable future.

In this, we have deliberately chosen a challenging bar against which we can seek to deliver continuous improvement. A significant proportion of our current revenues relate to products with Positive Impact end uses and, with ESG increasingly embedded in our commercial strategy, we have a significant opportunity to make a real difference in driving sustainability.

As a distributor, our supply chain has a meaningful impact on the environment and society, and is another area that we will focus on in our assessment criteria for great supply chain partners of the future.

Engagement is critical in a decentralised model like ours, to which end we have run numerous workshops. I have been impressed by the enthusiasm with which our colleagues have responded and embraced our programme.

### Strong underlying growth at all Sectors

Controls delivered 16% underlying growth. Our International Controls businesses grew underlying revenues by 8%, achieving underlying growth over FY 2019 by year end as a result of end segment diversification.

WCW’s performance was outstanding, with underlying revenue growth of 26% as a result of market share gains. The business’s well-invested platform also delivered positive operational leverage.

Underlying growth at Seals was 7%, building on a resilient FY 2020. End segment diversification of our International Seals businesses has delivered growth, including in markets such as Renewables, Medical and Food. In the US, we have now settled into our new state-of-the-art Aftermarket facility in Louisville and are starting to see some of the market share gains.

For Life Sciences, 14% underlying growth reflected a sharp recovery as we regained access to hospitals and laboratories after Covid-related restrictions. We have been developing our European Life Sciences footprint, and saw a good contribution from our Scandinavian acquisitions.

Further details of how our Sectors performed can be found on pages 18-23.

### Sustainable double-digit growth

Our growth runway and market opportunity are significant. All three Sectors have equally exciting growth opportunities in the context of structurally favourable end markets – from investment in renewable energy and infrastructure to growth in technology-enabled markets and increasing investment in diagnostics.



### Well positioned for sustainable, long-term growth.”

We are under-penetrated in large, core developed economies; we have opportunities to expand our addressable market into adjacent product categories; and fragmented markets offer significant acquisition opportunities.

Our businesses’ priorities are to diversify their revenue streams for growth, scale and resilience. They are also focused on developing their business model Core Competencies and their Talent, Technology and Facilities to be able to execute at scale.

### Responsible growth

The pandemic has accelerated existing long-term trends and opportunities in our markets. Our role as a value-added distributor is to ensure our customers have access to the essential products and solutions they need to adapt to a rapidly changing world – and we are already doing so. There are numerous examples across our Sectors – from WCW cables that make buildings safer and connect emergency services, to diagnostic solutions supplied by Life Sciences that make it quicker and easier to identify life-threatening illnesses, to wind turbines that generate renewable energy and technical expertise that prevents toxic emissions in Seals. Positive Impact revenues are an important component of our growth to date, and our future commercial strategy for growth.

## CEO REVIEW CONTINUED

**A diversified and resilient business**

Over the past year and a half, our model and strategy have been tested. Our resilience in the early stages of the pandemic was driven by our focus on products critical to customer needs, our value-added services and solutions, and our geographic and end market diversification. Throughout the pandemic, the benefits of an agile, decentralised model with empowered management teams and close proximity to customers came into its own, enabling us to deliver highly profitable growth.

**Acquisitions to accelerate our growth**

In FY 2021, we invested £456m in ten high-quality, value-add businesses to accelerate our growth, all of which are a fit with our portfolio and offer highly attractive returns. WCW, completed in October 2020, has accelerated growth for the Group as a whole. More detail on the business's performance can be found in the Controls Sector Review on page 18.

In Controls, the addition of SWA has strengthened our UK Wire & Cabling business; AHW has added scale in the US for Specialty Fasteners; while the acquisition of Techsil has added an exciting new business line. In Seals, the acquisitions of PDI and FITT will help build scalable platforms for growth in US MRO and in Australia respectively. Finally, we have significantly diversified the geographic footprint of our Life Sciences businesses, increasing our European presence with the acquisitions of Simonsen & Weel and Kungshusen in Scandinavia.

**Portfolio**

In a growing, acquisitive Group, portfolio focus is key. During the year we disposed of ai-CBISS, formerly part of the Life Sciences Sector, for £12m to its largest supplier, ENVEA, who is ideally placed to continue to develop the business. We also completed the disposal of Kentek, formerly within the Seals Sector, after year end.

**Operational strategy: sustaining our margins**

Our key differentiator is our value-add proposition which supports our margins. To sustain our value-add customer proposition at greater scale, our operational strategy is focused on developing the Core Competencies of our business model and the Organisational Capability to execute effectively at scale. DVR is increasingly also at the heart of our operational strategy; embedding sustainability in our operations has broad-based benefits.

The pandemic has created an opportunity to accelerate the roll-out of our Core Competencies, highlighting in particular the importance of strategic Supply Chain management and Route to Market.

In terms of Route to Market, the pandemic has highlighted the benefits of diversification, with organic revenue initiatives paying off across the Group. All of our businesses are building their Route to Market processes and capability, and have exciting growth plans. These include a significant element of Positive Impact opportunity.

Our businesses have worked hard to manage the supply chain challenges of recent months, and we are evolving a more strategic approach as we grow. This is supported by our new Group Supply Chain Policy and Group Supplier Code, both of which are aimed at ensuring a supply chain that is ethical, responsible and resilient.

Operational Excellence remains an area of daily focus, streamlining our processes and footprint as well as waste and emissions reduction. Reducing our waste is not only responsible, but a commercial differentiator, as demonstrated by the waste reduction initiatives at WCW, which delivered good benefits to the bottom line while also reducing our impact on the environment.

We continued to develop our Talent, Technology and Facility for scale. Across the Group, we have focused on colleague engagement, coupled with investment in talent management, succession planning and structures to support successful management of the Group at scale.

Our approach to technology is measured and in tune with our decentralised model. A number of our businesses have developed webstore offerings in the year, including VSP Technologies, which has benefited from knowledge sharing with Hercules Aftermarket, which operates a market-leading webstore.

As we invest and upgrade our facilities for scale, we are also improving our colleagues' working environments and reducing our environmental impact.

**Evolving our organisation and culture for growth**

Our structured, diverse Executive Team consists of both new and old faces as we seek to add new capabilities aligned with our strategy. I am very proud of and thankful to the Executive Team, who have done a brilliant job in gelling together very effectively.

We are also quietly evolving our culture, preserving individual business identities and developing a complementary shared Diploma identity alongside this, which will encourage sharing of knowledge and best practice.

**Positive outlook: sustainable growth and margins**

In summary, I feel very proud of what we have achieved in FY 2021, and the way in which we have succeeded in delivering value for all our stakeholders – our customers, colleagues and our shareholders.

I want to thank all my Diploma colleagues for another outstanding year in very challenging circumstances. We have delivered strong results, including underlying growth and margin well ahead of our financial model. We have made significant strategic progress, including a record year for acquisitions, as we continue to develop high-quality, scalable businesses for organic growth. We feel excited that our DVR agenda has defined clearly our priorities and, importantly, is embedding them within our business activity.

We entered FY 2022 with good momentum and a positive outlook. For the year ahead, we expect to deliver another strong performance with ca. 10% reported revenue growth including mid-single-digit underlying revenue growth, consistent with our model and H1 weighted; and an adjusted operating margin between 18% and 19%. Our prospects are exciting, and we are confident in our ability to deliver long-term growth at sustainably high margins.



## KEY PERFORMANCE INDICATORS

# Measuring our progress

We measure our performance against a number of financial and non-financial metrics which reflect how we are delivering against our strategic objectives (as set out on pages 4-5), our financial model (see page 3) and our ESG framework (see pages 34-47).

A number of KPIs (revenue, adjusted operating profit, free cash flow, ROATCE) influence the remuneration of our Executive Directors (see page 69).

## Financial performance

### Underlying revenue growth

We create and build high-quality, scalable businesses for sustainable growth. We focus on Essential Products and Solutions which are critical to customers' needs, giving resilience to revenues.

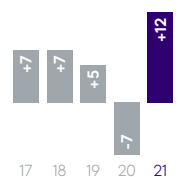
Financial model

## Mid-single digit

Underlying revenue growth

## 5%

Five-year average



### Reported revenue growth

We aim to deliver sustainable double-digit growth through a combination of underlying growth and value-enhancing acquisitions.

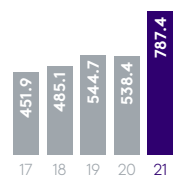
Financial model

## 10%+

Reported revenue growth (£m)

## 16%

Five-year compound



### Adjusted operating margin

Our differentiated value-added solutions and customer-focused approach drive customer loyalty and create pricing power, supporting sustainable and attractive margins.

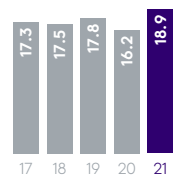
Financial model

## 17%+

Adjusted operating margin

## 17.5%

Five-year average



### Acquisition spend

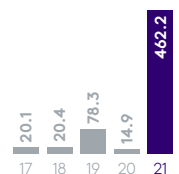
Acquisitions are an integral part of the Group's strategy, with a focus on acquiring high-quality, value-added businesses to accelerate organic growth.

Financial model

## £119m

Acquisition spend

Five-year average



### Free cash flow conversion

A strong balance sheet and cash flow fund our growth strategy and provide healthy, growing dividends.

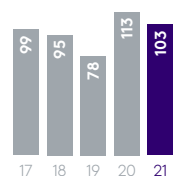
Financial model

## ca. 90%+

Free cash flow conversion

## 98%

Five-year average



### ROATCE

This measures how successful we are at generating returns on the investments we make.

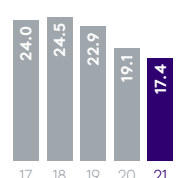
Financial model

## High teens

ROATCE

## 22%

Five-year average



## Non-financial performance

### Colleague engagement

Our mission is to retain great talent and drive performance by engaging colleagues throughout the Group.

#### 2021 highlights

- First annual Group Colleague Engagement Survey
- Building our internal communications
- Increased focus on talent development

#### KPI

#### Engagement index

**79%**

(engagement index from Colleague Engagement Survey)

#### Ongoing focus

- Respond to the key themes of the Group Colleague Engagement Survey
- New learning management system
- Continued focus on colleague wellbeing

### Health & Safety

Our mission is to keep everyone safe and well with the support of a strong Health & Safety culture.

#### 2021 highlights

- Group policy updated and rolled out
- Group-wide Health & Safety workshops
- Wellbeing workshops held with business leaders

#### KPI

#### Lost Time Incident Rate

**10.1**

(total LTIs per 1,000 employees)

#### Ongoing focus

- Driving a proactive Health & Safety culture
- Continue to focus on potential hazard reporting

### Diversity, equity & inclusion (“DEI”)

Our mission is for all our colleagues to feel able to bring their full selves to work, fulfil their potential and benefit from working as part of a diverse team.

#### 2021 highlights

- Demographic data collected during the Group Colleague Engagement Survey
- High inclusion index score of 76% from the Colleague Engagement Survey

#### KPIs

#### Gender diversity (senior management team)

**24%**

(% of female senior managers)

#### Ethnic diversity (senior management team)

This will be reported from 2022

#### Ongoing focus

- Report ethnic diversity of senior management team
- Establish DEI advocacy groups across Diploma to share knowledge and shape DEI strategy and initiatives
- Create and publish a Group Diversity, Equity and Inclusion Policy
- Improve DEI understanding and awareness through workshops and further learning and training

### Supply chain

Our mission is to ensure an ethical and resilient supply chain that underpins value for our customers.

#### 2021 highlights

- Review of business supply chains
- Group Supply Chain Policy and Supplier Code published
- Workshops with our business experts to embed the new policy

#### KPI

#### Percentage of key suppliers signed up to the Supplier Code

This will be reported from 2022

#### Ongoing focus

- Engage suppliers on the key principles of the Supplier Code, particularly our environmental focus
- Reporting on key suppliers signed up to the Supplier Code

### Environment

Our mission is to be a growing business with a shrinking environmental impact, targeting net zero.

#### 2021 highlights

- Group Environment Policy published
- Workshops to embed the new policy
- Preparations for waste reporting in FY 2022

#### KPIs

#### Emissions intensity ratio

**12.5**

(Tonnes CO<sub>2</sub> per £1m revenue)

#### Waste intensity ratio

This will be reported from 2022

#### Ongoing focus

- Integrate biannual emissions reporting into business performance reviews
- Develop roadmap to net zero and science-based targets
- Measure waste across the Group

SECTOR REVIEW

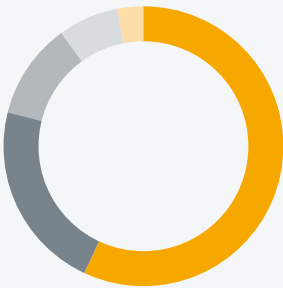
# Controls



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

## Our businesses

### Principal segments<sup>1</sup>



● **Wire & Cable: 57%**

Specialist and flexible cable products and cable identification, termination and management products, premium-quality low voltage cables and cable management solutions across a broad base of customers in the US and Europe. Windy City Wire’s comprehensive cable management systems generate significant time and cost savings for customers.

● **Interconnect: 22%**

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

● **Specialty Fasteners: 11%**

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

● **Fluid Controls: 7%**

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

● **Adhesives: 3%**

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

	FY 2021	FY 2020*	
Revenue	£343.3m	£156.6m	+119%
Underlying revenue growth	+16%	(14)%	
Adjusted operating profit	£72.4m	£25.5m	+184%
Adjusted operating margin	21.1%	16.3%	+480bps

\* Re-presented to show central corporate costs separately and in line with current year presentation.

### FY 2021 highlights

- International Controls businesses +8% underlying, driven by end segment diversification and recovery in demand; underlying growth over FY 2019 by year end.
- Outstanding Windy City Wire (“WCW”) performance – double-digit growth, market share gains and a well-invested platform delivering strong leverage.
- Techsil acquisition in August adds exciting new business line in adhesives.

## Delivering Value Responsibly

Bi-Directional Amplifiers (“BDA”) and Distributed Antenna Systems (“DAS”) are the dedicated communication systems of first responders and an integral part of many fire evacuation systems. Windy City Wire has created SmartGUARD™ – BDA/DAS cable with a unique jacketing that provides mechanical protection, eliminating the need for customers to run conduit and then run cable through the conduit. SmartGUARD™ significantly reduces overall BDA/DAS installation costs by reducing materials needed and labour hours.



<sup>1</sup> Pro forma revenues adjusted for acquisitions and disposals completed during the year.

### Sector financial performance

Full year revenues more than doubled to £343.3m (2020: £156.6m). This reflects very strong underlying growth of 16%, a 111% contribution from acquisitions and an 8% foreign exchange headwind.

Adjusted operating profit also increased substantially to £72.4m (2020: £25.5m), with the adjusted operating margin 480bps higher year-on-year at 21.1% (2020: 16.3%). This is due to the accretive impact of acquisitions, operating leverage on higher volumes and the sustainable benefits of FY 2020 restructuring actions.

WCW had an outstanding first year as part of the Group; we were also delighted with the return to underlying growth for the full year in International Controls (+8% underlying) after a good second half, driven by product and customer diversification initiatives and a recovery in end market demand.

**Wire & Cable** grew underlying revenues by 24%, largely reflecting growth at WCW. This was driven by market share gains together with price increases to pass on higher copper prices. Key growth areas include Distributed Antenna Systems ("DAS"), which has also had a positive mix effect. The business is now settled within the Group and delivering on its huge potential. Operating profit growth was well ahead of revenues, driven by positive mix and the benefits of investment made in FY 2020 to improve processes, increase productivity and reduce waste.

As an earlier cycle business, Shoal Group returned to growth in late FY 2020 and continued to grow during FY 2021 off the back of focused business development efforts, continued growth through the e-commerce channel and a recovery in UK construction. The business also benefited from the FY 2020 combination of cabling and cable accessories and the resulting enhanced commercial leadership, as well as the complementary acquisition of Specialised Wiring Accessories ("SWA").

Underlying revenues increased 10% at **Interconnect** reflecting growth across all countries, with double-digit growth in Automotive, Energy and Industrial end markets. Both our French and German businesses had a very good year with the return of automotive demand in France and continued growth in Energy in Germany. Finally, HSP was acquired in October 2020 and successfully integrated into our German business.

**Specialty Fasteners** delivered a strong second half, with full year underlying revenues down only 5%. Having been impacted by the downturn in civil aerospace, the business has been on a sharply improving trajectory since the half year. Revenue diversification initiatives have played an important role – non-aerospace revenues have grown at double-digit levels in FY 2021, driven by Industrial, Defence and Motorsport end markets and new and emerging areas, such as Space and Urban Air Mobility. We remain confident in the long-term

## Adhesives: an exciting new product line

- The acquisition of Techsil in August has added an exciting product line for the Controls Sector, bringing further diversification and a platform for growth.
- Techsil is a high-quality UK distributor of specialty silicones, adhesives and sealants, operating in an attractive and growing market. The business's value-add services are a key differentiator, offering customers a technical, consultative sale, technical support, shelf life management, own brand products and technical specification.
- Significant growth potential – through product, geographic and end market diversification as well as in high growth areas such as electric vehicles.



prospects for Aerospace; revenues have stabilised, order intake has picked up and we expect recovery at most customers in 2023/24. We are well placed to take market share as demand returns, having been specified onto new programmes and diversified our exposure within Aerospace, including through the acquisition of Aircraft Hardware West ("AHW") in September 2021.

After a tough FY 2020 for key Food & Beverage customers, **Fluid Controls** returned to growth in FY 2021, with underlying revenue growth of 10%. This was driven by the business's second half performance as the hospitality industry picked up, with the trend towards "staycations" in the UK contributing to a better than expected performance. Revenues related to refrigeration elements for food delivery vehicles also continued to grow.

### Strategic progress

FY 2021 was a particularly busy year for acquisitions – WCW, Techsil, SWA and AHW all fit with our value-add model and will accelerate our growth:

- Growth from organic revenue initiatives, particularly in our existing Controls businesses.
- WCW: a step change which has diversified the Sector into the US and accelerated growth for the Group as a whole.
- Techsil acquisition has added a new and growing business line (see above).
- AHW acquisition increases Specialty Fasteners' scale in the US, generates revenue and cost synergies, and diversifies and broadens our geographic footprint, giving strategic advantage with global customers.
- SWA, acquired in July, expands Shoal Group's UK footprint, adding a business

with complementary products, giving access to the UK electrical wholesale market and creating opportunities for cross-selling and other synergies.

## Significant growth runway

- Opportunities in structurally positive end markets: DAS, data centres, other technology-enabled segments, renewables and infrastructure.
- Diversify businesses by customer set, product and geography.
- Build scale in the US, UK and Europe in Wire & Cable, Interconnect and Specialty Fasteners.
- Cross-selling: US into Europe/Europe into US.
- WCW: differentiated proposition with significant market potential.
- Material new business line opportunities.

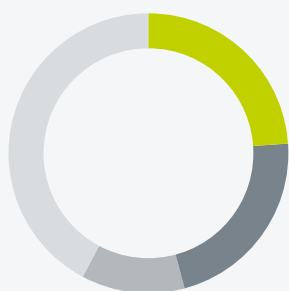
## SECTOR REVIEW

## Seals



The Seals Sector businesses supply a range of seals, gaskets, filters, cylinders, components and kits used in heavy mobile machinery and specialised industrial equipment with Aftermarket, OEM and MRO applications.

## Our businesses

Principal segments<sup>1</sup>

- **North American Aftermarket: 24%**

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

- **US Industrial Original Equipment Manufacturer ("OEM"): 22%**

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

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

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

- **International Seals: 42%**

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

	FY 2021	FY 2020*	
Revenue	£263.7m	£242.1m	+9%
Underlying revenue growth	+7%	(5)%	
Adjusted operating profit	£46.5m	£40.5m	+15%
Adjusted operating margin	17.6%	16.7%	+90bps

\* Re-presented to show central corporate costs separately and in line with current year presentation.

## FY 2021 highlights

- Underlying growth of 7%, building on a resilient FY 2020.
- Well positioned for market share gains in North American Aftermarket, with transition to Louisville successfully completed.
- Strategic acquisitions in North America and Australia building scalable platforms for growth.

## Delivering Value Responsibly

M Seals is working with their customer to develop the main bearing seals of the world's largest wind turbine. The turbine, which is built for efficiency in offshore environments, boasts the industry's largest swept area and a capacity factor of over 60% from its 115.5m blades. A single turbine can produce up to 80 GWh per year.



<sup>1</sup> Pro forma revenues adjusted for acquisitions and disposals completed during the year.



### Sector financial performance

Reported revenues increased 9% to £263.7m (2020: £242.1m), reflecting underlying growth of 7%, a good performance given the Sector's resilience in FY 2020. Acquisitions contributed 7% to revenue while foreign exchange translation was a 5% headwind.

Adjusted operating profit was 15% higher at £46.5m (2020: £40.5m). The Sector's adjusted operating margin rose 90bps year-on-year to 17.6% (2020: 16.7%), with positive operational leverage on higher volumes partially offset by dual operating costs for Louisville which will not recur.

**North American Aftermarket** continued to gain momentum in H2, translating into underlying revenue growth of 6% for the full year, a strong result building on an extremely resilient flat underlying revenue performance in FY 2020. The business has benefited from robust construction activity, particularly homebuilding and roads, as well as good growth from rental customers and smaller distributors that buy from Hercules in order to benefit from shorter lead times and no minimum order quantities. International revenues saw double-digit growth, including a sharp recovery in demand in Canada.

The transition to our new facility in Louisville was successfully completed. Customer migrations were staged throughout the year and carefully managed, particularly in the context of a hot labour market and supply chain pressures. The facility's better location, combined with targeted investment in sales resource, is already delivering market share benefits with good growth in western states, such as California, towards the end of the year.

Underlying revenue growth at **US Industrial OEM** was 16%, reflecting significantly higher demand from key accounts. Growth has been strongest in Consumer Products and Medical but other end markets, including Fluid Handling, Energy and Automotive, also performed well, whilst Aerospace remains weaker. The business has benefited from last year's investment in rebuilding the management team, which is focused firmly on driving market share growth.

Our later cycle **MRO** business experienced an underlying revenue decline of 12% in the year. The business has been on an improving trajectory, with Industrial markets returning to growth H1, followed by an uptick in key Transportation end markets during the second half of the year. As a proactive, sales-led solutions provider, the easing of lockdowns has been positive for VSP, enabling sales teams to get back out onto customer sites. Organic revenue initiatives have also gained good traction, with new products expanding our addressable market. The business ended the year well and is positioned for growth in FY 2022.

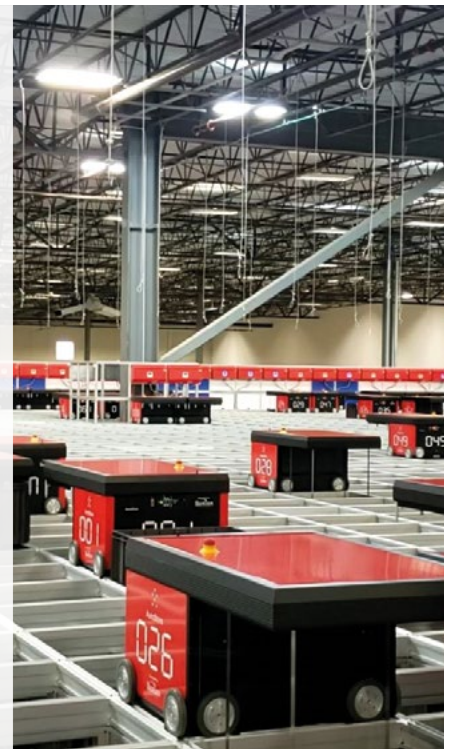
Underlying revenue growth at **International Seals** was 9%, with our businesses benefiting from market share gains and growth in key target segments, including Energy. In the UK, the focus on customer service throughout the pandemic meant that both UK businesses

## Louisville: driving market share growth

Our state-of-the-art distribution facility in Louisville, Kentucky officially opened in September 2020 and after a period of dual running, the transition was successfully completed in 2021.

With 70 AutoStore robots, this 120,000 square foot facility is fully automated and climate controlled. It is also significantly larger than our Florida facility and more energy efficient. Conveniently located near the UPS WorldPort, Louisville offers significantly enhanced cut-off times, increasing the percentage of the US for which next-day delivery is possible.

This \$10m investment is already creating benefits for customers and colleagues, and has created a material growth opportunity for our North American Aftermarket business.



were well positioned to capitalise when demand returned towards the end of the first half; the UK businesses have also benefited from last year's reorganisation into OEM and Aftermarket clusters, allowing a targeted go-to-market approach.

In Continental Europe, Kubo had another good year with growth in Industrial more than offsetting lower Medical revenues. Our Scandinavian business, M Seals, enjoyed very good growth, including in Renewable Energy. Success with multinationals supplying the wind turbine industry in Scandinavia is now translating into global opportunities; M Seals' high-quality, value-added proposition also means the business has been a beneficiary of supply chain consolidation by key customers. In Australia, our pump and accessory businesses performed particularly well in the Mining, Energy and Construction markets.

### Strategic progress

During 2021, we continued to invest in initiatives to position the Sector for sustainable growth:

- Louisville: a major market share growth opportunity.
- Webstore investments at VSP and US Industrial OEM, leveraging the North American Aftermarket business's market-leading webstore capability.
- Acquisition of Power Dynamics International ("PDI") allows VSP to expand into new geographies and customers.
- The acquisition of FITT strengthened our platform for growth in Australia, diversifying revenues and giving access to new and resilient end markets in Water, Waste Water, Marine and Infrastructure, while allowing for scale in both our Eastern and Western Australian operations.

- Across the Sector, our businesses have continued to invest in talent, automation solutions and facilities.
- Disciplined portfolio management: disposal of Kentek (completed post-year end).

## Significant growth runway

- Structural tailwinds: US and European infrastructure and renewables investment.
- Louisville to accelerate market share gains in NA Aftermarket.
- Product development and end segment diversification in the US.
- Develop US OEM/MRO scale through acquisitions in key industrial regions.
- Portfolio: build scale in the best markets in Europe and Australia.
- Further progress in the European Aftermarket, both organically and via acquisition.

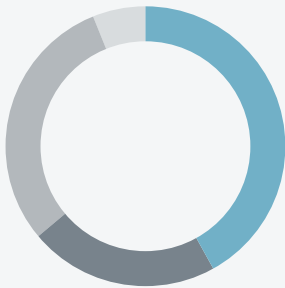
## SECTOR REVIEW

## Life Sciences



The Life Sciences Sector businesses supply a range of medical devices, consumables, instrumentation and related services to Healthcare and Environmental end markets.

## Our businesses

Principal segments<sup>1</sup>

Our Diploma Healthcare Group ("DHG") businesses account for 94%<sup>1</sup> of Life Sciences' revenues. They operate in Canada, Australia, the UK & Ireland and Scandinavia, with a number of leading market suppliers shared across our businesses.

- **DHG Canada: 42%**

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

- **DHG Australasia: 22%**

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

- **DHG Europe: 30%**

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

- **Environmental: 6%**

The Environmental segment consists of a1-envirosciences, which supplies specialist containment solutions and analysers for chemical, petrochemical, environmental research and pharmaceutical technology to customers in Europe.

	FY 2021	FY 2020*	
Revenue	<b>£180.4m</b>	£139.7m	+29%
Underlying revenue growth	<b>+14%</b>	(4)%	
Adjusted operating profit	<b>£43.2m</b>	£30.4m	+42%
Adjusted operating margin	<b>23.9%</b>	21.8%	+210bps

\* Re-presented to show central corporate costs separately and in line with current year presentation.

## FY 2021 highlights

- Strong underlying growth of 14%.
- Build-out of European footprint provides diversification and growth opportunities.
- Very positive performance from Scandinavian acquisitions.
- Disciplined portfolio management: Q4 disposal of a1-CBISS.

## Delivering Value Responsibly

Abacus dx is the distributor of ground-breaking technology to diagnose sepsis, which kills over 8,500 people in Australia every year.

The technology is a cartridge-based system that requires a single blood draw, and can be operated with minimal expertise. The causative agent of sepsis can be identified within just hours, as compared to days with traditional blood culture methods.



<sup>1</sup> Pro forma revenues adjusted for acquisitions and disposals completed during the year.

### Sector financial performance

In FY 2021, reported revenues increased 29% to £180.4m (2020: £139.7m), reflecting underlying revenue growth of 14%, an acquisition contribution of 14% and a 1% benefit from foreign exchange movements.

Adjusted operating profit was 42% higher at £43.2m (2020: £30.4m). The adjusted operating margin increased 210bps to 23.9% (2020: 21.8%) as a result of operating leverage on higher volumes, the positive impact of acquisitions and the benefit of pandemic-related travel cost savings.

### Diploma Healthcare Group

Reported revenues for our Healthcare businesses increased 34% year-on-year to £159.3m (2020: £118.5m), over half of which related to acquisitions, primarily Simonsen & Weel and Kungshusen. Full year underlying growth in Healthcare was 15%, with positive first half trading continuing into H2.

The easing of lockdown restrictions in most locations has been a positive, enabling sales teams to regain access to hospitals, laboratories and customers. Our surgical businesses, which were impacted by pandemic-related postponements of elective surgeries, have begun to experience a recovery, albeit still held back somewhat by capacity constraints in Canada and ongoing lockdowns in Australia. The backlog of surgeries will take time to unwind given the pressure on healthcare systems, underpinning mid-term growth for our businesses.

A number of our diagnostics businesses benefited from Covid-related testing, which has continued into FY 2021 alongside recovery in standard primary care testing areas such as allergy and diabetes. Across Healthcare, product pipeline development remains a key area of focus, with good progress in further diversifying our portfolio and bringing new suppliers into our pipeline.

At **DHG Canada**, underlying revenue growth was 15%, driven by a good recovery in non-Covid testing, while our surgical businesses benefited from improved access to hospitals.

**DHG Australasia** delivered underlying revenue growth of 7%, a good performance given a strong FY 2020 driven by Covid-related sales. Our Australian surgical business continued to make good progress with diversifying its supplier base and growing its product portfolio.

Underlying revenue growth in **DHG Europe** was very strong at +26%. Simonsen & Weel had a positive first year as part of the Group, helped by ca. £9.4m of ventilator sales, which are not expected to recur. Technopath Distribution, our Irish diagnostics business, successfully captured the growth in Covid-related testing, translating into high levels of capital and consumable sales throughout the year.

## Acquisitions to accelerate underlying growth

The 2021 acquisitions of Simonsen & Weel in Denmark and Kungshusen in Sweden have added significant scale to our European footprint. Both markets are well-suited to value-add distribution with well-funded healthcare systems which value technology.

Simonsen & Weel is a respected, 200+ year old distributor of medical devices, operating room equipment, patient monitoring equipment and medically supervised nutrition and compression products in the Danish market. Kungshusen is a high-quality medical device distributor whose portfolio includes a number of best-in-class products from globally recognised brands in the gastroenterology and specialty surgical segments across Sweden.



Both businesses are an excellent fit with Diploma in terms of geography, portfolio, operating model and culture. There is significant scope for growth both in existing product segments and through portfolio diversification. As part of Diploma, Simonsen & Weel and Kungshusen will be able to leverage the wider Life Sciences Sector's expertise, resources and global supply chain to support the achievement of their ambitions.

### Environmental

Reported revenues were flat year-on-year with an underlying revenue increase of 5%. In early September we completed the disposal of a1-CBISS, our UK business supplying gas detection equipment and continuous emissions monitoring systems.

### Strategic progress

During FY 2021 the Sector continued with its focus on product pipeline development and diversification:

- Product pipeline and diversification: continued intense focus and success in bringing new products into the pipeline and further diversifying the supply chain.
- Northern Europe: the acquisitions of Simonsen & Weel and Kungshusen bring important geographic and product diversification.
- Investing for scale: integration of operations functions into one centralised facility to generate efficiencies and create a more scalable Australian platform.
- Technology: ERP roll-out in Canada to bring AMT and Vantage onto the same platform.
- Leveraging digital: investment in camera studios and development of a virtual training offering.
- Disciplined portfolio management: disposal of a1-CBISS.

## Significant growth runway

- Structural growth drivers: ageing populations and expectations for longer, healthier lifestyles driving increased healthcare spending and demand for new technologies.
- Increasing post-pandemic investment in diagnostics.
- Unwinding of elective surgery backlogs over the mid-term.
- Product pipeline development in surgical and diagnostics underpins growth.
- Product life cycle management to build resilience and scale.
- Develop new healthcare segments.
- Cross-selling across existing businesses.
- Continued acquisitions, including build-out of Northern Europe, focused in Ireland and Scandinavia.

## FINANCE REVIEW

# Disciplined growth



**Our 2021 performance has demonstrated the strength of our financial model."**

**Barbara Gibbes**  
Chief Financial  
Officer



Diploma has delivered a strong set of FY 2021 financial results, exceeding all of our financial targets and demonstrating the strength of our financial model. In addition to double-digit growth in revenue, operating profit and earnings per share ("EPS"), we have remained financially disciplined – return on adjusted trading capital employed ("ROATCE") of 17.4% is ahead of our expectations, and free cash flow conversion was 103%, enabling us to deleverage more quickly than expected following the acquisition of Windy City Wire ("WCW"). Net debt/EBITDA ended the year at 1.1x despite a busy second half during which we welcomed five new businesses to the Group.

These results are the product of a great deal of hard work both on organic growth initiatives and an intense focus on managing supply chain challenges to ensure availability of product and excellent customer service. Our colleagues have worked hard to mitigate inflationary pressures and where this has not been possible, price increases have been applied.

Another area of focus this year has been the evolution of our non-financial key performance indicators ("KPIs") as we have intensified our environmental, social and governance ("ESG") activity. Finance has an important role to play, not least in ensuring that the right metrics are embedded in our reporting processes and performance frameworks. I am confident that the foundations we have put in place over the last 12 months will stand us in good stead as we seek to deliver continuous improvement across the Group.

In summary, I am delighted with the performance and progress we have made in FY 2021, outperforming all of our key financial targets. Our strong balance sheet gives us flexibility to continue to invest in growth and we enter FY 2022 well positioned to continue to deliver on our financial model.

## Financial highlights

		Reported results			Adjusted results		
		FY 2021	FY 2020	% change	FY 2021	FY 2020	% change
Revenue	£m	<b>787.4</b>	538.4	+46			
Operating profit	£m	<b>104.3</b>	69.8	+49	<b>148.7</b>	87.1	+71
Free cash flow conversion	%				<b>103</b>	113	
Earnings per share	pence	<b>56.1</b>	43.5	+29	<b>85.2</b>	56.4	+51
Total dividend per share	pence	<b>42.6</b>	30.0	+42			

- Underlying revenue growth of 12% year-on-year, +7% compared with FY 2019.
- Very positive acquisition contribution, WCW outperformance.
- Adjusted operating margin +270bps to 18.9% due to accretion from acquisitions, positive operating leverage, Covid-related cost savings and sustainable benefits of FY 2020 restructuring.
- Free cash flow conversion of 103%, above target of ca. 90%.
- 51% growth in adjusted EPS.

### Strong underlying growth in all three Sectors

Reported revenues increased by 46% to £787.4m (2020: £538.4m) and adjusted operating profit increased by 71% to £148.7m (2020: £87.1m). The results reflect a 38% contribution from acquisitions, and underlying growth of 12%, partly offset by a currency headwind of 4%. The Group also disposed of a1-CBISS during the final quarter of the year for £12m. a1-CBISS contributed ca. £9m to the Group's revenues in FY 2021.

Underlying revenues refer to reported results on a constant currency basis, before acquired or disposed businesses (ex-growth basis) and includes growth generated by acquisitions under our ownership. Underlying revenues increased by 12%. Underlying revenue was also 7% above FY

2019 (+2% in H1 and +11% in H2), reflecting the success of organic growth initiatives in addition to a recovery in demand across all Sectors and a positive contribution from acquisitions. Further detail of Sector revenue performance can be found in the Sector Reviews on pages 18-23.

Covid-19 has had a disruptive effect on the shape of our growth in 2021. Having delivered a resilient H1, with underlying revenues 2% higher year-on-year over what was essentially a pre-Covid comparative, the Group's underlying revenue growth in H2 was sharply higher at 23%. This reflects not only recovering demand and the impact of our growth initiatives, but also Covid-affected comparators. We also saw some element of pent-up demand as customers stocked up in the face of supply chain issues, particularly through our third quarter. We believe we are now largely through this period of distortion, and expect a return to mid-single-digit underlying revenue growth in line with our financial model for the year ahead.

### Underlying revenue growth

**12%**

### Reported revenue growth

**46%**

### Adjusted operating margin

**18.9%**

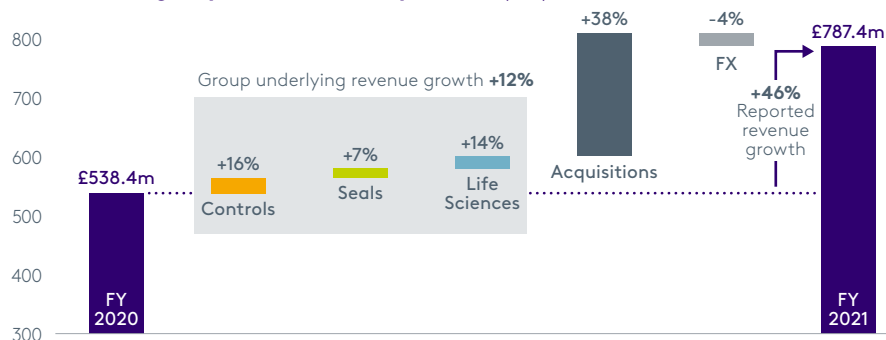
### Free cash flow conversion

**103%**

### Net debt/EBITDA

**1.1x**

### Revenue bridge – year ended 30 September (£m)



## FINANCE REVIEW CONTINUED

**Sustaining high margins**

The Group's adjusted operating margin increased by 270bps to 18.9% (2020: 16.2%), with all Sectors showing good progression.

	Adjusted operating profit			Adjusted operating margin		
	2021 £m	2020 <sup>1</sup> £m	Change %	2021 %	2020 <sup>1</sup> %	Change bps
Controls	72.4	25.5	+184	21.1	16.3	+480
Seals	46.5	40.5	+15	17.6	16.7	+90
Life Sciences	43.2	30.4	+42	23.9	21.8	+210
Central costs	(13.4)	(9.3)	+44			
Group	148.7	87.1	+71	18.9	16.2	+270

1 Re-presented to show central corporate costs separately and in line with current year presentation.

The margin improvement reflects the positive leverage impact from the increased revenues as well as the benefits from the restructuring concluded last year, accretion from our acquisitions, and Covid-related expense savings primarily in travel and marketing as restrictions remained in place for the majority of the year. During the second half in particular, we experienced some cost inflation. Where it was not possible to mitigate this through other actions, price increases were implemented. We also continued to invest in growth. Corporate costs are shown separately and have increased to £13.4m (2020: £9.3m) principally due to investment in headcount, and a provisions increase.

**Increased financing cost**

The interest expense this year increased to £6.8m (2020: £2.7m), including £4.6m on increased borrowings to finance acquisitions, fees in connection with the new facility which are amortised over the term of the loan, and £1.8m relating to the IFRS 16 interest charge.

**Profit before tax**

Adjusted profit before tax increased by 68% to £141.9m (2020: £84.4m). Statutory profit before tax was £96.6m (2020: £66.7m) and is stated after charging acquisition related costs of £44.4m (2020: £17.3m), principally comprising the amortisation of acquisition related intangible assets of £33.1m (2020: £15.4m) and £9.7m of acquisition related costs (2020: £1.9m), primarily in respect of the ten acquisitions completed during the year.

**Higher effective tax rate**

The Group's effective tax charge on adjusted profit has increased to 25.4% (2020: 24.0%) mainly due to an increased mix of profits from higher tax jurisdictions. The Group's cash tax rate of 17% (2020: 25%) remains below the adjusted effective tax rate primarily due to the impact of acquisition related deductible goodwill.

The Group's approach to tax is to comply with tax laws in the countries in which it operates and we aim to pay our fair share of tax. Tax legislation is not always prescriptive and the impact of a transaction or item can give rise to more than one interpretation of the law. The Group assesses all such exposures and, where it is considered probable that further tax payments will be payable, an uncertain tax provision is recognised. The

provision is based on a single best estimate of the most likely outcome on a case-by-case basis. The Group's tax strategy and policy was approved by the Board and tax risks are regularly reviewed by the Audit Committee.

**51% growth in adjusted EPS, total dividend +42%**

Adjusted EPS increased by 51% to 85.2p (2020: 56.4p); statutory EPS rose 29% to 56.1p (2020: 43.5p). The growth in EPS reflects the impact of the change in capital structure in connection with the acquisition of WCW with the dilution from the increased number of shares in issue (10% share placing in September 2020). The higher interest resulting from increased leverage and higher tax charge has also affected EPS growth.

For FY 2021, the Board has recommended a final dividend of 30.1p per share, making the proposed full year dividend 42.6p (2020: 30.0p). This represents a 42% increase in the total dividend with dividend cover at 2.0x adjusted EPS, continuing the Group's progressive dividend track record.

The Board has a progressive dividend policy that aims to increase the dividend each year broadly in line with the growth in adjusted EPS. In determining the dividend in any one year, the Board also considers a number of factors which include the strength of the free cash flow generated by the Group, the future cash commitments and investment needed to sustain the Group's long-term growth strategy and the target level of dividend cover. The Board continues to target ca. 2x dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year), which provides a prudent buffer. The ability of the Board to maintain future dividend policy will be influenced by the principal risks identified on pages 29-33 that could adversely impact the performance of the Group.

**Free cash flow conversion >100%**

Free cash flow represents cash available to invest in growth through value-enhancing acquisitions or to return to shareholders. Free cash flow conversion for the year was 103% (2020: 113%), well ahead of our targeted 90%+, demonstrating the highly cash-generative qualities of the business model despite the increasing revenue profile and targeted investment in inventory. Free cash flow benefited from fixed asset disposal proceeds of £4.8m (2020: £5.8m).

The working capital outflow of £12.6m (2020: £9.5m inflow) is driven by the targeted investment in inventory and higher receivables, reflecting the impact of the improved trading activity as all Sectors returned to positive growth. The investment in inventory was largely offset by a corresponding increase in trade creditors from those inventory purchases and these creditors will unwind in H1 2022. The Group's working capital to revenue at 30 September 2021 improved to 15.8% (2020: 16.0%).

Group tax payments increased by £2.7m to £24.2m (2020: £21.5m). On an underlying basis, cash tax payments decreased to ca. 17% (2020: ca. 25%) of adjusted profit before tax. The cash tax rate benefited from the acquisition of WCW and specifically its related goodwill, which is deductible for US tax purposes. The US and UK cash tax rates also benefited from enhanced deductions on capital spend. The prior year also included two additional quarterly UK tax payments following a change in legislation.

The Group's capital expenditure was lower this year at £6.2m (2020: £9.4m) largely consisting of ongoing investment in both new field equipment in the Healthcare businesses (£2.0m) and investment in technology across the Group to improve or replace legacy IT systems (£1.4m). The prior year also included investment in the new distribution centre in Louisville (£3.1m).

The Group spent £462.2m (2020: £14.9m) of free cash flow on acquisitions as described overleaf and £53.2m (2020: £23.4m) on paying dividends to both Company and minority shareholders. The current year included the FY 2020 full year dividend (30.0p) which included the catch-up from a deferral at the FY 2020 half year.

### Strategic progress through acquisitions

Acquisition spend of £455.6m, which includes fees, mainly comprises the spend for WCW (£347.7m), which was acquired in October 2020, as well as an additional nine smaller businesses. There was also deferred consideration of £6.6m, primarily related to VSP Technologies. We remain highly disciplined in our approach to acquisitions. As outlined elsewhere, WCW has outperformed our acquisition assumptions on growth and returns since joining the Group. All of these businesses are great examples of high-quality, value-add acquisitions offering our Sectors opportunities to accelerate their organic growth and create value.

Goodwill at 30 September 2021 was £260.7m (2020: £159.0m). Goodwill is not amortised but is assessed each year to determine whether there has been any impairment in the carrying value. The exercise to assess whether goodwill has been impaired is described in note 10 to the consolidated financial statements. It was confirmed that there was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

### Disciplined portfolio management

The Group disposed of a1-CBISS during the final quarter of the year for £12m. a1-CBISS generated £9m of revenues in the year. The proceeds are not included in free cash flow and the profit on disposal of £5.8m is not included in adjusted operating profit. On 16 November 2021, the Group completed the disposal of its 90% interest in Kentek for £10m. As at 30 September 2021, the net assets of Kentek have been classified as held for sale, and written down to their fair value which resulted in a £7.3m charge within acquisition related charges.

### Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2021 increased by £12.2m to £23.7m (2020: £11.5m) and comprises both put options to purchase outstanding minority shareholdings and deferred consideration payable to vendors of businesses acquired during the current and prior year.

The liability to acquire minority shareholdings outstanding at 30 September 2021 relates to a 10% interest held in both M Seals and Kentek and a 5% interest in Techsil. These options are valued at £5.2m (2020: £4.2m), based on the Directors' latest estimate of the earnings before interest and tax ("EBIT") of these businesses when these options crystallise.

The liability for deferred consideration payable at 30 September 2021 was £18.5m (2020: £7.3m). This liability represents the Directors' best estimate of any outstanding amounts likely to be paid to the vendors of businesses, based on the expected performance of these businesses during the measurement period.

### ROATCE: WCW outperforming our acquisition case

ROATCE is a key metric used to measure our success in creating value for shareholders. The outperformance of WCW in FY 2021 translated into a lower than expected initial reduction in the Group's ROATCE as a result of this acquisition and others in the year. As at 30 September 2021, the Group's ROATCE was 17.4% (2020: 19.1%) and, subject to future acquisition activity, we expect ROATCE to increase.

ROATCE acts as an important check and balance for the Group and is a fully loaded metric including all acquisition related expenditure and investment; it is a pre-tax measure that is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill, including goodwill previously written off against retained earnings as well as the add back of all acquisition related costs. Adjusted trading capital employed is defined in note 2 to the consolidated financial statements.



**Very strong free cash generation has allowed the Group to deleverage more quickly than expected."**

### Faster than expected deleveraging, strong balance sheet to support growth

Very strong free cash generation has allowed the Group to deleverage more quickly than expected. At 30 September 2021, the Group's net bank debt stood at £181.4m, representing 1.1x EBITDA (as defined by the bank facility covenant). Excluding the acquisitions completed in the second half of the year, the Group's net debt ratio would have fallen to 0.8x EBITDA, ahead of half year guidance of just under 1.0x EBITDA. The Group continues to maintain a robust balance sheet with net bank debt comprised of borrowings of £206.2m, less cash funds of £24.8m.

On 13 October 2020, the Group entered into a debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The SFA is due to expire in December 2023 and there is an option to extend for a further two 12-month periods. The facility also has an accordion option to increase the committed facility by a further £50.0m to £185.0m which was exercised in the second half of the year to support the acquisition activity in the final quarter of the year.

### Employee pension obligations

Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in FY 2021 of £5.5m (2020: £4.3m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. The Group is currently funding this deficit with cash contributions of £0.5m (2020: £0.5m) which increases annually on 1 October by 2%. In addition, a one-off contribution of £5.1m was paid into the scheme in October 2020 to address an increase in scheme liabilities as a result of falling bond yields subsequent to the agreement of the ten-year deficit repayment plan. This additional contribution was made to address the shortfall and leave the repayment plan on track to eliminate the deficit over the original ten-year timeline.

In Switzerland, local law requires our business Kubo to provide a contribution-based pension for all employees, which is funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies, which pools the funding risk between participating companies. In Switzerland, Kubo's annual cash contribution to the pension scheme was £0.5m (2020: £0.4m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (revised). At 30 September 2021, the aggregate accounting pension deficit in these two schemes decreased by £13.4m to £4.9m, reflecting better returns on assets and the one-off pension payment. The next formal triennial funding valuation is due for the year ending 30 September 2022. Further information on these schemes is included in note 25 to the consolidated financial statements.

## INTERNAL CONTROL AND RISK MANAGEMENT

Diploma's businesses are affected by a number of risks and uncertainties. These may be impacted by internal and external factors, some of which we cannot control. Our risk management framework supports informed risk taking by our businesses, setting out those risks that we are prepared to be exposed to and the risks that we want to avoid, together with processes and internal controls necessary to ensure the Board can evaluate that exposures remain within our overall risk appetite.

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Group's ongoing growth and strategic objectives. A robust, but adaptable, approach to the management of risk is fundamental to the continued success of the Group. By improving our understanding and management of risk, we provide greater assurance to our shareholders, employees, customers, suppliers and the communities in which we operate.

### Our approach

Risk management and maintenance of appropriate systems of control to manage risk are the responsibility of the Board and are integral to the ability of the Group to deliver on its strategy. We have significantly improved our risk management processes in 2021, implementing a formal risk management framework, to ensure risk management activities at the business, Sector and Group level are aligned, as well as allow for efficient management and governance procedures. This includes several initiatives to evolve risk reporting and further embed the necessary capabilities to assess and monitor those risks that we believe offer sustainable value within each of our businesses.

We also updated our risk management framework to include procedures for the identification, assessment and monitoring of emerging risks, as required by the 2018 UK Corporate Governance Code.

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

### Identifying and monitoring material risks

Material risks are identified through a detailed analysis of individual processes and procedures of our businesses and a consideration of the strategy and operating environment of the Group.

The determination of the Board's risk appetite is a necessary first step in determining the nature and extent of the significant risks the Board is prepared to take in achieving its strategic objectives.

The Group adopts a holistic approach to risk management activities, first building a matrix of the principal risks at business level, then consolidating those principal risks alongside Group risks into a Group view. Whilst some risks are appropriately managed at the Group level, all of our businesses are responsible for identifying, assessing and managing the particular risks of their business with appropriate assistance, review and challenge from 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.

The Group uses a quantitative method to determine a risk score for each risk, which is based on both the likelihood of each identified risk occurring and the consequence of an adverse outcome and its impact on the business.

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 senior management and are reported to the Board on a timely basis. The Board evaluates the principal risks of the Group with reference to the Group's strategy and operating environment.

### Emerging risk

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

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

The following emerging risks have been identified and will be reviewed on a regular basis.

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






### Our principal risks and uncertainties

Set out in this section of the Strategic Report are the principal risks and uncertainties affecting the Group that have been determined by the Board, based on the robust risk evaluation process described on the previous page, to potentially have the greatest impact on the Group's future viability. The risks are each classified as either strategic, operational, financial or accounting.

These risks are similar to those reported last year, although with some movement on the relative ranking of these risks. Three new principal risks have been identified from the review process carried out by the Board this year: geopolitical disruptions (strategic risk), supply chain disruptions (operational risk) and tax (financial risk). Further information on these can be found below. The Group's decentralised operations with different Sectors and geographical spread helps mitigate the impact of these principal risks.

Risk description and assessment	Mitigation	Change
<b>Strategic risk</b> <b>Downturn/instability in major markets</b>		
<p>Adverse changes in the major markets in which the businesses operate can result in slowing revenue growth, due to reduced or delayed demand for products and services, or margin pressures due to increased competition.</p> <p>A number of characteristics of the Group's businesses moderate the impact of economic and business cycles:</p> <ul style="list-style-type: none"> <li>• The Group's businesses operate in three different Sectors with different cyclical characteristics and across a number of geographic markets.</li> <li>• The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs.</li> <li>• 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.</li> <li>• In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer.</li> </ul>	<p>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.</p> <p>Significant global events are closely monitored to determine any potential impact on key markets.</p> <p>The diversified nature of the business model in terms of geographies, customers and end segments provided resilience against the impact of Covid-19.</p>	<p>Covid-19 has changed the macro environment in which our businesses operate. This risk has, however, marginally reduced from last year as the economic outlook becomes more positive with easing of restrictions across most countries we operate in.</p> <p>Our response was timely and effective, benefiting from a decentralised business model with a strong entrepreneurial culture.</p>
<b>Strategic risk</b> <b>Supplier concentration/loss of key suppliers</b>		
<p>For manufacturer-branded products, there are risks of cancellation of existing distribution agreements and vertical integration of suppliers, therefore losing access to key distribution channels. There is also the risk of a supplier taking away exclusivity.</p> <p>Currently no single supplier represents more than 6% of Group revenue and only four other suppliers represent more than 2% of Group revenue.</p> <p>Relationships with suppliers have been built up over many years and a strong degree of interdependence has been established. The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand, relying on suppliers to invest in new development and technologies.</p>	<p>Long-term, multi-year exclusive contracts signed with suppliers with change of control clauses, where applicable, for protection or compensation in the event of acquisition.</p> <p>Management continues to pursue diversification strategies and regularly seeks alternative sourcing.</p> <p>Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings.</p> <p>Meeting with key customers regularly to gain insight into their product requirements and market developments.</p>	<p>This risk has remained at a similar level to last year and it is addressed continuously in our risk management process.</p>



## INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

Risk description and assessment	Mitigation	Change
<p><b>Strategic risk</b> Customer concentration/loss of key customer(s)</p> <p>The loss of one or more major customers can be a material risk. The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer. Only one customer represents more than 3.5% of Sector revenue and no single customer represents more than 1.5% of Group revenue.</p>	<p>Specific large customers are important to individual operating businesses and a high level of effort is invested in ensuring that these customers are retained and encouraged not to switch to another supplier.</p> <p>In addition to providing high levels of customer service and value-added activities, close integration is established, where possible, with customers' systems and processes.</p>	<p style="text-align: center;"></p> <p>This risk has remained at a similar level to last year and it is addressed continuously in our risk management process.</p>
<p><b>Strategic risk</b> Unsuccessful acquisition</p> <p>Diploma has a strong history of disciplined acquisitions. The business model of the Group is based on successful acquisitions in large and developed markets and in our products.</p> <p>The following are the key risks of an acquisition process:</p> <ul style="list-style-type: none"> <li>• The Group may overpay for a target.</li> <li>• The acquired business may experience limited growth post acquisition.</li> <li>• Loss of key customers or suppliers post integration.</li> <li>• Potential lack of cultural fit as businesses that are relatively small in size are faced with the new requirements of a listed Group.</li> </ul> <p>The above may be the result of inadequate due diligence, poor integration or unrealistic assumptions used in the investment case.</p>	<p>A clearly defined acquisition strategy is in place, with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group.</p> <p>An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the Chief Executive Officer ("CEO").</p> <p>A formal due diligence process is followed for every acquisition, with close supervision by the CEO and relevant Group senior management. A formal governance process is in place up to Board level.</p> <p>A disciplined post-acquisition integration process covers operational, financial, governance, legal and reporting matters.</p>	<p style="text-align: center;"></p> <p>The acquisition pipeline remains healthy and the Group retains its disciplined approach to bringing high-quality, value-enhancing businesses into the Group.</p> <p>This risk has increased with the Group having completed the highest annual level of acquisition spend in FY 2021.</p>
<p><b>Strategic risk</b> Geopolitical disruptions</p> <p>Diploma operates in established economies with stable political and legal systems.</p> <p>Geopolitical events that could disrupt the Group's operations are mainly related to:</p> <ul style="list-style-type: none"> <li>• Interruption of trade agreements.</li> <li>• Tariffs.</li> <li>• Change of trade relationships amongst countries in which we operate (e.g. Brexit).</li> <li>• Government budget spending.</li> <li>• Political elections.</li> </ul>	<p>We continue to diversify our supply base and product development to mitigate exposure to any single market or region.</p> <p>Whenever possible, we capitalise on Group synergies and leverage inter-company trading.</p>	<p style="text-align: center;"></p> <p>This risk has increased as government budget spending continues to affect main markets in North America, namely Infrastructure in the US and Healthcare in Canada. Additionally, the tariffs imposed under the previous US administration, and previously thought to be temporary, are likely to remain in place.</p>

Risk description and assessment	Mitigation	Change
<b>Operational risk</b> <b>Health &amp; Safety</b>		
<p>The Covid-19 pandemic has placed a much greater focus on Health &amp; Safety and preventive measures to limit the spread of Covid-19. An increased number of measures are required by businesses across the world to ensure a safe work environment.</p> <p>As Health &amp; Safety regulation related to Covid-19 is subject to rapid change, there is a risk of non-compliance with the latest government guidelines.</p> <p>Local government measures on lockdowns as a response to Covid-19 could result in business interruption, where employees cannot fully perform their duties for a limited time period.</p> <p>Additionally, there is a risk of potential working time loss as a result of a potential increase in sick days or prevention measures employees may have to undergo.</p>	<p>The Group has undertaken a risk assessment in each of its businesses in line with government guidelines on working safely during Covid-19.</p> <p>Further Health &amp; Safety measures have been added across all businesses, including social distancing and PPE equipment.</p> <p>The businesses' response to the implications of Covid-19 has been timely and agile, with remote working practices being effectively utilised when needed.</p> <p>Additionally, management continues to promote mental health and wellbeing awareness, offering support to colleagues, and access to an employee assistance programme.</p>	<p>There continues to be a significant increase in Health &amp; Safety risk as a result of the Covid-19 pandemic.</p> <p>Business disruptions continue to be minimal across the Group, and all the businesses remained open and operational during FY 2021.</p>
<b>Operational risk</b> <b>Cybersecurity/information technology/business interruption</b>		
<p>Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses.</p> <p>Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable.</p> <p>Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber-attack may also lead to disruption, including fraud.</p>	<p>The decentralised nature of the Group, including stand-alone IT systems for each business limits the potential impact to any individual business. There is good support and back-up built into local IT systems.</p> <p>All businesses in the Group have a robust cybersecurity programme and we regularly engage with cybersecurity experts to continuously improve and strengthen our IT systems.</p> <p>A formalised ERP approval and implementation process ensures businesses have the most suitable IT systems to effectively manage their business.</p> <p>Business continuity plans exist for each business with ongoing testing.</p>	<p>The risk of cyber-attacks remains high in 2021.</p> <p>The businesses have maintained a high standard of cybersecurity whilst accommodating remote working practices in territories where strict lockdowns were in place as a response to the Covid-19 pandemic.</p> <p>At 30 September 2021, all existing businesses had achieved or renewed the UK Government-endorsed Cyber Essentials accreditation. It is expected that recently acquired businesses will be fully accredited in FY 2022.</p>
<b>Operational risk</b> <b>Loss of key personnel</b>		
<p>The success of the Group is built upon strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have an impact on performance for a limited time period.</p> <p>The average length of service of the ca. 120 senior managers in the Group is nine years and for all personnel in the Group is consistently ca. seven years.</p>	<p>Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term.</p> <p>The Group places very high importance on planning development, motivation and reward for key managers:</p> <ul style="list-style-type: none"> <li>• Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses.</li> <li>• Implementing a structured talent review process for the development, retention and succession of key personnel.</li> <li>• Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans.</li> <li>• Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.</li> </ul>	<p>This risk has increased in the year, mainly due to current market labour conditions with the tightening of labour markets, particularly in North America, affecting candidate availability and retention, and putting upwards pressure on wage levels.</p>

## INTERNAL CONTROL AND RISK MANAGEMENT CONTINUED

Risk description and assessment	Mitigation	Change
<p><b>Operational risk</b> Product liability</p> <p>There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability.</p> <p>The Group business may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason.</p> <p>In situations where a Group business is selling own-branded products and cannot subrogate the liability to a supplier, the business will be liable for failure of the product.</p> <p>The Group has liability insurance in place providing appropriate cover for each business.</p>	<p>Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake product risk assessments and comprehensive supplier quality assurance assessments.</p> <p>The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers to limit any liabilities.</p>	<p>↔</p> <p>This risk has remained at a similar level to last year.</p>
<p><b>Operational risk</b> Supply chain disruptions</p> <p>The ability to service our customers in a timely manner is a key component of our value-added proposition.</p> <p>There is a risk that manufacturing lead times increase as a result of supply chain shortages. We have experienced this, particularly in our supplier sources based in Asia, in the current year.</p> <p>There is also a risk that freight costs negatively affect margins as a result of container shortages and capacity restrictions at key ports that drive prices upwards.</p>	<p>Businesses evaluate dual sourcing opportunities, where applicable.</p> <p>We maintain strong communication levels with suppliers and keep customers updated in the event of change to retain key business.</p> <p>We implemented stronger inventory management processes and effective procurement practices to mitigate the impact of supplier disruptions.</p> <p>We continuously undertake risk mapping of our key suppliers to identify gaps and build redundancy plans to ensure continuity.</p>	<p>↗</p> <p>This risk has increased from last year with disrupted supply chains domestically and in Asia, leading to materials and components shortages, causing operational interruptions both at suppliers and customers. Inflationary pressures and elevated freight costs remain.</p>
<p><b>Financial risk</b> Foreign currency</p> <p>The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, due to operating businesses' revenues or product costs being denominated in a currency other than their local currency.</p> <p>Translational foreign exchange risk arises primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro.</p> <p>A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit by approximately £13.8m (9%), due to currency translation. Similarly, a strengthening of UK sterling by 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £22.6m (4%).</p> <p>Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.</p>	<p>The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets.</p> <p>The Group's businesses may hedge up to 80% of forecast (for a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts.</p> <p>Rolling monthly forecasts of currency exposures are reviewed on a regular basis.</p> <p>Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 27 to the consolidated financial statements.</p>	<p>↔</p> <p>This risk has remained at a similar level to last year.</p>

Risk description and assessment	Mitigation	Change
<p><b>Financial risk</b> Tax</p> <p>The international corporate tax environment is complex with increasing compliance, and regulatory and reporting requirements for global businesses leading to a higher non-compliance risk.</p> <p>Upwards pressure on corporate tax rates could affect the Group's financial performance.</p>	<p>The Group seeks to plan and manage its tax affairs responsibly to ensure that it complies fully with relevant legal obligations and pays the correct amount of tax in the countries in which the Group operates while also endeavouring to protect value for shareholders.</p> <p>The Group does not engage in arrangements with the sole purpose of obtaining tax benefits.</p> <p>Internal tax resource oversees and advises on tax related matters with support from tax specialists as required.</p>	<p></p> <p>Increased focus by global regulators on international taxes have increased compliance risk with the introduction of new complex legislation and tax reporting obligation.</p>
<p><b>Accounting risk</b> Inventory obsolescence</p> <p>Working capital management is critical to success in specialised industrial distribution businesses as this has a major impact on cash flow. The principal risk to working capital is in inventory obsolescence and write-off.</p>	<p>Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts.</p> <p>Where necessary, a provision is made to cover both excess inventory and potential obsolescence.</p>	<p></p> <p>The charge against operating profit in respect of aged or surplus inventory in the year was £2.0m, but inventories are mostly not subject to technological obsolescence.</p> <p>Inventories were reviewed carefully, considering reduced sales volumes as a result of Covid-19, to ensure all surplus stock was appropriately identified and dealt with.</p> <p>During the year, we have invested carefully and selectively in inventory holdings in order to build resilience in a disrupted supply chain environment.</p>

## 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 2024, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting.

The assessment period of three years has been chosen as it 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 above, 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 (incorporating adverse trading impacts on the Group's customers and suppliers), operating margins and unfavourable working capital movements. 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 and also incorporates any further possible adverse trading effects arising from the Covid-19 pandemic.

The results of flexing these assumptions, in aggregate to reflect a severe but plausible scenario, are used to determine whether additional bank facilities will be required during this period. The Group has significant financial resources including banking facilities as detailed on page 103. The Group also has a broad spread of customers and suppliers across different geographic areas and independent market sectors, often secured with longer-term agreements. The Group is further supported by a robust balance sheet and strong operational cash flows.

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to September 2024. The Directors' assessment has been made with reference to the resilience of the Group as evidenced by its robust performance during the Covid-19 pandemic, its strong financial position and cash generation, the Group's current strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as described in the Strategic Report.

# Delivering Value Responsibly



## Positive Impact Revenue

Positioning ourselves for commercial growth with a positive impact on society and the environment

## Letter from the CEO, Johnny Thomson



I am struck by the levels of awareness, engagement and enthusiasm from colleagues and would like to thank them all for delivering value responsibly."



Our environmental, social and governance ("ESG") programme – Delivering Value Responsibly ("DVR") – is right at the heart of our business and our strategy. I am extremely pleased with the progress that we have made during 2021. DVR is built around five focus areas – colleague engagement, health & safety, diversity, equity & inclusion, supply chain and the environment – and Positive Impact revenue.

Embracing responsible management of our impact is not only the right thing to do, but a key part of how we execute our strategy and manage and grow our business. Our people are our success. Engaging our colleagues, keeping them safe, retaining talent and creating inclusive environments, where we all benefit from being part of a diverse team, is fundamental.

I am particularly excited about our Positive Impact revenue. Positive Impact revenue is generated from the sale of products, services and solutions that benefit our society or environment, or support the transition to a more sustainable future. A significant proportion of our revenues relate to products with Positive Impact end uses – whether safeguarding first responder communications in Controls, supporting the green energy transition in Seals, or providing life-saving solutions in Life Sciences. We see significant opportunities to grow Positive Impact revenue across all our businesses and make a real difference in driving sustainability.

Our role as a distributor and the breadth of our supply chain gives us an opportunity to have a meaningful impact. Leveraging our strong partnerships with key suppliers, we will work with them to align on environmental and social priorities. Being responsible in our approach to waste, packaging and emissions helps us to reduce our environmental footprint, improve operational efficiency and deliver value for our customers, suppliers and colleagues.

Historically, our businesses have worked hard to be sustainable and make a difference to their stakeholders – from waste reduction initiatives at Windy City Wire, more efficient facilities at Louisville, or colleague mental health initiatives across all of our businesses. Our Group-wide approach will now complement and enhance this activity with oversight from our DVR Steering Committee, which I lead. I have been hugely impressed by the way that our business leaders have aligned themselves with our five focus areas and driven progress. During business visits, I have been struck by the levels of awareness, engagement and enthusiasm from colleagues and would like to take this opportunity to thank them all for delivering value responsibly.

**Johnny Thomson**  
Chief Executive Officer

## Highlights

- DVR Steering Committee established, chaired by Johnny Thomson, CEO
- First biannual governance meeting with Executive and Sector leadership teams
- Business engagement – building understanding of, and engagement with, our five focus areas and Positive Impact revenue
- DVR key performance indicators defined and reporting framework built
- New and refreshed policies to support focus areas
- First Group Colleague Engagement Survey
- Workshops across businesses on Health & Safety and wellbeing
- AA rating from MSCI
- Priorities agreed for 2022

## DELIVERING VALUE RESPONSIBLY CONTINUED

## Overview

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

We are a decentralised group of businesses that operate across multiple geographies and communities. We employ ca. 2,500 colleagues, whose safety, engagement and wellbeing are central to how we do business, and whose career development and personal growth are vital to our success. Our colleagues typically work within their local community, and we have many local initiatives for colleagues to give back to their communities.

We work with thousands of suppliers to deliver essential products and solutions to our customers across a diverse range of end markets. These products save lives, support responsible development and drive essential services. By fulfilling our proposition of supplying essential products, solutions and values we are able to deliver value for our shareholders through strong and sustainable growth.

DVR is key to our purpose, and we are committed to delivering continuous improvement. By aligning our businesses with our five focus areas and driving growth in areas of Positive Impact, we can play a meaningful role in building a more sustainable world.

## Our values

Although our decentralised model means that each business has its own identity, as a Group we share the same core values of continuous improvement, accountability and respect. These values, which determine how we do business, also influence our approach to sustainability.

### Continuous Improvement

We continue to improve because we are customer-focused. We pursue growth by demonstrating perseverance and resilience, by taking action, being agile and responsive and by hunting out and taking advantage of the opportunities that pass others by.



### Accountability

We are experts in our fields. We pursue excellence, we are performance orientated, we crave detail, and we work to deliver the highest standards of service and performance.



### Respect

We show respect to our customers, our partners and each other in everything that we do. We foster a safe and inclusive culture that respects and values our differences. We listen to and collaborate with our customers, our partners and each other to deliver essential products, solutions, and value.



## Our approach

We have made significant progress this year in developing our ESG framework, setting KPIs and integrating these into our business reporting, reviews and management.

A successful ESG programme requires engagement and ownership at every level. Accountability for progress lies with our CEO, Johnny Thomson, who has established and chairs the DVR Steering Committee. The Board has oversight of DVR through an annual presentation and paper, as well as updates on Group ESG strategy and performance at every Board meeting. Twice-yearly DVR governance meetings with our Sector CEOs and Executive Team are highly productive and encourage ownership and mutual learning within the Senior Leadership and Executive Team.

We are on a journey and have identified some principles to help define and execute the right priorities.

- Strategic significance: it is important that DVR is part of our commercial strategy and our activities link to strategic success.

- Engagement: in a decentralised Group, accountability of our business leaders is not only required to drive progress but also a powerful enabler of change when harnessed correctly.
- Relevance: all our businesses are different, but our Group focus areas reflect the common ground in our business model.
- Simplicity: we are a diverse and decentralised group of businesses. Focusing on a few key areas will ensure our success.
- Progress isn't perfect: Diploma is beginning its ESG journey, and we are prepared to make a few mistakes as we learn – pursuit of perfection would hinder progress.

We have defined and developed our five focus areas based on materiality and where Diploma can make the biggest difference – colleague engagement, health & safety, diversity, equity & inclusion, supply chain and environment. Each has its own reporting framework and KPIs.

In addition to our five focus areas, we have identified Positive Impact revenue as a key measure of success and we have gathered Group-wide data on it for the first time this year. Positive Impact revenue is the proportion of our revenue that is generated from the sale of products, services and solutions that benefit our society or environment, or support the transition to a more sustainable future.

We have deliberately chosen a challenging metric against which we can deliver continuous improvement. It reflects the role the Group plays in the energy transition, in building sustainable communities and in improving the quality of healthcare.

We reported many of our KPIs for the first time in 2021, and 2022 will mark the first year of full ESG reporting – providing data against all the KPIs identified in this report. This will allow us to establish a baseline and set meaningful targets for each focus area during 2022.



## Identifying our focus areas

ESG is of significant importance to all our key stakeholders, including colleagues, customers, investors, suppliers and communities.

We have considered our individual businesses, our stakeholders and our Group as a whole in identifying the topics that are most material to us.



## Task Force on Climate-related Financial Disclosures (“TCFD”)

An outline of our approach and priorities is set out below under the TCFD framework headings; we will continue to develop our TCFD framework ahead of disclosure in 2022.

For more information	
Governance	p 50-59
Strategy	p 2-9
Risk management	p 28-33
Key performance indicators	p 16-17

TCFD Framework Heading	Our Approach	Our Priorities
<b>Governance</b>	As part of the Group’s annual risk management process, the businesses and Group consider climate-related risks, mitigations and, where significant, report these to the Board for review and monitoring. Positive Impact revenue reporting supports the businesses in identifying areas of climate-related opportunity. The Board is regularly updated on DVR progress.	Our priority will be to integrate our ESG KPIs into regular management reporting, including biannual updates on our emissions.
<b>Strategy</b>	Positive Impact revenue reporting reflects our increased focus on supplying products and services that support the carbon transition. We have also incorporated environmental standards into our supply chain management through our Supplier Code.	We plan to undertake scenario analysis during 2022.
<b>Risk management</b>	Our businesses currently consider climate-related risks as part of our risk management process.	Our priority will be to develop our Group understanding of these risks by undertaking a more comprehensive risk and opportunity assessment.
<b>Metrics and targets</b>	We currently measure and report Scope 1 and Scope 2 greenhouse gas (“GHG”) emissions.	Our priority will be to set targets to reduce our GHG emissions, develop our roadmap to net zero and set science-based targets for Scope 1 and 2 emissions.

## DELIVERING VALUE RESPONSIBLY CONTINUED

## United Nations Sustainable Development Goals (“UN SDGs”)

The table below shows how our DVR focus areas and Positive Impact revenue map to the UN SDGs.

### Focus area

#### Colleague Engagement

Our mission is to retain great talent and drive performance by engaging colleagues throughout the Group.

 See more on page 40


#### Health & Safety

Our mission is to keep everyone safe and well with the support of a strong Health & Safety culture.

 See more on page 41


#### Diversity, Equity & Inclusion

Our mission is for all our colleagues to feel able to bring their full selves to work, fulfil their potential and benefit from working as part of a diverse team.

 See more on page 42

#### Supply Chain

Our mission is to ensure an ethical and resilient supply chain that underpins value for our customers.

 See more on page 43

#### Environment

Our mission is to be a growing business with a shrinking environmental impact, targeting net zero.

 See more on pages 44-45

#### Positive Impact Revenue

Positioning ourselves for commercial growth with a positive impact on society and the environment.

 See more on pages 46-47

### Why it is important

- As an employer of ca. 2,500 people, we know that an engaged workforce is a productive workforce. Keeping our colleagues fulfilled and happy in their roles, as well as holding us all to high standards of conduct, is vital to our success.

- As an employer, the health, safety and wellbeing of our colleagues is our priority. This concern extends beyond physical health to incorporate mental health and wellbeing.

- Our businesses exist in a society that continues to battle with discrimination and inequality. Being a diverse, inclusive and equitable Group is the right thing to do and will also allow us to recruit, support, retain and engage the best talent.
- As an international Group of businesses, we operate across multiple communities, sectors and end markets. Alongside our colleagues, customers and suppliers, it is also important that we continue to make a difference to the communities that we are part of.

- As a value-add distributor, our supply chain is fundamental to our ability to deliver sustainable growth and margins.
- We have a responsibility to ensure standards that protect the human rights and dignity of workers.
- Our businesses supply essential products and services that save lives, reduce costs for our customers and enable responsible development.

- We recognise that our waste and emissions contribute to climate change and environmental damage, and we would like every member of the Group to share in our efforts to reduce our impact on the environment. We also recognise that we can contribute positively by supplying environmentally beneficial products and solutions.

- We believe that by offering sustainable solutions and products that align with our customers' values, we have a huge opportunity to drive sustainability through our growth in areas of positive environmental and social impact.
- Many of the commercial growth plans for our businesses are in markets with Positive Impact opportunities.

## Taking action in 2021

- Our first Group Colleague Engagement Survey, which achieved an engagement index of 79%, gave our colleagues the opportunity to share their views so that we can make Diploma an even better place to work.
- 550 new colleagues joined the Group through acquisitions.
- Development programmes, further education and apprenticeship schemes.

- An updated Health & Safety Policy.
- Health & Safety workshops held across the Group to embed the Policy.
- Wellbeing workshops with business leaders to support them in promoting good mental health practices in the workplace.
- World Mental Health Day celebrated with businesses displaying posters on how to improve mental health and wellbeing at work.

- We continue to gather data on gender representation across the Group.
- As part of our Group Colleague Engagement Survey, we gathered demographic data for the first time, which allowed us to analyse engagement in different demographic groups.
- We have calculated our inclusion index, which was very positive at 76%.
- In 2022, we will run listening groups across the businesses to help understand the challenges and experiences of our colleagues and how we can better support them.

- Publication of a Group Supply Chain Policy.
- Publication of a Group Supplier Code, based on the adherence to certain standards of human rights, labour laws and environmental responsibility.
- During 2022, our businesses will focus on partnering with key suppliers to align with this Code.

- A new Group Environmental Policy emphasising the importance of reducing emissions and measuring and reducing waste.
- Our immediate focus during 2022 will be to develop our roadmap to net zero and support our businesses in reducing their emissions.

- We have gathered information on our Positive Impact revenue across the Group for the first time.
- During 2021 we supplied products and services that directly contributed to the health and wellbeing of communities, renewable energy solutions and sustainable business.
- We will continue to measure and review our Positive Impact revenue reporting and support our businesses to pursue opportunities to increase Positive Impact revenue.

## Alignment to UN SDGs



DELIVERING VALUE RESPONSIBLY CONTINUED



## Colleague engagement

Our mission is to retain great talent and drive performance by engaging colleagues throughout the Group.

### 2021 highlights

- First Group Colleague Engagement Survey
- Building our internal communications
- Increased focus on talent development

### KPI

Colleague Engagement Index Score

**79%**

(Engagement index from Colleague Engagement Survey)

### Ongoing focus

- Respond to the key themes of the Engagement Survey
- Second Group-wide Engagement Survey in 2022
- New learning management system
- Onboarding acquisitions and new colleagues
- Continue to develop internal communications
- Continued focus on colleague wellbeing and mental health

### UN SDG alignment



### For more information

Chairman's statement	p 10-11
CEO review	p 12-14
s172 statement	p 48-49
The Board	p 55

### Our colleagues

Our colleagues are a cornerstone of our business and developing talent is vital to our success. In an environment of labour shortages, attracting and retaining talented colleagues is an important differentiator.

We have worked hard to foster our culture across the Group through regular communication, including quarterly Senior Leadership Team meetings, a new Group-wide internal newsletter and regular video updates from our CEO. These and other internal communications keep employees informed on matters relating to their employment, business developments, successes, and financial and economic factors affecting the Group.

The average length of service in the Group is consistently ca. seven years and for the ca. 120 senior management team it is nine years. These figures represent long-term skill and experience within the Group.

Our total number of colleagues has risen significantly, largely due to acquisitions, which introduced 550 new employees to the Group. Our average employee turnover, which excludes acquisitions, has increased from 19.3% to 22.8%,

largely due to the relocation of our North American Aftermarket facility.

Our businesses operate across multiple communities. It is important that our colleagues can support and donate to the communities that they belong to. In 2021, the Group made charitable donations of £70,376 (2020: £53,715). No political donations were made.

### Length of service (years)



### Average employees



### Average staff turnover (excluding acquisitions)



## Driving colleague engagement

This year we carried out our first Group Colleague Engagement Survey. We had a very positive response rate of 84%. Our engagement index score was very encouraging at 79%, compared to an external benchmark of 65%. There were common areas of success, namely Health & Safety, management style, performance, and job purpose/meaningful work.

Even in the context of such strong scores, there is always room for improvement and ways that we can learn from the survey. All businesses consulted with their colleagues on the results of the engagement survey in order to identify priority areas and key actions. Many of our businesses have also set up listening groups. Plans have been put in place to address common themes as well as the outcomes of individual business surveys. The main Group-wide themes – leadership style, learning and development, and wellbeing – are set out below.

Colleagues in some areas would like more a more structured **leadership style**, reflected in performance feedback and communication. More listening and recognition from leadership teams was also a recurring theme. Many of our businesses have now put guidance in place on performance appraisals and held focus groups and town hall meetings that give colleagues the opportunity to share their views and feedback.

Colleagues expressed an appetite for more **learning and development**. The Group provides support for training courses based on technical skills required for their role and development of soft skills. Many of our businesses also have apprenticeship schemes in place. During 2022, we will be rolling out a new learning management system. Succession planning is also important as the Group grows. Our success is based on the capability of our colleagues, and we must build strength to ensure a strong bench with the right skills and experience.

Given the stresses of Covid-19, **wellbeing** was a key concern during the year, which was reflected in the Colleague Engagement Survey. In addition to the wellbeing workshops that were held with business leaders, we also celebrated World Mental Health Day. Our businesses have Employee Assistance Programmes in place and many of our businesses also have wellbeing committees and mental health first aiders to support colleagues' wellbeing. We discuss the importance of wellbeing at our Senior Leadership Team updates.

Colleague Engagement Index:

**79%**

Engagement Survey response rate:

**84%**



## Health & Safety

Our mission is to keep everyone safe and well with the support of a strong Health & Safety culture.

### 2021 highlights

- Group Policy updated and rolled out
- Group-wide Health & Safety workshops
- Wellbeing workshops held with business leaders

### KPI

Lost Time Incident Rate

**10.1**

(Total LTIs per 1,000 employees)

### 2022 actions

- Driving a proactive Health & Safety culture
- Continue to focus on potential hazard reporting

### UN SDG alignment



### Health & Safety approach

The health, safety and wellbeing of our colleagues is a prerequisite to doing business. We have a duty of care to any person who is working remotely, or working at or visiting our businesses. Our values of continuous improvement, accountability and respect are as relevant to how we manage Health & Safety as they are to all aspects of our business. We work hard to ensure the Health & Safety of our colleagues, visitors and partners through good Health & Safety culture, standards, governance and reporting.

The Group CEO, assisted by the Sector CEOs, has overall responsibility for Health & Safety across the Group. In line with the Group's decentralised structure, business Managing Directors ("MDs") are accountable for compliance with local regulatory requirements and ensuring that Health & Safety processes are appropriate to their local business needs. This empowers our businesses to drive a strong Health & Safety culture, led by the MDs and upheld by all colleagues.

During 2021 we reviewed and updated the Health & Safety Policy and reporting requirements. All businesses now report incidents and potential hazards monthly and Health & Safety is integrated into monthly management reviews. This supports the proactive Health & Safety culture that we continue to develop across the Group.

We widened our definition of lost time incidents to include any incident or injury where work time is lost beyond the time taken for on-site first aid. We also emphasised the importance of Health & Safety culture, potential hazard reporting, and mental health and wellbeing.

As part of our work to embed the new Health & Safety Policy, we held workshops with all the businesses. This offered the businesses the opportunity to ask questions, understand the strategy and share best practice.

### Covid-19

During 2020, Health & Safety was identified as an increased operational risk, due to Covid-19. This remains a fluctuating issue across the Group, with local restrictions and vaccination requirements affecting each business differently. However, we continue to work hard to support the businesses in their local efforts, including in support of colleague wellbeing.

Businesses are encouraged to take a proactive approach towards mental health and wellbeing, and this is reflected in our updated Health & Safety Policy. During 2021, we held wellbeing workshops with our business MDs.

We continued to hold weekly meetings with the Sector CEOs throughout 2021 in order to have an overview of Covid-19 risk across the Group. With vaccine rates increasing and cases of Covid-19 significantly reduced, we will hold these meetings fortnightly from 2022.

## Health & Safety performance

	2021	2020	2019
Potential hazards	420	111	88
Minor injuries	99	68	101
Lost time incidents	24	17	18
Severity rate	7.7	5.2	7.9
Lost time incidents per 1,000 employees	10.1	8.2	9.5
Total injuries per 1,000 employees	51.9	41.1	62.7

- We are in an important phase of raising awareness and feel positive that more potential hazards, minor injuries and lost time incidents are being reported.
- Our lost time incident rate increased from 8.2 in 2020 but remains relatively low at 10.1 and largely flat on 2019, reflecting the return to the workplace this year.
- A total of 184 working days were lost, with an average of 7.7 days lost per lost time incident. This is due to a small number of severe lost time incidents, including an off-site slip and fall that resulted in over 30 days' lost time.
- As part of our drive to cultivate a proactive Health & Safety culture, potential hazard reporting increased from 111 in 2020 to 420 in 2021.
- There were no work-related fatalities.

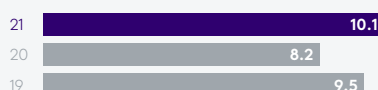
Lost Time Incident Rate:

**10.1**

Potential hazards:

**420**

Lost time incident rate



Potential hazards



### For more information

Key performance indicators p 16-17

Internal control and risk management p 28-33

Board skills p 64

DELIVERING VALUE RESPONSIBLY CONTINUED



## Diversity, equity & inclusion (“DEI”)

Our mission is for all our colleagues to feel able to bring their full selves to work, fulfil their potential and benefit from working as part of a diverse team.

### 2021 highlights

- Demographic data collected during the Colleague Engagement Survey
- Group Colleague Engagement Survey inclusion index of 76%

### KPIs

#### Gender diversity of senior management team

**24.0%**

(% of female senior managers)

#### Ethnic diversity of senior management team

*This will be measured from 2022*

### Ongoing focus

- Create and publish Group DEI Policy
- Establish formal DEI advocacy groups to shape Group DEI strategy and initiatives

### UN SDG alignment



### For more information

Chairman’s statement	p 10-11
CEO review	p 12-14
Corporate Governance	p 50
Nomination Committee	p 64-66

### The value of DEI

Embracing and driving progress on DEI will allow us to build more successful teams. Proactively engaging, educating and empowering our colleagues in order to become more diverse, inclusive and equitable is an exciting opportunity. We are committed to continuously improving our culture in order to create a workplace that allows all our colleagues to thrive.

We endeavour to be an inclusive organisation that reflects the global communities that our colleagues live and work in. We are committed to better representation of women and ethnic minorities across the workforce, particularly in leadership positions.

Our Group Colleague Engagement Survey allowed us to analyse our colleagues’

engagement by gender, ethnicity and disability. The results showed equal levels of engagement across groups. We achieved a very good inclusion index score of 76%. The inclusion index is calculated from the responses to three questions relating to inclusion and belonging.

The Group remains supportive of the employment and advancement of disabled persons. Applications for employment by disabled persons are always fully considered. If an employee is, or becomes, disabled during their employment, the Group will, if necessary and to the extent possible, adapt the work environment to enable the employee to continue in their current position or retrain the employee for duties suited to their abilities following disablement.

## Gender representation

Gender representation in 2021	Male	Female	Total
Directors	4	3	7
Senior management team	92	29	121
Employees	1,604	773	2,377
Total	1,700	805	2,505

Gender representation compared to prior years	2021	2020	2019
Female % of total employees	32.1%	36.2%	35.3%

We continue to have balanced gender representation at Board level, with three of our seven Board members identifying as female. Female representation across the Group remains above 30%, slightly lower than 2020, largely due to acquisitions.

We have measured the gender representation of the senior management team, a total of 121 people comprising the Senior Leadership Team and their direct reports. We have chosen this group as our DEI KPI as we believe it gives a good indication of our progress as well as the talent pipeline for minority groups.

### Gender

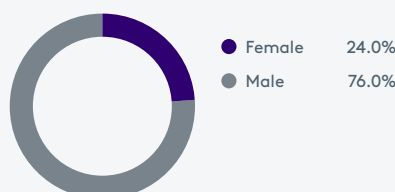
Female representation at senior management team level has increased from ca. 21% in 2020, to 24% this year. Many key senior management appointments during 2021 were female, including Directors.

Women remain underrepresented in our senior management team. Our immediate focus is to develop formal listening and advocacy groups across Diploma to give further context to the data we collect. These groups will give underrepresented groups and colleagues the opportunity to inform and drive ongoing DEI initiatives and strategy. We will also publish a Group DEI Policy during 2022 and focus on setting targets to help drive improvement.

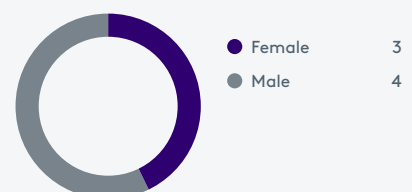
### Ethnicity

During 2022, we will measure and report the ethnic diversity of our senior management team. Our determination to achieve fair ethnic representation across the Group will be reflected in both our DEI Policy and initiatives.

#### Female representation on senior management team:



#### Gender representation on the Board:





## Supply chain

Our mission is to ensure an ethical and resilient supply chain that underpins value for our customers.

### 2021 highlights

- Review of business supply chains
- Group Supply Chain Policy and Group Supplier Code published
- Workshops with our business experts to engage them on the new policy

### KPI

Percentage of key suppliers that have agreed to the Group Supplier Code

*This will be measured from 2022*

### Ongoing focus

- Engage suppliers on the key tenets of the Group Supplier Code, particularly our environmental focus
- Reporting on key suppliers signed up to the Group Supplier Code

### UN SDG alignment



### For more information

Our strategy	p 4-5
Our value-add proposition	p 8-9
Sector review	p 18-23
Internal control and risk management	p 28-33
s172 statement	p 48-49

### Working with our suppliers

As a distributor, our supply chain is material to our commercial proposition, our operational execution and our reputation. Given the scale of the supply chain, versus our own operations, management of this is key to our broader social and environmental impact.

Our focus is to be aligned with our suppliers on tackling climate change, offering our customers sustainable products and solutions that enable them to adapt to a rapidly changing world, and protecting human rights.

This year we have created a Group Supply Chain Policy to address both ethical and environmental issues. We have also introduced a Group Supplier Code outlining our ethical standards and environmental ambitions.

### Human rights

The Group's activities are principally carried out in countries with strong human rights legislation; and the Group complies with appropriate legislation in the countries in which it operates. Group businesses monitor and carry out due diligence of suppliers through questionnaires, audits and visits. This includes monitoring human rights within our supply chain.

Our own colleagues are provided with a safe, secure and healthy environment in which to work and access to an independent whistleblowing hotline. They also have access to employee assistance programmes.

### Modern slavery

The Group has a zero-tolerance approach to slavery in all its forms, including human trafficking, forced labour and child labour. Annually, each business assesses the risk of slavery taking place either within the business

itself or among its principal suppliers. Group businesses continuously monitor and carry out due diligence of suppliers through questionnaires, audits and visits. Based on these assessments and the initiatives implemented by the businesses to counter slavery, the Board was assured that slavery is not taking place within the Group and has published a Modern Slavery Statement on the steps taken to prevent slavery, which is available on the Company's website.

### Business ethics

The Group recognises its obligations towards parties with whom it has dealings, including customers, shareholders, employers, suppliers and advisors. The interactions with these parties are managed at a local level by senior management and the Group expects the highest level of integrity, ethical and professional standards to be maintained in such dealings. The Group's policy is that each operating business is responsible for negotiating the terms and conditions under which it trades with its suppliers. The Group does not operate a formal code that it follows with regard to payments to suppliers. Group companies agree payment terms with their suppliers when they enter into binding purchasing contracts for the supply of goods or services.

Suppliers are, in that way, made aware of these terms. Group companies seek to abide by these payment terms when they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group also maintains processes and policies to monitor and review compliance across the Group's businesses in connection with anti-bribery and corruption and international sanctions.

## Integrating ESG into management of our supply chain

As a value-add distributor, our supply chain is critical to our commercial success and reputation. Strong partnerships with suppliers help us to consistently deliver value and make a difference to our customers, our colleagues, and our communities.

We require our supply chain to be ethical and we want to work with suppliers who have similar aims so that by working together we can achieve our collective social and environmental goals. To that end, we have published a Group Supplier Code and Group Supply Chain Policy.

Our **Group Supply Chain Policy** reflects the importance of strategic supply chain management, creating value whilst managing risk, and supports businesses in building their supply chain core competence. The Policy asks businesses to identify and sign up key suppliers to our Group Supplier Code.

Our **Group Supplier Code** outlines the importance of our supplier partnerships and aligning on our goals. It asks our suppliers to adhere to certain standards relating to human rights and labour laws. It also sets the tone for our environmental ambitions and encourages our businesses and suppliers to support each other in building a more sustainable business and offering.

Our short-term key performance indicator will be the percentage of **key suppliers** that are signed up to our Group Supplier Code. Key suppliers include any supplier that is a high-volume or high-spend supplier, a critical component supplier or a non-substitutional supplier.

DELIVERING VALUE RESPONSIBLY CONTINUED



**Environment**

Our mission is to be a growing business with a shrinking environmental impact, targeting net zero.

**2021 highlights**

- Developed understanding of emissions reporting
- Group Environmental Policy published
- Workshops on the new Policy
- Preparations for waste reporting in FY 2022

**KPIs**

**Emissions intensity ratio**

**12.5**

(Tonnes CO<sub>2</sub>e per £1m revenue)

**Waste intensity ratio**

*This will be measured from 2022*  
(Tonnes CO<sub>2</sub>e per £1m revenue)

**Ongoing focus**

- Develop roadmap to net zero and science-based targets for Scope 1 and 2 emissions
- Measure and report waste across the Group during FY 2022

**UN SDG alignment**



**For more information**

Our strategy	p 4-5
Our value-add proposition	p 8-9
CEO review	p 12-14
Internal control and risk management	p 28-33
s172 statement	p 48-49

**The importance of tackling climate change**

Climate change is an urgent and global crisis. Our waste and emissions contribute to climate change and environmental damage and we must act to reduce that impact. Our Scope 1 and 2 footprint is modest and we are not a large producer of carbon. However, we do recognise that our business activities have an emissions impact that goes beyond what we currently measure and report. Reducing our emissions and waste also offers commercial benefits in increasing efficiency, commercial advantage and, in some cases, reducing operational costs.

Local management is committed to good environmental practices throughout our operations. The Managing Directors

have responsibility for environmental performance of their operating businesses and each subsidiary is required to implement initiatives to meet its responsibilities.

This year we published a new Group Environmental Policy that focuses on emissions and waste reduction and reflects our ambition to proactively reduce our environmental impact. Although the policy concentrates on those areas where we feel we can make a material difference – waste and emissions – we continue to support our businesses in pursuing their own, additional environmental activities. For example, our businesses have taken part in beach clean-ups, planted wildflower meadows, and implemented other waste reduction initiatives.

**Hercules Louisville waste initiative**

We have asked our businesses to start reporting their waste during FY 2022, so that we can calculate total waste as well as the proportion of our waste that goes to landfill or recycling. We have been communicating and supporting our businesses on this during 2021 and some have taken the opportunity to get ahead.

When Hercules Aftermarket first moved to its new distribution centre in Louisville, all waste went directly to landfill. However, in line with broader Group ambitions, Hercules wanted to move towards being a more sustainable business.

The business worked closely with its waste partner to install a compactor for mixed cardboard and plastics, which account for the majority of Hercules' industrial waste. Additionally, it has put in place a mixed recycling container for commonly recycled items, such as plastic bottles and metal scraps.

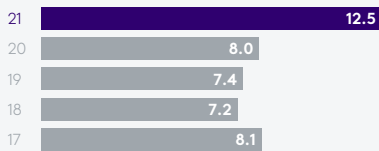
In the first three months after installation, Hercules was able to save 30 tonnes of materials from going to landfill and divert it to recycling instead. Motivated by the success of this recycling initiative, Hercules decided to tackle plastic waste from water bottles. Following the installation of a filtered water dispenser, Hercules saved the equivalent of 1,882 plastic bottles in the first month alone.



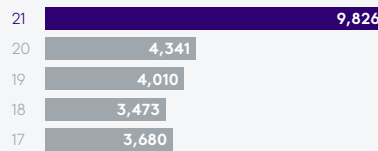


## Greenhouse gas emissions

### Emissions intensity ratio<sup>1</sup> (tonnes CO<sub>2</sub>e per £1m revenue)

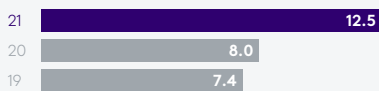


### Gross emissions<sup>1</sup> (Scope 1 and Scope 2, tonnes CO<sub>2</sub>e)



UK listed companies are required to report their global levels of greenhouse gas (“GHG”) emissions in their annual report and accounts. This requirement is for disclosure of Scope 1 (direct) and Scope 2 (indirect) emissions and only to the extent that such emissions are the responsibility of the company. Direct emissions include heating, cooling and transport fuel and examples of indirect include purchased electricity. The Group’s primary direct energy usage and related CO<sub>2</sub> emissions arise from the Group’s facilities.

### Emissions intensity ratio<sup>1</sup> (tonnes CO<sub>2</sub>e per £1m revenue)



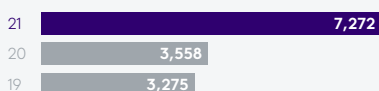
The emissions intensity ratio (tonnes CO<sub>2</sub>e per £1m revenue) increased from 8.0 in 2020 to 12.5 in 2021. However, excluding acquisitions the emissions ratio decreased from 8.0 to 7.4 in 2021. The acquisition of Windy City Wire had a significant influence on overall emissions, accounting for 30% of total Scope 1 emissions and 50% of total Scope 2 emissions. This is largely due to its manufacturing processes and number of sites. The emissions intensity ratio for Windy City Wire was 26.1 (tonnes CO<sub>2</sub>e per £1m revenue).

### Scope 1<sup>1</sup> (tonnes CO<sub>2</sub>e)

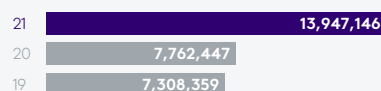


Scope 1 emissions increased by 1,781 tonnes CO<sub>2</sub>e from 773 tonnes CO<sub>2</sub>e in 2020 to 2,554 tonnes CO<sub>2</sub>e in 2021. Most of this increase is explained by reporting leased vehicle emissions for the first time (813 tonnes CO<sub>2</sub>e) and acquisitions during the year (870 tonnes CO<sub>2</sub>e). Historically emissions from mobile combustion were reducing as vehicles were sold and replaced with leased vehicles. However, to provide a more accurate view of mobile combustion emissions, leased vehicles are now also included. Windy City Wire makes up most of the acquisition emissions during the year with 757 tonnes CO<sub>2</sub>e; mainly due to the number of sites it operates and manufacturing processes.

### Scope 2<sup>1</sup> (tonnes CO<sub>2</sub>e)



### Energy usage<sup>1</sup> (kWh)



Scope 2 emissions increased by 3,714 tonnes CO<sub>2</sub>e (or 6,184,699 kWh) from 3,558 tonnes CO<sub>2</sub>e in 2020 (7,762,447 kWh) to 7,272 tonnes CO<sub>2</sub>e in 2021 (13,947,146 kWh).

Windy City Wire now accounts for 50% of the Group’s purchased electricity (tonnes CO<sub>2</sub>e) due to the number of sites it operates and manufacturing processes reporting 3,632 tonnes CO<sub>2</sub>e (or 5,532,868 kWh). Existing businesses decreased marginally, partly due to the closure of one facility with manufacturing capability and heavier usage of electricity. This decrease was set off by an increase from some businesses reporting actual billed energy usage for the first time (rather than estimates based on sales data and local conversion factors). Ongoing lockdowns have also meant that some facilities were closed or underused while colleagues worked from home, which was also the case during 2020.

### Emissions intensity ratio:

# 12.5

<sup>1</sup> The Group has considered the six main GHGs and reports emissions in tonnes of CO<sub>2</sub> equivalent (“CO<sub>2</sub>e”) for both Scope 1 (direct) and Scope 2 (indirect) emissions. These emissions are calculated following the GHG Protocol and UK Government Environmental Reporting Guidelines. The Group has used Defra UK GHG Conversion Factors, US Environmental Protection Agency Emission Factors and International Energy Agency Factors. Where possible, the Group has reported billed data which represents ca. 85% of the Group’s global emissions. For the remaining entities the Group has used an estimation using sales data and local conversion factors.

DELIVERING VALUE RESPONSIBLY CONTINUED



### Positive Impact Revenue

Positioning ourselves for commercial growth with a positive impact on society and the environment.

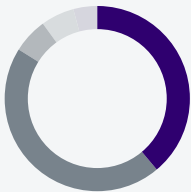
Alongside our five focus areas, we have identified Positive Impact revenue as a key measure of success. Positive Impact revenue is generated from the sale of products, services and solutions that benefit our society or environment, or support the transition to a more sustainable future.

Positive Impact revenue is generated across all of our Sectors and relates to both environmental and social impacts, including clean energy generation and efficiency; management of natural resources; pollution and waste control; health and wellbeing; and sustainable communities and infrastructure.

Our approach to delivering value responsibly incorporates both risk and opportunity. In addition to the many social and environmental challenges facing society, there are also huge opportunities to be found in the scale of transformation required, many of which have been accelerated by the pandemic. Our Positive Impact revenue streams are already an important component of current and future growth.

As a distributor, we are not always able to determine the final application of all our products. If we look only at revenue where the final application of products is known – which is ca. two-thirds – our Positive Impact revenue accounts for ca. 64%.

There is huge opportunity to increase our Positive Impact revenues and each of our Sectors has growth plans in place that include positive revenue initiatives.



- Safe & Sustainable Communities 39%
- Health & Wellbeing 45%
- Waste and pollution 6%
- Clean and efficient energy 6%
- Other 4%

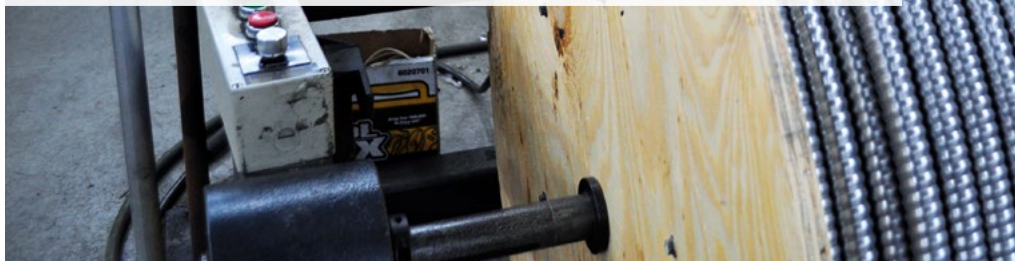
### Safe and sustainable communities

## SmartGUARD™ – making buildings safer and keeping first responders connected

Bi-Directional Amplifiers (“BDAs”) and Distributed Antenna Systems (“DAS”) are the dedicated communication systems of first responders. For building owners and property managers, having a dedicated public safety communication system is becoming standard and DAS is often an integral part of many fire evacuation systems.

Windy City Wire decided to focus on driving revenue from BDA/DAS and aligned with their OEM partners to ensure access to the essential products required to service the market. Windy City Wire also created SmartGUARD™ – a significant market disruptor with a unique jacketing that provides mechanical protection, eliminating the need for customers to run conduit and then run cable through that conduit. SmartGUARD™ significantly reduces overall installation costs by reducing materials needed and labour hours; customers have seen savings of as much as 55%.

Windy City Wire has also aligned with the Safer Buildings Coalition to remain ahead of trends and has also made a significant investment in inventory to support growth.

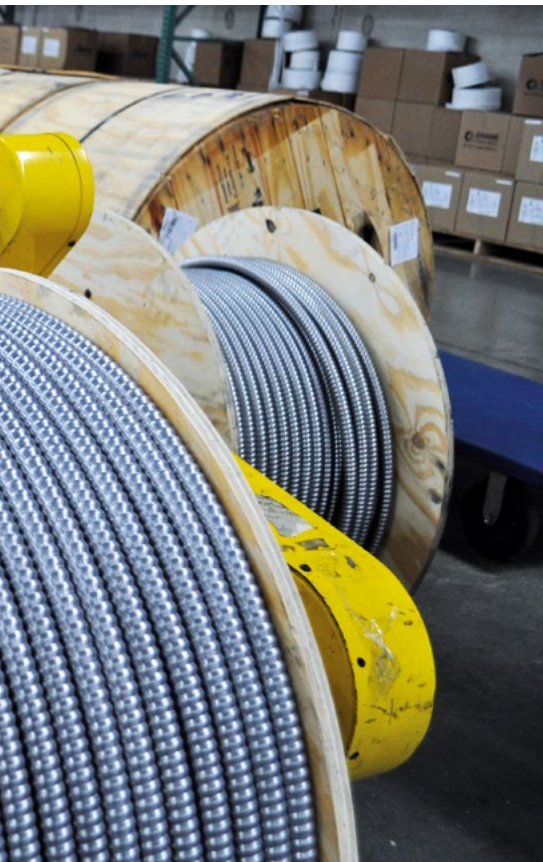


### Health and wellbeing

## Life-saving diagnostics

Our Life Sciences businesses offer diagnostic solutions that make it quicker and easier to identify life-threatening diseases. Whether that’s Covid-19 testing, cutting-edge stabilisers that slow DNA-shedding in blood samples, at-home testing kits that make cancer diagnosis accessible for remote communities, or sepsis testing that provides quicker results than anything currently on the market.





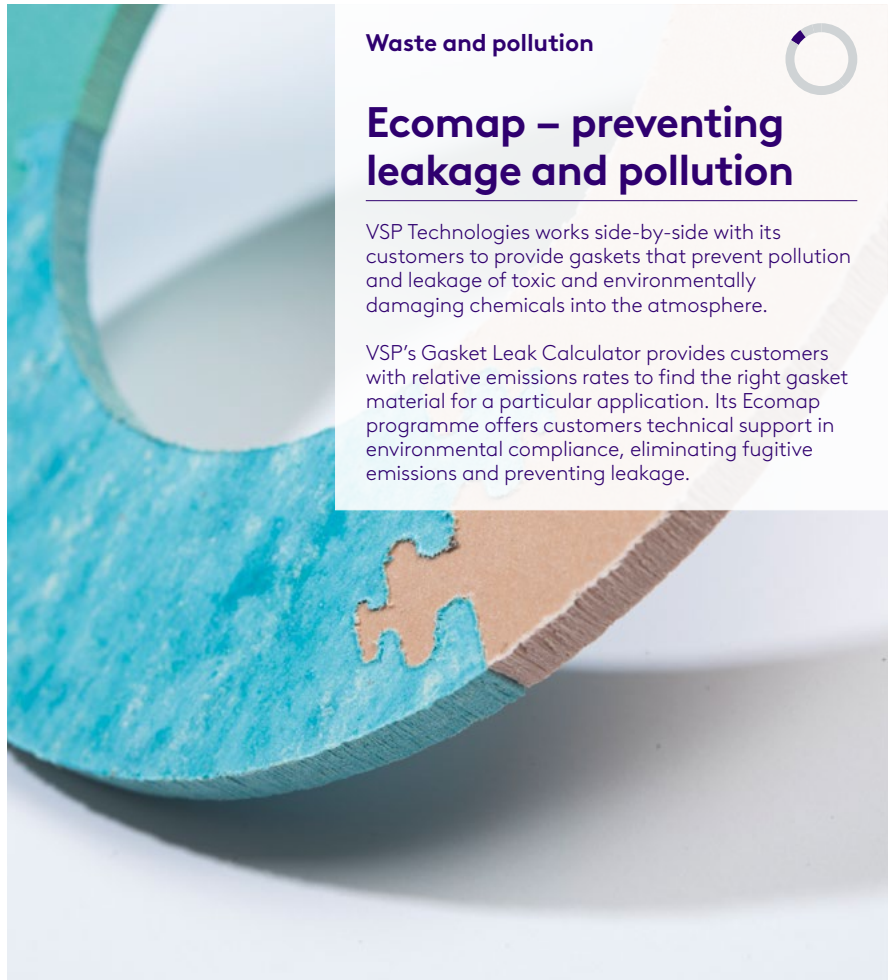
Waste and pollution



## Ecomap – preventing leakage and pollution

VSP Technologies works side-by-side with its customers to provide gaskets that prevent pollution and leakage of toxic and environmentally damaging chemicals into the atmosphere.

VSP's Gasket Leak Calculator provides customers with relative emissions rates to find the right gasket material for a particular application. Its Ecomap programme offers customers technical support in environmental compliance, eliminating fugitive emissions and preventing leakage.



Clean and efficient energy



## Supporting the transition to a more sustainable future

Our Seals and Controls businesses supply products used in the generation and supply of renewable energy, including seals and trunking for wind turbines, hydraulic sealing solutions used in the generation of solar energy, and cables and connectors used in the distribution of renewable energy.

Our Controls Sector also supports responsible energy management and efficiency through the supply of components used in electric cars, trains and planes; fuse boxes that make street lighting LED-compatible and improve the energy efficiency of our towns and cities; and specialist wire and cabling that reduces energy waste through automation.



S172 STATEMENT

## Engagement with stakeholders and section 172 statement

Section 172 (“s172”) 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. However, our business strategy is shaped and informed by the views of our stakeholders and we have always believed that stakeholder engagement is vital to building a sustainable business.

In discharging their duties each Director will seek to balance the interests, views and expectations of the various stakeholders, whilst recognising that not every matter will be equally relevant to each stakeholder nor every decision necessarily result in a positive outcome for all. However, 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 consideration has 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 duty under s172 of the Companies Act 2006. 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.

Some examples of ways in which the Board has engaged directly with key stakeholders during the year are provided below.

### Colleagues

#### How Diploma engages

- Group Colleague Engagement Survey and subsequent listening groups
- Consistent talent and performance management approach
- Purple Pages, our new Group-wide internal newsletter
- Regular CEO video updates
- Roundtables
- Employee networks
- Exit and probation interviews
- Delivering Value Responsibly (“DVR”) governance

#### How the Board engages

- CEO updates
- People and culture updates from the Group HR Director
- Regular updates from Sector CEOs
- Results and feedback from the Group Colleague Engagement Survey
- In recent months, as lockdown restrictions have eased, Board site visits have recommenced

### Our businesses

#### How Diploma engages

- Quarterly business reviews
- Regular business visits from centre
- Quarterly Senior Leadership Team meetings

#### How the Board engages

- CEO updates
- Regular updates from Sector CEOs
- Business visits
- Review of proposed acquisitions

### Supply chain

#### How Diploma engages

- Decentralised model: individual businesses maintain close relationships with suppliers
- Strong, mutually beneficial partnerships
- Strategic alignment and growth opportunities
- Collaboration to realise innovation
- Regular engagement, including audits as appropriate
- Group Supplier Code
- Group Supply Chain Policy
- Clear payment practices

#### How the Board engages

- Updates from CEO
- Updates from Sector CEOs
- Supply chain reporting
- Modern Slavery Statement
- Risk management

### 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 56.

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

#### Dividend

One of the principal decisions considered by the Board over the year has been in relation to returning value to shareholders. In making its decisions regarding the 2020 final dividend and 2021 interim dividend the Board considered our shareholders' expectations, the Company's liquidity position, and the requirement to maintain a prudent level of dividend cover, taking into account the financial resources required to execute our strategy.

#### Acquisitions

Acquisition opportunities are central to our strategy, but the Board is also mindful of their potential impact on our existing stakeholders. Over the course of 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 so that the long-term impact can be

considered. 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.

#### Employee pension

The Group maintains a small legacy closed defined benefit pension scheme in the UK. In addition to the scheme's annual funding, a £5.1m one-off payment (paid in October 2021) was agreed with the Trustees as part of the triennial review. In reaching this decision, the Board had to balance the benefit of the contribution to the pension scheme against the Group's capital requirements, potential investments in the benefits of existing employees, shareholder return expectations and the perception of The Pensions Regulator.

## Customers

### How Diploma engages

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

### How the Board engages

- CEO reports
- Updates from Sector CEOs
- Risk management

## Environment & communities

### How Diploma engages

- Charitable donations
- New Group Environmental Policy
- Greenhouse gas emissions reporting
- Plans to introduce waste reporting
- DVR governance

### How the Board engages

- CEO reports
- Updates from biannual DVR Committees

## Investors

### How Diploma engages

- Results presentations by CEO and CFO
- One-on-one meetings undertaken by CEO, CFO and Head of Investor Relations throughout the year, including results roadshows
- Annual General Meeting
- Trading updates, regulatory news items and website updates
- Shareholder information on website
- ESG rating schemes
- Responses to general investor enquiries

### How the Board engages

- Attendance and engagement at the Annual General Meeting
- CEO and CFO feedback following results
- Engagement with the Chairman and Committee Chairs as appropriate; including consultation with shareholders on remuneration
- Shareholder briefings by the Company Secretary
- Approval of trading updates, half year and full year results and RNSs
- Reviews of analysts' research

## CORPORATE GOVERNANCE



**We will only fulfil our purpose of creating value for all of our stakeholders if we maintain strong standards of corporate governance."**



**John Nicholas**  
Chairman

**Dear Shareholder**

On behalf of the Board I am delighted to present the Company's Corporate Governance Report for the year ended 30 September 2021, which will be my last report as your Chairman. One of the significant aspects of my role as Chairman is to ensure that our Group's governance is appropriately robust, and that the Board operates effectively. The Board plays a critical role in ensuring that every part of our Group conducts its business in a manner which is consistent with the highest standards of corporate governance and ethical behaviour. We will only fulfil our purpose of creating value for all our stakeholders if we maintain strong corporate governance. A sound corporate governance framework is key to ensuring sustainable long-term success; we are also very conscious that effective governance is not purely a matter of regulatory compliance but encompasses many issues including operating with integrity and honesty, valuing diversity and enabling better decision-making through inclusion to ensure we balance the needs of all stakeholders and operate in a fair and transparent manner.

**Progress in 2021**

2021 has been characterised by significant strategic progress and strong financial results. The world in which we live is changing rapidly, and the Covid-19 pandemic has served to accelerate a number of megatrends. During the year, the Board has discussed learnings from the pandemic, including new ways of working and the opportunity to accelerate certain aspects of the strategy. This included the ever-increasing scrutiny of the role of corporates in society. In this context, I am particularly proud of the progress we have made with our environmental, social and governance ("ESG") agenda, Delivering Value Responsibly ("DVR") over the last year. We are cognisant that to ensure the success of our DVR programme we must continue to be true to our essential values, consistently balancing the interests of all our stakeholders. Increasing our positive impact enables our businesses to grow sustainably in a way that is environmentally, socially and ethically responsible.

**Board succession and evaluation**

Board succession remains a key area of activity and focus. Following the retirement of Charles Packshaw at our Annual General Meeting ("AGM") on 20 January 2021, Anne Thorburn assumed the role of Senior Independent Director. We also welcomed Dean Finch to the Board and its Committees on 21 May 2021. In accordance with the provisions of the Code, I have announced my intention to retire from the Board at our 2022 AGM. Following a comprehensive selection process, David Lowden was appointed as Chairman designate on 19 October 2021, and, subject to your approval, will take over from me at the conclusion of the AGM on 19 January 2022. I would like to welcome both Dean and David to the Board; I am sure that their contribution will be extremely valuable as the Group continues to evolve and grow.

A key aspect of good governance is for the Board itself to continually think on how it carries out its varied roles and focus on continually improving its effectiveness. We assess the effectiveness of our Board, its Committees and Board members each year and in respect of 2021, in line with the 2018 UK Governance Code, the Board effectiveness review was externally facilitated. This evaluation has also enabled the Board to identify opportunities for it to further improve its effectiveness; more detail on the results of the evaluation and areas of agreed focus are detailed on pages 65 to 66.

**Conclusion**

Our AGM will be held on Wednesday, 19 January 2022. I hope that as shareholders in the Company, you will be able to attend to meet with the Board of Directors and discuss any matters you feel are important to the future success of the Group.

It has been a privilege to serve as your Chairman, and I would like to thank my fellow Directors, as well as colleagues throughout Diploma, for their contributions and support. I am proud of what we have achieved during my tenure, and of the Executive Team's success in delivering on the strategy. I am confident that the robust corporate governance framework in place will continue to support the Group in continuing to deliver value for all its stakeholders.

**John Nicholas**  
22 November 2021

# Board at a glance

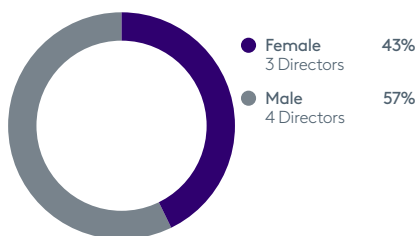
## Board and Committee attendance FY 2021

	Board	Audit Committee	Nomination Committee	Remuneration Committee
John Nicholas	7/7	–	2/2	6/6
Johnny Thomson	7/7	–	–	–
Barbara Gibbes	7/7	–	–	–
Anne Thorburn	7/7	5/5	2/2	6/6
Andy Smith	7/7	5/5	2/2	6/6
Geraldine Huse	7/7	5/5	2/2	6/6
Dean Finch	2/3	2/3	1/1	1/2

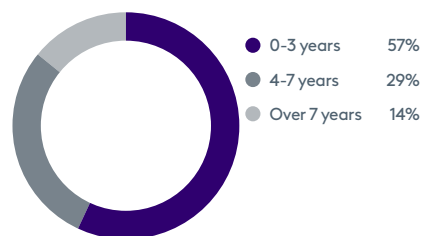
Attendance is expressed as number of meetings attended out of the number eligible to attend.

All information shown below is as at 30 September 2021.

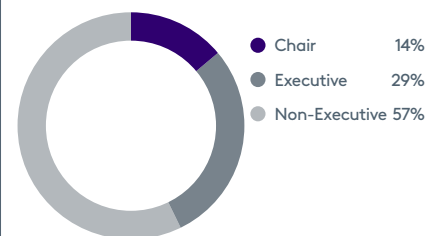
### Gender diversity



### Tenure



### Role



The table below shows the changes to the Board during the year and up to the date of this report:

#### Changes to the Board

Charles Packshaw stepped down from the Board on 20 January 2021

Dean Finch was appointed to the Board and its Committees on 21 May 2021 as non-Executive Director

David Lowden was appointed to the Board and the Nomination and Remuneration Committees on 19 October 2021 as non-Executive Director and Chairman designate

#### Role changes within the Board

Anne Thorburn became Senior Independent Director on 20 January 2021

## BOARD OF DIRECTORS



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**John Nicholas**

Chairman

**Joined:** June 2013**Current external appointments:**

- Non-Executive Chairman, Porvair plc

**Relevant skills and experience:**

- Industrial, Distribution and Manufacturing Sectors
- Financial Management
- Strategy
- M&A/Financing
- International Business

**Past appointments:**

- Senior non-Executive Director of Mondi plc, Rotork plc and Ceres Power plc; Chairman of the Audit Committee, Hunting plc
- Group Finance Director, Tate & Lyle plc and Kidde plc

**Johnny Thomson**

Chief Executive Officer

**Joined:** February 2019**Current external appointments:**

- None

**Relevant skills and experience:**

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

**Past appointments:**

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

**Barbara Gibbes**

Chief Financial Officer

**Joined:** March 2020**Current external appointments:**

- None

**Relevant skills and experience:**

- B2B Services, Property and Retail Sectors
- Financial & Risk Management
- Strategy
- M&A/Financing
- International Business

**Past appointments:**

- Interim Chief Financial Officer, Intu Properties plc
- Director, Deloitte LLP



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**Geraldine Huse**

Non-Executive Director

**Joined:** January 2020**Current external appointments:**

- President, Procter & Gamble Canada

**Relevant skills and experience:**

- Retail and FMCG Sectors
- Customer Service
- Sales & Marketing
- Diversity & Inclusion
- Organisational Development
- International Business

**Past appointments:**

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



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**Dean Finch**

Non-Executive Director

**Joined:** May 2021**Current external appointments:**

- Group Chief Executive, Persimmon PLC

**Relevant skills and experience:**

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

**Past appointments:**

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

**David Lowden**

Non-Executive Director &amp; Chairman Designate

**Joined:** November 2021**Current external appointments:**

- Senior Independent Director, Capita plc and Morgan Sindall plc
- Chairman, Page Group plc

**Relevant skills and experience:**

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

**Past appointments:**

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





(R)  
(A) (N)

**Anne Thorburn**  
Senior Independent Director

**Joined:** September 2015

**Current external appointments:**

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

**Relevant skills and experience:**

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

**Past appointments:**

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



(R)  
(A) (N)

**Andy Smith**  
Non-Executive Director

**Joined:** February 2015

**Current external appointments:**

- Customer, Retail and Technology Director, Severn Trent plc

**Relevant skills and experience:**

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

**Past appointments:**

- Managing Director, Severn Trent Services
- Water Services Director, Severn Trent plc
- Group HR Director, The Boots Company PLC

**Committee membership**

- (R) Remuneration
- (A) Audit
- (N) Nomination
- (C) Chair

**Q&A with David Lowden**

**“The management team are excellent and I am looking forward to supporting them and leading the Board as we seek to continue to create value for all our stakeholders.”**

**Q: Why were you attracted to Diploma?**

Who wouldn't be? Diploma has an exceptional track record that speaks for itself and the Group's value-add proposition is truly differentiated, supported by a decentralised model that can scale at pace, which accelerates decision-making, ensures the businesses are aligned to their customers and able to adapt quickly to their needs while providing a platform for growth. It is also a business with an exciting future ahead with a compelling growth opportunity. The management team are excellent, and I am really looking forward to supporting them and leading the Board as we seek to continue to create value for all our stakeholders.

**Q: What do you bring to the role?**

During my career, I have seen things from multiple sides of the table, having worked as a Chief Executive and a finance director, Chairman, non-Executive Director as well as Audit and Remuneration Chairs of other listed companies. I have also worked

extensively in international services businesses. As Chairman of Diploma, I will leverage this experience to challenge and support the management team as they take the Group onto the next stage of its development.

**Q: What are your early impressions of the Group?**

My first impressions are that Diploma is well positioned, it has great people who bring a huge amount of discipline, commitment and enthusiasm to their roles, a number of exciting opportunities for growth and substantial cash flow with low leverage. The Group has managed an incredibly successful year, which given the context of the pandemic is a fantastic achievement. With regard specifically to the Board, its primary focus is to support and advise the executive management on the delivery of the Group's strategy within a clear governance framework, and I believe the Board fulfils that role well. The Board comprises a broad diversity of talents and outlooks but will evolve further over the coming years so that it can continue to support and challenge management appropriately.



**John Morrison**  
Group Company Secretary & Head of Legal

**Joined:** April 2020

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

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

## OUR GOVERNANCE STRUCTURE

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The Diploma Board is collectively responsible for the long-term success of the Company. It provides leadership and direction; monitors culture, values and wider sustainability goals; and ensures that risks are appropriately managed and that due regard is given to the views of our stakeholders in its decision-making. Decision-making processes are structured, enabling Directors to evaluate the merit of proposed business activities and likely consequences of decisions over the short, medium and long term, while ensuring due consideration is paid to the Company's stakeholders.

### Structure and division of responsibilities

The Board as a whole collectively manages overall control of the Company's and Group's affairs. To assist with its operation, the Board has adopted a schedule of matters reserved to the Board that sets out those matters which it specifically reserves for its own decision and those which are delegated to Board Committees and to executive management.

The Board has an established corporate governance framework. This includes the three Board Committees (Audit Committee, Nomination Committee and Remuneration Committee), an Administration Committee and a Treasury Committee as well as management committees which report to the Chief Executive or Chief Financial Officer as appropriate. The Terms of Reference for the three primary Committees are available on the Company's website.

### Board composition and expertise

The Board is of the view that it is essential to have an appropriate mix of experience, expertise, diversity and independence. Such diverse attributes enable the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. Appointments to the Board are made following consideration of the experience and expertise of existing Directors, any required skill sets or competencies, and the strategic requirements of the Group. During 2021, the composition of the Board has evolved further, reflecting: (i) Charles Packshaw stepping down from the Board, and (ii) the recruitment of two new Directors. There are two Executive Directors on the Board who are considered to bring a comprehensive and complementary range of skills and expertise to the leadership team. The non-Executive Directors are considered to have the requisite experience to contribute meaningfully to the Board's deliberations and resolutions. A summary of the skills and experiences of the Directors can be found on pages 52-53.

## Board Committees

### Board

#### Audit Committee

##### Chair

Anne Thorburn

##### Members

Andy Smith  
Geraldine Huse  
Dean Finch

##### Key responsibilities

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

 See more on pages 60-63

#### Nomination Committee

##### Chair

John Nicholas

##### Members

Anne Thorburn  
Andy Smith  
Geraldine Huse  
Dean Finch  
David Lowden

##### Key responsibilities

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

 See more on pages 64-66

#### Remuneration Committee

##### Chair

Andy Smith

##### Members

John Nicholas  
Anne Thorburn  
Geraldine Huse  
Dean Finch  
David Lowden

##### Key responsibilities

Reviews and recommends the framework and policy on Executive Director and senior management remuneration. Reviews workforce remuneration policies and alignment with culture.

 See more on pages 67-79

### Induction and professional development

The Chairman, assisted by the Group Company Secretary, is responsible for ensuring that there is a properly constructed and timely induction for new Directors upon joining the Board. Upon appointment, all new Directors are provided with a comprehensive induction, where they meet with key members of management and familiarise themselves with all core aspects of the Group, its businesses and the markets in which it operates. Prior to the Covid-19 pandemic, Directors were encouraged, wherever possible, to visit the Group's sites so that they can get a better understanding of the business and interact with employees and the workforce. While travel has been restricted and complex, we anticipate that site visits by individual Directors (and the Board as a whole) will resume and allow Directors to see Diploma's safety and sustainability processes, to talk with local management and workforces and to assess how effectively Diploma's culture is communicated and embedded at all levels. Further information on adapting our induction process due to the pandemic can be found on page 65.

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

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

### Purpose, culture and values

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

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

During the year, the Board has monitored culture in a number of ways. This includes discussions on strategy and the strategy review session as well as updates on people and culture from the Group HR Director. Successfully scaling up our value-add model requires constant evolution, and our culture has a critical role to play in supporting growth. For acquisitions requiring Board approval, cultural fit is also an important area of focus and discussion.

One of the key ways in which the Board can experience and evaluate the culture is through meeting with colleagues across our businesses. This was not possible during the first part of the year but we were delighted that the easing of lockdown enabled us to resume site visits, and over the Summer we met with UK colleagues at IS-Group and Clarendon Specialty Fasteners. The results of our Group Colleague Engagement Survey (discussed on page 40) have also provided further insight.

### How the Board monitors culture



Our Board Committees also play an important role in monitoring our culture:

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

### Employee engagement

The Board is committed to engaging with employees, and has considered the employee engagement methods specified by the Code, but felt that alternative methods are more appropriate. Given the Group's decentralised model and its geographical spread, the Board has continued with a multi-faceted approach to engagement with the global workforce that is not led by any one Director or group of Directors. We consider that engagement by the local Managing Directors ("MDs") with their own workforce, together with strong channels of communication from MDs to their respective Sector CEO as well as communication with the global workforce led by the Group's central functions, provides an effective platform for transparent two-way dialogue with employees. The Board feels well informed on colleague views and matters, via a mechanism that is appropriate for our business model and permits bilateral engagement, by adopting a combination of methods to comply with the Code's requirements:

- Regular updates to the Board at every scheduled Board meeting on people matters. Over the past year, colleague wellbeing and morale have been areas of keen focus.
- Colleague, talent and culture updates from the Group HR Director.
- The Remuneration Committee reviews workforce pay practices across Diploma.
- In normal years, the Board regularly undertakes site visits.
- Executive Board members regularly interact with individual businesses, with our flat structure ensuring strong channels of communication.
- Group Colleague Engagement Survey. The Board was presented with the outcomes of the survey and discussed these together with key learnings. We were delighted with the high participation rate and engagement index score; the full results of the survey are detailed on page 40.

## BOARD ACTIVITIES IN 2021

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

### Strategy & strategic execution

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

### Finance

- Received updates on the Group's financial performance.
- Approved the 2022 budget; monitored performance against the 2021 budget through regular presentations from the CFO.
- Assessed and approved the proposed dividend payments, balancing the views of various stakeholders.
- Investor relations: received regular reports including share register movement and feedback from analysts and investors.

### Operations

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

### Colleagues & culture

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

### Risk

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

### Governance

- Regular corporate governance and regulatory updates from the Group Company Secretary.
- Concluded externally facilitated Board effectiveness review.
- Agreed and tracked actions from the 2020 internal evaluation of the Board's performance.
- Approved the appointment of new non-Executive Directors.
- Reviewed schedule of matters reserved for the Board and Terms of Reference of its Committees.
- Reviewed and approved Company's financial reporting.
- Created sub-committees to oversee administrative matters.

## COMPLIANCE WITH THE CODE

This statement of compliance summarises how the Company has implemented the principles and provisions of the 2018 UK Corporate Governance Code (the "Code"). The Code is available at [www.frc.org.uk](http://www.frc.org.uk).

The Board considers that the Group has complied in all material respects with the principles and provisions of the Code during 2021 except that we recognise that we have not yet complied fully with provision 38 in aligning Executive Director pension payments with the wider workforce. Further information regarding this provision, including how we intend to address this, can be found on pages 68 and 70.

### 1. Board leadership and company purpose

#### A. Board's role

The Board is responsible to shareholders for the Group's financial and operational performance and risk management, and the culture embedded across the Group, and is collectively responsible for promoting the long-term success of the Group. There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities. The key focus of the Board's activities during the year is described on page 56 and the progress of embedding culture across the Group is described in the CEO Review on pages 12 to 14.

There is a framework of prudent and effective controls that enable risk to be assessed and managed, which is described further on pages 28 to 33.

#### B. Purpose and culture

The role of the Board regarding culture has been emphasised in the Code, with specific recommendations that the Board assesses and monitors culture, and ensures that workforce policies, practices and behaviours are aligned with the Group's purpose, values and strategy. Further information on how the Board monitors culture can be found on page 55.

#### C. Resources and controls

The Board is responsible to shareholders for the Group's financial and operational performance and risk management. Matters delegated to the CEO and CFO include managing the Group's business in line with the Group's strategy, annual budget and implementation of the risk governance framework. Further information about the Group's risk management can be found on pages 28 to 33.

#### D. Stakeholder engagement

The Group has a well-developed and continuous programme to address the needs of its shareholders, investment institutions and analysts for a regular flow of information about the Group, its strategy, performance and competitive position. The relationship with shareholders, potential shareholders and investment analysts is given high priority by the Group, as detailed on page 49. Given the wide geographic distribution of the Group's current and potential shareholders, this programme includes regular presentations to investors, particularly by the CEO.

The Committee Chairs also engage with their relevant stakeholders and details of this engagement are provided in each of the Committee reports. The Board continually works to understand their views and take account of its responsibilities to the Group's stakeholders when making business decisions.

The Board as a whole is responsible for workforce engagement. The various mechanisms by which the Board engages with the workforce can be found on page 48. As the Board has not selected one of the methods in the Code, page 48 explains why the Board arrangements are effective and appropriate for the Group. The Board will continue to review to ensure that they are effective.

#### E. Workforce policies and practice

Group-wide workforce policies are approved by the Board. All the policies relating to the Group's workforce take account of the global nature of the Group's businesses. The whistleblowing process is overseen by the Board and all members of the workforce have access. Further details regarding whistleblowing can be found on page 63.

### 2. Division of responsibilities

#### F. The role of the Chairman

The Board is chaired by John Nicholas, who also chairs the Nomination Committee and is a member of the Remuneration Committee. The Chairman attended all meetings of the Audit Committee during the year at the invitation of its Chair. The Chairman is the main point of contact between the Board and the CEO. The Chairman represents the Board in discussions with shareholders and investor bodies, represents the Group in external meetings, and is also responsible for the Board governance principles. The Chairman has led the ongoing emphasis on management development and CEO and senior management succession planning. The Chairman leads the Board and is responsible for its overall effectiveness. The Chairman was independent on the date of his appointment. The Chairman recognises the importance of creating a boardroom culture which encourages openness and debate and ensures constructive relations between Executive and non-Executive Directors.

#### G. Composition of the Board

The Board is composed of eight Directors. Two current members are Executive Directors and six, including the Chairman and Chairman designate, are non-Executive Directors. Each of the non-Executive Directors is considered to be independent by the Nomination Committee.

Responsibility for the development and implementation of the Group's policy and strategy, and for day-to-day management issues is delegated by the Board to the CEO and CFO.

With only specific exceptions that may be necessary to ensure Board continuity, non-Executive Directors shall not stand for re-election after they have served for the period of their independence, as determined by applicable UK standards, which is currently nine years. John Nicholas will not stand for re-election at the 2022 Annual General Meeting ("AGM").

The Nomination Committee Report considers appointments, succession planning and the mix of skills and experience of the Board on page 66. The Board is satisfied that it has the appropriate balance of skills, experience, independence and knowledge of the Group to enable its members to discharge their respective duties and responsibilities effectively, and that no individual or group can dominate the Board's decision-making. Only the Chairs and Committee members have the right to attend the meetings of the Nomination, Audit and Remuneration Committees. Attendance by all other individuals is by invitation only.

## COMPLIANCE WITH THE CODE CONTINUED

### H. Role of non-Executive Directors

The non-Executive Directors provide constructive challenge and assistance to the CEO in developing the Group's strategy.

The Senior Independent Director is Anne Thorburn, who is available to shareholders and acts as a sounding board for the Chairman and as an intermediary for the other Directors with the Chairman, when necessary. The Senior Independent Director's role includes responsibility for the Chairman's appraisal and succession.

Letters of appointment for non-Executive Directors do not set out a fixed time commitment for Board attendance and duties but give an indication of the likely time required. It is anticipated that the time required by Directors will fluctuate depending on the demands of the Group and other events.

Details of 2021 Board attendance at Board and Committee meetings are set out on page 51.

### I. Role of the Group Company Secretary

Procedures are in place to ensure that Board members receive accurate and timely information via a secure and electronic portal and all Directors have access to the advice of the Group Company Secretary as well as independent professional advice at the expense of the Group.

The Group Company Secretary is a trusted interlocutor within the Board and its Committees, and between executive management and the non-Executive Directors. The Group Company Secretary is responsible for advising the Board on all governance matters. The Group Company Secretary supports the Chairman in ensuring that the information provided to the Board is of sufficient quality and appropriate detail in order for the Board to function effectively and efficiently. The appointment and removal of the Group Company Secretary are matters reserved to the whole Board.

## 3. Composition, succession and evaluation

### J. Appointments to the Board

The Nomination Committee leads the process for appointments to the Board and makes recommendations to the Board. The Nomination Committee is chaired by the Chairman of the Board and comprises only non-Executive Directors. The Terms of Reference of the Nomination Committee are available on the Group's website. During the year, one non-Executive Director, Dean Finch, was appointed to the Board and David Lowden, Chairman designate, was appointed in October 2021. For more details on the appointment process refer to the Nomination Committee Report on page 64. One non-Executive Director, John Nicholas, will be retiring at the AGM in 2022, following which the Board will be composed of seven Directors. The Board has confirmed that all of the non-Executive Directors standing for election and re-election at the 2022 AGM continue to demonstrate the characteristics of independence.

### K. Skills, experience and knowledge of the Board and its Committees

The non-Executive and Executive Directors have a diverse range of skills, experience and backgrounds, as detailed in their biographies on pages 52 and 53. The Board is committed to ensuring that all appointments to the Board are made on merit and after a thorough recruitment process as detailed on page 65 and with due regard for diversity and inclusion.

With regard to succession planning, the Board aims to develop a diverse and complementary range of skills, knowledge and experience, so that it is equipped to navigate the operational, social, regulatory and geopolitical complexity in which the Group operates. Achieving the right blend of skills and diversity to support effective decision-making is a continuing process. Further details on tenure and experience of the Board are set out on pages 52 and 53.

### L. Board evaluation

Full details of the Board evaluation can be found in the Nomination Committee Report on page 55 and 56.

## 4. Audit, risk and internal control

### M. Internal and external audit

The Audit Committee monitors the independence and effectiveness of the internal audit function and external auditors and receives regular reports from each at the Audit Committee meetings. Refer to the Audit Committee Report on pages 60 to 63 for details of the work of the Audit Committee during the year. Details of the Group's internal audit function are included on page 62.

### N. Fair, balanced and understandable assessment

The Board is responsible for the presentation of a fair, balanced and understandable assessment of the Group's position and prospects, within the Annual Report & Accounts as well as in all publicly available financial information. See page 87 for further information.

### O. Risk management and internal control framework

The Board is responsible for aligning the risk appetite of the Group with the long-term strategic objectives, considering the principal and emerging risks faced by the Group. See page 28 for further details of the risk management framework.

## **5. Remuneration**

### **P. Remuneration policies and practices**

The Group's Remuneration Policy is designed to attract the best talent and ensure people are rewarded fairly and competitively. The policy sets out a reward structure that is designed to promote sustainable performance aligned with shareholder interests. Shareholders approved the Directors' Remuneration Policy at the 2020 AGM and this is available on the Group's website.

The Remuneration Committee supports the Board by setting the Remuneration Policy and monitoring the application of the Policy. Through a mixture of long-term and short-term incentives, the Remuneration Policy is designed to help drive a performance culture which incentivises executives to deliver the Group's long-term strategy and create superior shareholder value over the long term.

The overarching aim is to ensure our remuneration structure and policies reward fairly and responsibly with a clear link to corporate and individual performance, and to the Group's long-term strategy and values. Significant work was undertaken to ensure that the Group has a clear policy that can be understood by shareholders and stakeholders.

### **Q. Procedure for developing the Remuneration Policy**

The Remuneration Committee is responsible for determining the remuneration of all Directors, the Group Company Secretary and senior management. Controls and transparent procedures are in place to manage compensation of all other employees in the Group. Refer to the Remuneration Committee Report on pages 67 to 85 for details of the work of the Committee during 2021.

Executive remuneration is set with regard to the wider workforce and through market benchmarking. For further detail, please refer to the Remuneration Committee Report on pages 67 to 85.

### **R. Exercising independent judgement**

The Remuneration Committee is composed of six non-Executive Directors who meet both with and without management present and seek, where appropriate, independent advice from Willis Towers Watson, Stephenson Harwood LLP and Simmons and Simmons LLP. The Remuneration Committee determines remuneration outcomes by assessing executive performance against performance criteria which are set out in the Remuneration Committee Report on pages 67 to 85.

## AUDIT COMMITTEE REPORT



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



**Anne Thorburn**  
Chair of the  
Audit Committee

**Dear Shareholder**

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

During the year ended 30 September 2021, the Committee has ensured that it has had oversight of all these areas while also focusing on diverse changes in the external environment, both regulatory and political, including the impact of the Covid-19 pandemic, which have had a range of implications on the risk management activities of the Company. The Committee continues to monitor the uncertainties arising from these changes and consider the management and mitigation of these risks. The Committee formulated a response to BEIS on their audit and governance reforms white paper "Restoring trust in audit and corporate governance" focusing upon the potential implications for the Group and the importance of proportionate approaches.

In addition, the Committee has received reports on internal audits for the Group's businesses, as well as updates on the steps being taken to address internal audit findings, controls issues and investigations. All members of the Committee participated in the externally facilitated performance evaluation carried out during the year, which felt that the Committee is a good and balanced forum, with plenty of relevant experience. Further details of the evaluation, its recommendations and actions can be found on pages 65 to 66.

As Audit Chair, I have regular conversations with the Chief Financial Officer, Group Internal Audit Director, Group Financial Controller, Group Company Secretary and also the audit partner at PricewaterhouseCoopers LLP ("PwC"), our external auditor.

PwC has now completed its fourth full annual cycle, and we value the rigour and challenge of its approach. I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. I am confident that the Audit Committee has carried out its duties during the year effectively and to a high standard, providing independent oversight with the support of management and assurance from the external auditors.

I look forward to meeting shareholders at the AGM on 19 January 2022 and will be happy to respond to any questions relating to the activities of the Audit Committee.

**Anne Thorburn**  
22 November 2021



### Audit Committee

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

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

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 September 2021 and up to the date of this report.

### Financial reporting and significant financial judgements and estimates

The Committee considered and assessed:

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

The Committee considered the matters set out below as being significant in the context of the consolidated financial statements for the year ended 30 September 2021. These were discussed and reviewed with management and the external auditor and the Committee challenged judgements and sought clarification where necessary.

The Committee considered the judgements made in evaluating the financial statements, including the accounting for acquisitions and associated valuation of intangible assets, the impact on provisions for excess and slow-moving inventory, the appropriateness of the Going Concern assumption and the impairment of goodwill.

### Accounting for acquisitions and disposals

The Committee reviewed the accounting for acquisitions completed during the year, in particular the acquisition of WCW and S&W for a combined consideration of £383m. The acquisitions were material for the FY 2021 audit and, in accordance with IFRS 3 (Business Combinations), management has performed a full fair value exercise for these two acquisitions in this year's financial statements. As part of their audit of the Group, the external auditor has performed work on: a) the Purchase Price Allocation ("PPA"); b) substantive detailed testing of the opening balance sheet as at the acquisition date; c) audit of any material fair value adjustments arising on the acquisition balance sheet; and d) testing procedures over the closing balance sheet. The Committee reviewed and challenged management's assessment, which also included consideration of the external audit findings. The Committee concluded that the accounting for these two acquisitions and the other eight smaller acquisitions was appropriate. The Group completed one disposal and committed to another, resulting in an impairment charge of £7.3m to state the company's net assets at their fair value.

### Provisions for excess and slow-moving inventory

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

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

### Impairment of goodwill

The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the cash-generating units ("CGUs") being tested for impairment. These judgements are primarily the calculation of the discount rates, the achievability of management's forecasts in the short to medium term against the backdrop of the Covid-19 pandemic and the use of the long-term growth rate. Following the review, which also included consideration of the external audit findings, the Committee concurred with the conclusion that the carrying value of the goodwill recorded is appropriate.

### Other audit matters

The external auditor also reported to the Committee on other less material matters including the recoverability of trade receivables and the valuation of the Group's defined benefit pension schemes.

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

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

### Going Concern and Viability

The Going Concern and Viability assessment was undertaken against the continued backdrop of Covid-19. In preparing the assessment, management considered two scenarios – the base case and downside case. The base case reflects actual recent trading and takes account of any further anticipated impact of Covid-19. The downside case reflects a more significant decline in trading, adverse movements in working capital and lower than forecast operating margin, and is considered by management to be a severe but plausible scenario. The Group has significant liquidity headroom and covenant headroom in both scenarios for both Going Concern and Viability Statement purposes. The Audit Committee reviewed the assumptions underpinning each scenario and is satisfied with management's assessment and conclusions in respect of Going Concern and Viability. Further detail on the assessment of Viability and the Viability Statement are set out on page 33. Further details on Going Concern can be found on page 113.

### Engagement of the external auditor

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

The Group's Annual Report & Accounts has been audited by PwC, led by Christopher Burns, Audit Partner. In its fourth year as auditor, PwC has met with the Audit Chair and has agreed its audit strategy and audit fees with the Audit Committee. As part of its audit, PwC will continue to provide the Committee with relevant reports, reviews and advice throughout the coming year.

In accordance with UK regulations, PwC also assured the Committee that it adheres to a rotation policy based on best practice and the Group engagement partner will serve a period of no longer than five years.

## AUDIT COMMITTEE REPORT CONTINUED

During the year, the Committee carried out an assessment of the effectiveness of the external audit process for the previous year ended 30 September 2020. The assessment was led by the Chair of the Committee, assisted by the CFO, and focused on certain criteria which the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of the audit process and the robustness of challenge to management, the planning and execution of the audit and the role of management in the audit process.

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

### Non-audit services

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

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

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

Taxation services are not provided by the Group's current audit firm; a separate firm is retained to provide tax advice and any assistance with tax compliance matters generally. In addition, due diligence exercises on acquisitions and similar transactions are not provided by the auditor, but are placed with other firms.

The external auditor is retained to carry out assurance services to the Committee in connection with "agreed upon procedures" on the Group's half year consolidated financial statements (£27,000). The external auditor also provides access to its Viewpoint technical subscription service (£1,200). With the exception of these services, PwC has not provided any non-audit services to the Group or its subsidiaries and has confirmed its independence to the Audit Committee. The total non-audit fees for the year are £28,200. Further information is set out in note 26 to the consolidated financial statements.

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

### Tax strategy

The Committee meets annually with the Head of Tax to review the key tax matters affecting the Group and to understand the areas of tax focus in the forthcoming year. The Committee also reviewed the Group's tax strategy and broader tax policy.

### Risk management and internal control

The principal risks and uncertainties that are currently judged to have the most significant impact on the Group's long-term performance are set out in a separate section of the Strategic Report on Internal Control and Risk Management on pages 28 to 33.

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the principal risks to the Group. These procedures are in line with the FRC's guidance. The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Group who are supported by the heads of each business Sector and functional heads of the Group.

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

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

As part of the year end close process each business is required to complete a self-assessment that evaluates the financial control environment in their business which is designed to identify weaknesses in controls. These assessments are critically reviewed by the Group Internal Audit Director and evaluated as part of regular Internal Audit reviews. A summary for each business is prepared for the Audit Committee. In addition, senior management of each business are required to confirm their adherence with Group accounting policies, processes and systems of internal control by means of a representation letter.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2020 to the date of this report. Taking into account the matters set out on pages 28 to 33 relating to principal risks and uncertainties and the reports from the Group Internal Audit Director, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

### Internal audit

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

In January 2021, the Group Internal Audit Director presented his audit plan for the year to the Committee for their approval. Travel restrictions continued to be in place for most of 2021 (especially travel to North America and Australia) but internal audit was able to rely on the processes implemented last year and carry out internal audit reviews to deliver the plan. The department continued to effectively rely on remote visits with the use of appropriate communication technology where site visits were not possible.

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

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

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

The internal audit department also continues to monitor the businesses' compliance with Group policies on anti-bribery/corruption sanctions and the other compliance requirements.

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

### Sanctions

The Audit Committee continued to work with the Head of Legal, executive management and senior management of the Group, to ensure ongoing compliance with all applicable sanctions. The Committee will continue to monitor developments until the sanctions are suspended or revoked.

### Anti-bribery and corruption

A Group policy on anti-bribery and corruption addresses the requirements of the Bribery Act 2010. The Committee periodically reviews this policy and the procedures to ensure continued and effective compliance in its businesses around the world. The Group also provides an e-learning training programme to all its businesses. This training has been undertaken by all senior management and employees in customer or supplier-facing roles and in particular by management and employees from companies that have recently joined the Group.

### Whistleblowing

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

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

### Key duties and focus in 2021

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

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

The Committee's key responsibilities and focus during the year ended 30 September 2021 have been:

- Reviewed and agreed the scope of audit work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the 2020 Annual Report & Accounts and received reports from the CFO and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the report on compliance with the UK Corporate Governance Code 2018 and reports on the provision of information to the auditor.
- Reviewed the report from the CFO on the controls in place to mitigate fraud risk.
- Reviewed the Half Year Announcement and received reports from the external auditor on the key accounting issues and areas of significant judgement including an assessment of the impact of Covid-19 on the trading results and the interim going concern assessment.
- Reviewed the trading updates.
- Reviewed the effectiveness of the Group's internal control and risk management procedures, also taking into account the impact of Covid-19, and, where appropriate, made recommendations to the Board on areas for improvement.
- Invited the Group Internal Audit Director to attend meetings to review the results of the internal audit work for the current year and to agree the scope and focus of internal audit work to be carried out in the following year.
- Reviewed the UK Corporate Governance Code 2018 and future reporting under section 172 Companies Act 2006.
- Approved the Committee work programme for 2022.
- Approved the Going Concern and Viability Statements.
- Continued to monitor developments in audit reform and changing best practice.
- Responded to the BEIS "Restoring trust in audit and corporate governance" reform proposals.

## NOMINATION COMMITTEE REPORT

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**The Nomination Committee is supporting the development of boardroom diversity whilst evaluating the balance of skills, experience and independence necessary for Diploma's succession planning."**



**John Nicholas**  
Chairman of the  
Nomination  
Committee

**Dear Shareholder**

I am pleased to set out below the report on the activities of the Nomination Committee during the year. 2021 saw further changes to the Board, with the appointment of Dean Finch as a non-Executive Director in May 2021 and the appointment of David Lowden as Chairman designate in October 2021, bringing further strong commercial, financial and operational experience to Board discussions. The main focus of the Committee during this past year has been on Board succession planning, including the search process for my role of Chairman of the Board.

A fundamental responsibility of the Committee is to ensure plans are in place for orderly succession to Board, our Group Company Secretary and senior management positions, and the Committee debates these regularly. The Committee continues to monitor balance on the Board to ensure we have the right combination of skills, experience and knowledge consistent with the long-term strategy of the Company. This allows us to identify where further focus needs to be brought in the coming years and beyond. Details of the current skills and experience of the Board are contained below.

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

After nearly nine years on the Board, I will retire at the conclusion of the AGM in January 2022. During my tenure there have been considerable changes to the governance regime and we are mindful of the discussions around improving diversity and inclusion, together with the targets set by the Hampton-Alexander Review and the Parker Review. Following my retirement in January, three out of seven Directors (43%) will be women, therefore we continue to exceed the target set by the Hampton-Alexander Review as we did throughout 2021.

We have written elsewhere (see page 42) about our Group-wide approach to diversity and inclusion, which emanates from the Board and impacts the approach of the Nomination Committee. The FRC's guidance on board effectiveness recognises a breadth of diversity that goes beyond just gender and race, and includes personal attributes including intellect, critical assessment, judgement, courage, honesty and tact; and the ability to listen and forge relationships and develop trust. This ensures that a board is not comprised of like-minded individuals. The Committee agrees that diversity is vital when reviewing the composition of the Board and setting the criteria for the recruitment of new appointees, alongside succession planning activities. External search consultants are expected to make every effort to put forward diverse candidates for new Board positions. Whilst appointments will continue to be made on merit and against objective criteria, it remains the Committee's intention that the diversity on the Board will continue to increase over time.

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

**John Nicholas**  
22 November 2021

### Nomination Committee

The Nomination Committee is chaired by John Nicholas, Chairman of the Board. The Committee was chaired by the Senior Independent Director on any matters concerning the Chairman of the Board. The Committee comprises the non-Executive Directors and meets as necessary to discharge its responsibilities.

The Group Company Secretary acts as Secretary to the Committee.

The Committee's key focus areas during the year have been the Chairman succession, recruitment of a non-Executive Director and broader succession planning.

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

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

### Process for Board appointments

#### Step 1

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

#### Step 2

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

#### Step 3

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

#### Step 4

The Committee makes a recommendation to the Board for its consideration

#### Step 5

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

When making Board appointments, we follow the five steps outlined above. We disclose the name of the search agent and any other connection they have with Diploma in our Annual Report & Accounts published following the search. In due course, a tailored induction programme is developed for the new Director. During the year we engaged Korn Ferry in connection with the recruitment of Dean Finch and Russell Reynolds was engaged in connection with the recruitment of David Lowden. Neither of these search consultancies had any other connection to the Group, other than providing executive search services.

### The challenge of "onboarding" during a pandemic

Recruiting and inducting personnel during the last year has proved to be an unusual experience. The decentralised nature of the Group has always made induction processes complex. The pandemic has led us to reconsider how these processes can be conducted effectively. Customarily there would have been face-to-face meetings with key executives and management, introductions to their direct reports, one-to-ones following the initial meetings, and site visits arranged to key businesses. Instead, the induction plan was conducted via Microsoft Teams; each key person heading up a Sector or function gave a presentation on their area of expertise or the businesses comprising their Sector, followed by a Q&A session.

### Succession planning

The Committee formally reviews succession planning for the Board, Group Company Secretary and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background skills and expertise that will be required by the Group in the future. The CEO manages the development of succession plans for senior management, and these are overseen by the Committee. The CEO and Group HR Director presented a succession planning update to the Board in January 2021. The Committee is aware of the importance of identifying critical roles within the businesses to ensure we retain and motivate key talent and have the necessary skills for the future.

The standard term for non-Executive Directors is three years. They normally serve for a maximum of nine years, through three terms, each of three years' duration. All Directors are subject to annual re-election.

	Date of original appointment	Expiry of current term
John Nicholas	1 Jun 13	1 Jun 22 <sup>1</sup>
Andy Smith	9 Feb 15	9 Feb 24 <sup>1</sup>
Anne Thorburn	7 Sep 15	7 Sep 24 <sup>1</sup>
Geraldine Huse	20 Jan 20	20 Jan 23
Dean Finch	21 May 21	21 May 24
David Lowden	19 Oct 21	19 Oct 24

<sup>1</sup> Director in final term.

### External Board evaluation

The Code recommends that an externally facilitated evaluation of the performance of the Board should take place at least every three years and therefore, in line with this recommendation, the Committee selected Clare Chalmers Limited to undertake an external evaluation of the Board and its Committees. The evaluation was conducted through in-depth facilitated interviews with all Board members and senior executives and the external Audit Partner, observation of meetings, and review of meeting papers and minutes, Committee Terms of Reference, the latest Annual Report, the Board calendar and forward agenda. The review looked comprehensively at all aspects of Board effectiveness. Clare Chalmers Limited undertook the externally facilitated evaluation in 2018. Clare Chalmers Limited has no other connection with the Company or its individual Directors.

## NOMINATION COMMITTEE REPORT CONTINUED

Clare Chalmers' evaluation report was robust and informative and provided a valuable independent external perspective on the Group's governance. In connection with the presentation of the evaluation report, Clare made a number of recommendations which the Board considered and intends to implement, including the following:

Recommendation	Action
<b>Consider increasing the size of the Board, bringing in further skills relevant to Diploma's size and operations</b>	Nomination Committee to review the composition of the Board and determine if further appointments are necessary.
<b>Board training programme to be evolved</b>	Additional sessions to be included as part of annual calendar as well as bespoke sessions from advisors as required to enable and increase further challenge and scrutiny from the non-Executive Directors.
<b>Employee engagement to be reviewed</b>	Board to consider appointing a Designated NED for Employee Engagement. Increased number of site visits, with NEDs conducting these individually on occasion and providing feedback to the Board.
<b>Board schedule to be reviewed</b>	Board to consider sometimes holding the Committees the day before the Board, with a Board dinner in the evening between.

The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2022 Annual Report. The summary of the Board performance evaluation set out above has been reviewed and approved by Clare Chalmers.

**Key areas for development in 2021**

The following were the key areas for improvement and actions taken arising from the 2020 internal Board performance evaluation.

Area for development	Action
<b>Employee and stakeholder engagement</b>	Additional Board visits to businesses were added to the 2021 schedule, but were prevented due to travel restrictions and deferred to 2022.
<b>Succession planning</b>	Nomination Committee scheduled annually solely devoted to Board succession and specifically looking three years forward.
<b>Strategy</b>	Additional strategy sessions added to Board workplan.

REMUNERATION COMMITTEE REPORT



It has been a very positive year for Diploma with strong returns; we are confident that our remuneration is supporting sustainable long-term shareholder value."

**Andy Smith**  
Chairman of the Remuneration Committee



Members of the Committee	Attendance
Andy Smith (Chairman)	6/6
Anne Thorburn	6/6
John Nicholas	6/6
Geraldine Huse	6/6
Dean Finch	1/2 <sup>1</sup>

<sup>1</sup> Dean Finch was appointed to the Committee on 21 May 2021.

**Dear Shareholder**

On behalf of the Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 30 September 2021. This covers the required regulatory information and provides further context and insight into our executive pay arrangements. The report includes activities undertaken to implement remuneration plans designed to attract and retain a talented management team, incentivise them to deliver outstanding long-term value for shareholders and reward them for doing so. The Committee remains committed to regular engagement with our shareholders to ensure that our executive remuneration decisions are clear and fair in the context of the Group's wider stakeholders.

**2021 performance and alignment to remuneration outcomes**

I am particularly pleased to be presenting this year's DRR against the backdrop of strong 2021 financial results which add to the Group's long-term track record of excellent business performance and returns for shareholders.

All three Sectors performed strongly, delivering a 46% increase in revenue and a 71% increase in adjusted operating profit, driven by a 270bps increase in adjusted operating profit margin to 18.9%. Free cash conversion was very strong at 103%, well ahead of our targeted 90%+. Recent acquisitions, including Windy City Wire, have outperformed our expectations.

Based on this performance, targets under the annual bonus (see page 72) have been achieved at maximum, resulting in a full bonus payment of 125% of salary for both Johnny Thomson and Barbara Gibbes.

Our long-term performance also continues to create considerable shareholder value. Our Total Shareholder Return ("TSR") growth over the last three-year period of 134% (a compound annual growth rate ("CAGR") of 33%) places Diploma in the 95th percentile of FTSE 250 companies (excluding Investment Trusts). Compound adjusted Earnings Per Share ("EPS") growth is 15.1% over the three-year performance period. To ensure the quality of these earnings, the Committee has also reviewed return on adjusted trading capital employed ("ROATCE") performance and is satisfied that it is ahead of the Board's expectations. Based on these excellent results, the Performance Share Plan ("PSP") (PSP (2018)) has vested at maximum for Johnny Thomson, which was 250% of base salary. Barbara Gibbes does not have an award vesting this year; her first award vests, subject to performance, at the end of FY 2022.

Beyond our financials, we are pleased with the strategic progress in building high-quality, scalable businesses for sustainable growth alongside the development of the Group's environmental, social and governance ("ESG") programme, Delivering Value Responsibly. The resilient performance through the pandemic and our ability to capitalise on the recovery is testament to the commitment of our colleagues to excellent customer service.

## REMUNERATION COMMITTEE REPORT CONTINUED

In line with the 2018 Corporate Governance Code (the “Code”), the Committee reviewed individual Directors’ incentive plan outcomes and overall remuneration in light of the Group’s underlying performance. This is a very strong set of results for the Group, underpinned by excellent implementation of the strategy and plan. Accordingly, the Committee is satisfied that the incentive plan outcomes and the total remuneration received by Executive Directors in respect of the year ended 30 September 2021 are consistent with the levels of company performance delivered by management and that the Remuneration Policy is operating as intended.

### Voting outcomes from 2020

The Committee has given considerable thought to recent voting outcomes on remuneration: 54.3% in favour of our 2020 DRR and 79.98% in favour of the Remuneration Policy, which was approved at the Annual General Meeting (“AGM”) in January 2020. The Committee would like to reassure shareholders that it is committed to ensuring remuneration is aligned with shareholders’ interests. After the 2020 DRR vote, we wrote to shareholders accounting for around 75% of the Group’s share register, to invite their feedback. We subsequently conducted a comprehensive engagement process, with our Chairman John Nicholas and I meeting virtually with over 55% of the Group’s share register and three advisory agencies. The meetings generated some excellent and informative dialogue, and it was very helpful to be able to gain shareholders’ views and explain ours first-hand. I am grateful to all of those who took the time to meet with us.

Our dialogue confirmed that last year’s concerns arose predominantly from matters relating to management transition and, in particular, the decision to allow early vesting of the retiring Finance Director’s PSP awards. The circumstances relating to his retirement after 19 years’ service were unique and will not recur. The Committee has reconfirmed that it does not intend to apply such discretion to PSP awards in the future.

In the engagement sessions, shareholders expressed overall support for the Group’s Remuneration Policy and raised no major concerns. The Committee is confident that the Policy remains fit for purpose for the year ahead. We believe that shareholder dialogue is important, and we are committed to considering the interests of all stakeholders in our approach to remuneration. We will continue to seek, listen to and respond to feedback and this will include consultation during 2022 in advance of our next policy review.

### Remuneration in the workforce

The skill and dedication of our colleagues lies at the heart of the business. Our senior management’s resilience has been tested during the last few years and they have responded with brilliant leadership, with many taking on more complex roles as the Group grows. Amongst our workforce, we are pleased to see high levels of colleague engagement from the recent Group Colleague Engagement Survey (engagement index 79%, compared to industry norms of less than 70%).

The Committee is conscious of the challenges that the business and our colleagues are presently facing. All are impacted by the inflationary pressures arising from the macro-environment, including energy prices, and our colleagues are also facing additional daily challenges, not least those created by supply chain pressures in the business. Labour markets, particularly in the US and UK, are strained with fewer workers in the system and high demand from businesses recovering from the pandemic. All of this makes for an uncertain and particularly challenging remuneration environment.

The 2022 overall base salary increase across the Group is 4% for the workforce, including senior managers. The Committee considers this to be reasonable and is supportive.

The management team and Committee will continue to review total compensation proactively and take workforce views into account on executive compensation and workforce pay concerns.

### Remuneration for 2022

The Committee views the design of the executive remuneration arrangements as appropriate for the year ahead and that the remuneration approach continues to follow our remuneration principles, which include supporting the creation of sustainable, long-term shareholder value.

The Committee is focused on maintaining stretching performance targets aligned with shareholder and other stakeholder interests. Remuneration plans follow the strategic plans that are reviewed and approved by the Board. The framework (summarised on page 70) works well and is simple, relevant to the business model and aligned with the Group’s strategy. We continue to follow our remuneration principles which are listed on page 77, as well as listening to the views of the workforce.

The Committee also considers remuneration alignment throughout the Group and has reviewed the CEO pay ratio (shown on page 75). The Committee recognises that the single figure for the CEO has increased this year as a result of the exceptional performance delivered and the balance of performance-related pay in his package, which has impacted the ratio. The Committee is satisfied that, since the Policy is operating as intended in aligning executive pay with performance, no policy changes are required for the year ahead.

The Committee is paying particular attention to ESG and is pleased to note that the Group is doing a huge amount to develop its approach to ESG through the Delivering Value Responsibly programme (described on page 34). Non-financial key performance indicators (“KPIs”) are published on page 17. As the Group’s target setting develops, the Committee will assess how the remuneration framework needs to adapt to incentivise and reward delivery against ESG objectives.

### Fixed pay:

Johnny Thomson received a 3% increase to his base salary from 1 October 2021. This is below the increase awarded to the workforce and senior managers. Johnny Thomson has voluntarily committed to lowering his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021. From 1 January 2023, these contributions will reduce to 4% to bring them into line with that received by the majority of the UK workforce.

Barbara Gibbes received an increase of 7.4% to her base salary from 1 October 2021 to £365,000. The Committee decided on this increase having carefully considered Barbara’s performance, the increasing size and complexity of the Group, the Group’s financial performance and total CFO compensation in comparable organisations. This increase moves her salary to a level that the Committee believes to be fair and equitable at the present time. She received no increase in 2020 in line with the wider arrangements in place at the height of the Covid-19 pandemic. Barbara already receives a company contribution in lieu of pension of 4% of base salary, in line with the workforce.

Barbara was appointed as CFO in June 2020, having joined the Group as CFO designate in March 2020, her first Group CFO Board appointment. At the time of her appointment, the Committee informed shareholders that increases higher than normal might be required in her first few years of appointment to reflect her growth in role. Provided that she continues to progress positively, and the Group continues to perform well, we anticipate increases of a similar magnitude in 2022 and 2023. In the recent shareholder and advisory agency engagement, we received overall support for our chosen approach of phased increases alongside a continued review of performance.



### Variable pay:

In 2022 the annual performance bonus will follow the same target metrics as 2021, namely 50% adjusted operating profit, 25% revenue, 25% free cash flow. These targets will be based on the budget agreed by the Board.

The PSP will also continue with its existing metrics, 50% adjusted EPS with a ROATCE underpin and 50% relative TSR compared to the FTSE 250 (excluding Investment Trusts). Awards under the PSP have been granted at the same level as last year to Johnny Thomson (250% of base salary) and Barbara Gibbes (175% of base salary). The methodology used to measure the performance conditions remains the same (see pages 72-73).

In the 2020 DRR we indicated our intention to reassess adjusted EPS targets given the considerable growth in the size of the Group following a number of acquisitions. The strategy remains the same: to deliver strong underlying growth supplemented by acquisitions, each needing to deliver good margins and returns. With a bigger base of business, the Board expects management to deliver more acquisitions than historical levels. It is, however, essential that we maintain the quality of our business acquisitions. We need to remain financially disciplined, acquiring only quality businesses at the right price in order to protect and enhance returns for shareholders. In determining future EPS targets, the Committee considered several inputs including financial modelling of growth scenarios as well as market consensus. We also took views from shareholders in our recent engagement.

Taking all these factors into account, the Committee has decided to set the EPS target maximum for the PSP at 12% CAGR. This is a suitably ambitious and stretching target that requires excellent underlying growth, above GDP, sustained high margins and a considerably higher acquisition spend than historical levels. The threshold remains at 5% and the Committee will issue the 2021 PSP grant with an EPS target range of 5% to 12%.

### Directorate changes

Charles Packshaw retired as Senior Independent Director in January 2021. We welcomed Dean Finch to the Committee following his appointment to the Board as non-Executive Director on 12 May 2021. More recently, David Lowden joined the Board as non-Executive Director and Chairman designate on 19 October 2021. He will succeed John Nicholas as Chairman at the conclusion of this year's AGM when John will stand down from the Board after nearly nine years of service. The Chairman's remuneration arrangements are shown on page 74. The retiring Chairman, John Nicholas, was appointed in 2015 when the Group was 60% smaller and has since received typical annual fee inflationary increases. The new Chairman's fee has been determined in relation to the Group's present size and complexity.

### Conclusion

I would once again like to thank shareholders for the level and quality of engagement over this last year. We will maintain a close dialogue as we seek to deliver a competitive, motivating pay framework that is tightly aligned to shareholder experience whilst maintaining good governance standards. We are very grateful to those investors who took the time to meet with us and for the feedback they provided, and we will plan further discussion during 2022 ahead of our 2023 Policy review. I look forward to receiving your support at the AGM on 19 January 2022.

**Andy Smith**  
22 November 2021

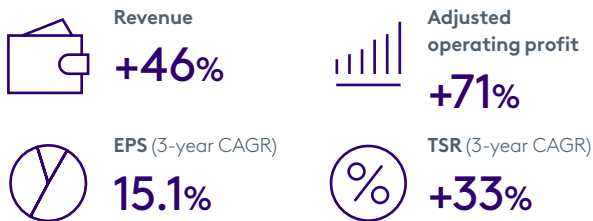
## REMUNERATION COMMITTEE REPORT CONTINUED

# Remuneration at a glance

## Key strategic highlights

- Building high-quality, scalable businesses for sustainable growth.
- Revenue initiatives driving strong underlying growth.
- £456m invested in strategically important acquisitions to accelerate our growth.
- Excellent progress with Delivering Value Responsibly ("DVR").

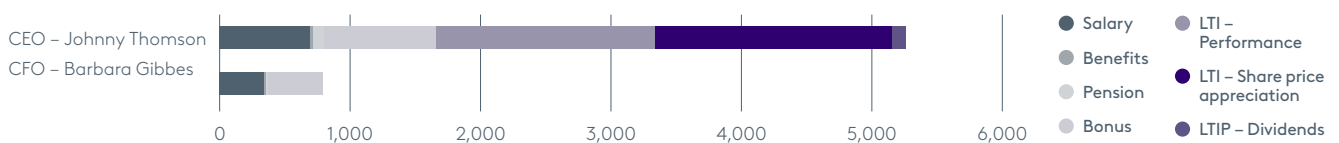
## Performance snapshot



## Aligning awards to performance

Performance measures	Incentive plan	Weighting	Achievement of max
Adjusted operating profit	Annual bonus	50	100%
Revenue	Annual bonus	25	100%
Free cash flow	Annual bonus	25	100%
Earnings per share ("EPS")	PSP	50	100%
Total shareholder return ("TSR")	PSP	50	100%

## Reflecting performance in remuneration (single figure)



## Looking ahead

	Fixed remuneration	Annual bonus	Long-term incentives	Shareholding guideline	Post-cessation guideline
<b>Johnny Thomson (CEO)</b>	Base pay: £711,000 Pension: equivalent to 10% of base pay	Max: 125% base pay Target: 63% base pay	Max: 250% base pay Performance period: three years Holding period: five years from grant	Minimum holding requirement ("MSR"): 250% base pay	Holding requirement: 50% of the MSR for 12 months after the termination date
<b>Barbara Gibbes (CFO)</b>	Base pay: £365,000 Pension: equivalent to 4% of base pay	Max: 125% base pay Target: 63% base pay	Max: 200% base pay Performance period: three years Holding period: five years from grant	MSR: 200% base pay	Holding requirement: 50% of the MSR for 12 months after the termination date
<b>Change from 2021</b>	Base pay increased by 3.0% for the CEO and 7.4% for the CFO  CEO pension will reduce again this year from 12.5% to 10% of base pay from October 2021 with a final reduction to 4% in January 2023	Policy maximum unchanged	Policy maximum unchanged PSP grant issued at same levels as 2021 at 250% for CEO and 175% for CFO	CEO has met MSR, CFO has not met MSR so 50% of 2021 annual bonus will be paid in shares	

## Our executive pay framework

### Annual bonus



### PSP



ROATCE underpin \*

## ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2021. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

### Executive Directors (audited) Total remuneration in 2021 and 2020

	Johnny Thomson		Barbara Gibbes		2021 £000	2020 £000
	2021 £000	2020 £000	2021 £000	2020 <sup>1</sup> £000		
Salary <sup>2</sup>	690	655	340	92	1,030	747
Taxable benefits <sup>3</sup>	25	24	19	5	44	29
Pension	86	104	14	4	100	108
<b>Total fixed</b>	<b>801</b>	<b>783</b>	<b>373</b>	<b>101</b>	<b>1,174</b>	<b>884</b>
Annual performance bonus	863	216	425	62	1,288	278
Long-term incentive plans – dividend equivalent (cash)	88	–	–	–	88	–
Long-term incentive plans – performance element	1,675	–	–	–	1,675	–
Long-term incentive plans – share appreciation element	1,815	–	–	–	1,815	–
Long-term share-based remuneration	3,490	–	–	–	3,490	–
<b>Total variable</b>	<b>4,353</b>	<b>216</b>	<b>425</b>	<b>62</b>	<b>4,778</b>	<b>278</b>
<b>Single total figure</b>	<b>5,242</b>	<b>999</b>	<b>798</b>	<b>163</b>	<b>6,040</b>	<b>1,162</b>

1 Barbara Gibbes joined the Group in the prior year on 2 March 2020 as CFO designate and was appointed CFO and Executive Director of the Company on 22 June 2020. The table above includes her salary, benefits and pension in the prior year for the period from 22 June 2020 to 30 September 2020 and also includes her annual performance bonus in the prior year which has been time prorated for the period from 2 March 2020 to 30 September 2020.

2 Each of the Executive Directors voluntarily waived 20% of their base salary for the three-month period from April 2020 to June 2020.

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

### Executive Directors' base salary (unaudited)

There was no base salary increase for Executive Directors from 1 October 2020. On 16 November 2021, the Committee approved a 3.0% increase in base salary for the CEO and 7.4% for the CFO from 1 October 2021. Explanations of how the Committee has considered remuneration in the workforce are in the Chairman's letter on pages 67-69, along with the rationale for the CFO increase.

	Salary from 1 October 2021 £000	Salary from 1 October 2020 £000	Increase in salary
Johnny Thomson	711	690	3.0%
Barbara Gibbes	365	340	7.4%

### Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2021 and 2020, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan. Johnny Thomson has voluntarily committed to lowering his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2023, his pension contributions will be reduced further to 4% of base salary, in line with the majority of the UK workforce.

	2021		2020	
	Contribution rate % of base salary	Pension paid as cash £000	Contribution rate % of base salary	Pension paid as cash £000
Johnny Thomson	12.5	86	15	104
Barbara Gibbes <sup>1</sup>	4	14	4	4

1 Barbara Gibbes' pension contributions in the prior year are for the period from 22 June 2020 to 30 September 2020.

## REMUNERATION COMMITTEE REPORT CONTINUED

# ANNUAL REPORT ON REMUNERATION CONTINUED

### Annual performance bonus (audited)

#### Bonus payout for year ended 30 September 2021

The Board approves a stretching budget each year. For each performance measure threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2021. The following table summarises the performance assessment by the Committee in respect of 2021 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2021	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis)	Minimum: £122m On-target: £129m Maximum: £135m	Adjusted operating profit for FY 2021 was £153.0m at FY 2020 exchange rates. The maximum threshold was met and the maximum award is payable.
50% of bonus opportunity		
Revenue (calculated on a constant currency basis)	Minimum: £678m On-target: £714m Maximum: £750m	Revenue for FY 2021 was £809.7m at FY 2020 exchange rates. The maximum threshold was met and the maximum award is payable.
25% of bonus opportunity		
Free cash flow (reported)	Minimum: £72.5m On-target: £76m Maximum: £80m	Free cash flow for the year was £108.8m. The maximum threshold was met and the maximum award is payable.
25% of bonus opportunity		

#### Bonus awarded to each of the Executive Directors for year ended 30 September 2021

	Base salary	2021 actual bonus – as a percentage of 2021 base salary				2021 bonus	
	£000	Minimum	On-target	Maximum	Financial objectives	Total bonus	£000
Johnny Thomson	690	5%	63%	125%	125%	125%	863
Barbara Gibbes	340	5%	63%	125%	125%	125%	425

In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (250%) and therefore his bonus for the year will be paid as cash; 50% of the 2021 bonus for Barbara Gibbes will be paid as cash and 50% will be deferred into shares until she reaches her minimum shareholding requirement (200%) set out in the Policy.

#### Bonus awards for year ended 30 September 2022

In the financial year beginning 1 October 2021, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue (both metrics measured on a constant currency basis) and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report & Accounts, due to their commercial sensitivity.

#### Long-term incentive awards (audited)

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

#### Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2021 (PSP (2018)), 2022 (PSP (2019)) and 2023 (PSP (2020)).

Vesting of the award is based 50% on growth in adjusted EPS and 50% on relative TSR performance. In addition, in order for any payment to be earned under the EPS element of awards vesting on or after 30 September 2022, the Committee must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underpin will be measured as the reported ROATCE in the third year of the performance condition.

For the PSP 2021 as explained in the Chairman's letter on page 69, the performance condition will remain the same with the exception of the EPS targets, which will be 5% to 12% per annum.

#### EPS

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

Adjusted EPS growth (over three years)	% of awards vesting
14% p.a.	100
5% p.a.	25
Below 5% p.a.	Nil

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 2 to the consolidated financial statements and this definition remains consistent with the definition of adjusted EPS approved by the Committee in previous years.

## TSR

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

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

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

## Awards vesting in 2021 (audited)

The PSP award granted on 25 February 2019 (PSP (2018)) to Johnny Thomson, an Executive Director, was subject to the performance conditions as set out in the table above, independently assessed over a three-year period ended 30 September 2021. The outcome of this award is shown in the table below:

### Adjusted earnings per share

	Base EPS	EPS at 30 Sep 2021 <sup>1</sup>	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2018)	56.4p	<b>86.1p</b>	15.1%	14%	50%	50%

<sup>1</sup> The pre-IFRS 16 adjusted EPS figure has been used for the purposes of assessing the vesting criteria of the PSP (2018) award. It was explained in the 2020 DRR that the Committee intends to use this approach until the change in accounting standard reaches its three-year anniversary.

Whilst the ROATCE underpin on the adjusted EPS vesting does not apply for the PSP (2018) award, the Committee has reviewed the ROATCE outturn and concluded that 17.4% is ahead of the Board's expectations.

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

	TSR at 30 Sep 2021	Median	Upper quartile	Maximum award	Vested award
PSP (2018)	<b>32.9% p.a.</b>	4.5% p.a.	13.9% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson at 30 September 2021 in respect of this award.<sup>1</sup>

	Share price at date of grant pence	Share price at 30 Sep 2021 pence	Proportion of award vesting	Shares vested number	Performance element <sup>2</sup> £000	Share appreciation element <sup>3</sup> £000	Total £000
PSP (2018)	1,364	2,842	<b>100%</b>	<b>122,801</b>	1,675	1,815	3,490

<sup>1</sup> Barbara Gibbes did not receive an award in 2018 because she was not yet employed.

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

<sup>3</sup> The share appreciation element represents the additional value generated through appreciation of the share price from the date the award was granted to the end of the three-year performance period on 30 September 2021.

## Dividend equivalent payments (audited)

Dividend equivalent payments of £87,803 (2020: £nil) are payable to Johnny Thomson in respect of the PSP (2018) award which vested on 30 September 2021. At 30 September 2020, dividend equivalent payments of £26,992 were payable to the retiring finance director.

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

Johnny Thomson and Barbara Gibbes received a grant of the PSP 2020 award on 23 November 2020, in the form of nil-cost options. This award was based on a share price of 2,306p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award. The award for Johnny Thomson was 250% of base salary and for Barbara Gibbes was 175% of base salary.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the participating Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for this award are set out on pages 72-73.

## Outstanding share-based performance awards (audited)

Set out is a summary of the share-based awards outstanding at 30 September 2021, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out were granted based on a face value of 250% of base salary to Johnny Thomson and a face value of 175% (PSP (2020)) and 100% (PSP (2019)) of base salary to Barbara Gibbes; PSP (2019) being the prorated award for time served (including as CFO designate). No awards will vest unless the performance conditions set out on page 72-73 are satisfied.

## REMUNERATION COMMITTEE REPORT CONTINUED

# ANNUAL REPORT ON REMUNERATION CONTINUED

### Diploma PLC 2011 and 2020 Performance Share Plan (audited)

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2020	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2021
<b>Johnny Thomson</b>									
PSP (2018)	1,364p	1,675	30 Sep 2021	30 Sep 2021	122,801	-	122,801	-	-
PSP (2019)	2,018p	1,725	30 Sep 2022	30 Sep 2022	85,481	-	-	-	85,481
PSP (2020)	2,306p	1,725	30 Sep 2023	30 Sep 2023	-	74,804	-	-	74,804
<b>Barbara Gibbes</b>									
PSP (2019)	1,755p	340	30 Sep 2022	30 Sep 2022	19,374	-	-	-	19,374
PSP (2020)	2,306p	595	30 Sep 2023	30 Sep 2023	-	25,802	-	-	25,802

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

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of options exercised during the year and outstanding at 30 September 2021 are set out below.

### Chairman and non-Executive Directors' remuneration (audited)

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

	Total fees	
	2021 £000	2020 <sup>5</sup> £000
John Nicholas	153	146
Charles Packshaw <sup>1</sup>	19	60
Andy Smith	65	62
Anne Thorburn <sup>2</sup>	72	62
Geraldine Huse <sup>3</sup>	53	35
Dean Finch <sup>4</sup>	19	-

1 The fee for Charles Packshaw was prorated following his retirement on 20 January 2021.

2 The fee for Anne Thorburn includes the prorated additional fee following her appointment as Senior Independent Director on 20 January 2021.

3 The fee for Geraldine Huse was prorated in 2020 following her appointment on 20 January 2020.

4 The fee for Dean Finch was prorated in 2021 following his appointment on 21 May 2021.

5 Each of the non-Executive Directors agreed to a 20% reduction in their base fees in the prior year for the three-month period from April 2020 to June 2020.

The non-Executive Directors received a basic annual fee of £53,000 during the year and additional fees are paid of £12,000 (2020: £12,000) for chairing a Committee of the Board or £10,000 (2020: £10,000) for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chairman of the Company. The fees for non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. Aligned to the approach to the pay review for the Group and the Executive Directors there has been a 3% increase to non-Executive Director and Chairman fees from 1 October 2021. There were no taxable expenses for non-Executive Directors in 2021 and 2020.

The Company recently confirmed the appointment of David Lowden as Chairman designate. David joined the Board as a non-Executive Director on 19 October 2021 and will succeed John Nicholas as the Company's Chairman at the conclusion of the AGM on 19 January 2022 when John will stand down from the Board having completed nearly nine years of service. A basic fee as non-Executive Director of £54,500 pro rata will be paid for the period from 19 October 2021 to 19 January 2022 and an all-inclusive annual fee of £275,000 pro rata will be paid on appointment as Chairman from 19 January 2022. The Company Chairman's fee is explained in the Chairman's letter on page 69.

### Executive Directors' interests (audited)

#### In options over shares

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

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

The nil-cost options outstanding at 30 September 2021 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2020	Exercised in year	Vested during the year <sup>1</sup>	Options unexercised as at 30 Sep 2021	Exercise price <sup>2</sup>	Earliest normal exercise date	Expiry date
Johnny Thomson	2021	-	-	122,801	122,801	£1	Nov 2021	Feb 2029

1 The closing price of an ordinary share on 30 September 2021 was 2,842p (2020: 2,202p).

2 All awards have a notional exercise price of £1 per award.

## Directors' interests in ordinary shares

	As at 30 Sep 2021			As at 30 Sep 2020		
	Ordinary shares	Options vested but unexercised	Options with performance measures	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	37,246	122,801	160,285	34,556	–	208,282
Barbara Gibbes	1,649	–	45,176	876	–	19,374

As set out on page 85, the Committee has set a minimum shareholding requirement of 250% for the CEO and at least 200% for other Executive Directors. Johnny Thomson has met his minimum shareholding requirement and Barbara Gibbes is still below her minimum. As of 30 September 2021, Johnny Thomson's shareholding was 421% of salary and Barbara Gibbes' shareholding was 14% of salary. Barbara Gibbes' shareholding will increase as a result of 50% of her 2021 bonus being deferred in shares. The shareholding calculation is in line with the Company's Shareholding Policy and includes shares from vested PSP awards.

As of 22 November 2021, there have been no changes to these interests in ordinary shares of the Company.

### Chairman and non-Executive Directors' interest in ordinary shares (audited)

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

	Interest in ordinary shares	
	As at 30 Sep 2021	As at 30 Sep 2020
John Nicholas	9,045	9,045
Charles Packshaw <sup>1</sup>	3,545	3,545
Andy Smith	7,545	7,545
Anne Thorburn	5,045	5,045
Geraldine Huse	2,045	2,045
Dean Finch	–	–

<sup>1</sup> As at 20 January 2021.

As of 22 November 2021, there have been no changes to these interests in ordinary shares of the Company.

## Remuneration in context

### Chief Executive pay ratio (unaudited)

The table below sets out the Chief Executive pay ratios as at 30 September 2021.

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

The employee data was measured on 30 September 2021, using the most up-to-date bonus estimates. The approach used was the same as the single total figure methodology with the exception that bonus estimates were used and colleagues who work part time were converted to full time equivalent and those who worked part of the year were annualised.

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

	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£690,000	n/a	£5,242,000
25th percentile	£20,904	33:1	£23,010
Median	£26,302	26:1	£29,036
75th percentile	£37,981	18:1	£41,523

The median pay ratio for employees represents the Group's principles for workforce remuneration. A significant proportion of the CEO's remuneration is delivered through variable pay, whereby awards are linked to financial performance and share price movements over the longer term. This means that the ratios will depend on variable pay outcomes and may fluctuate from year to year. The ratio has increased in 2021 because the CEO has received maximum vesting on his PSP including share price growth of 208% and maximum annual bonus payment, which is 125% of base salary. In 2020, the CEO bonus was 31% of base salary and no PSP award was due to vest.

However, the base pay ratio is consistent from 2021 to 2020. More detailed explanation of how the Committee has considered remuneration of the workforce in determining executive remuneration is contained in the Chairman's letter on pages 67 to 69. The Committee considers the executive remuneration approach to be appropriate in the context of this data.

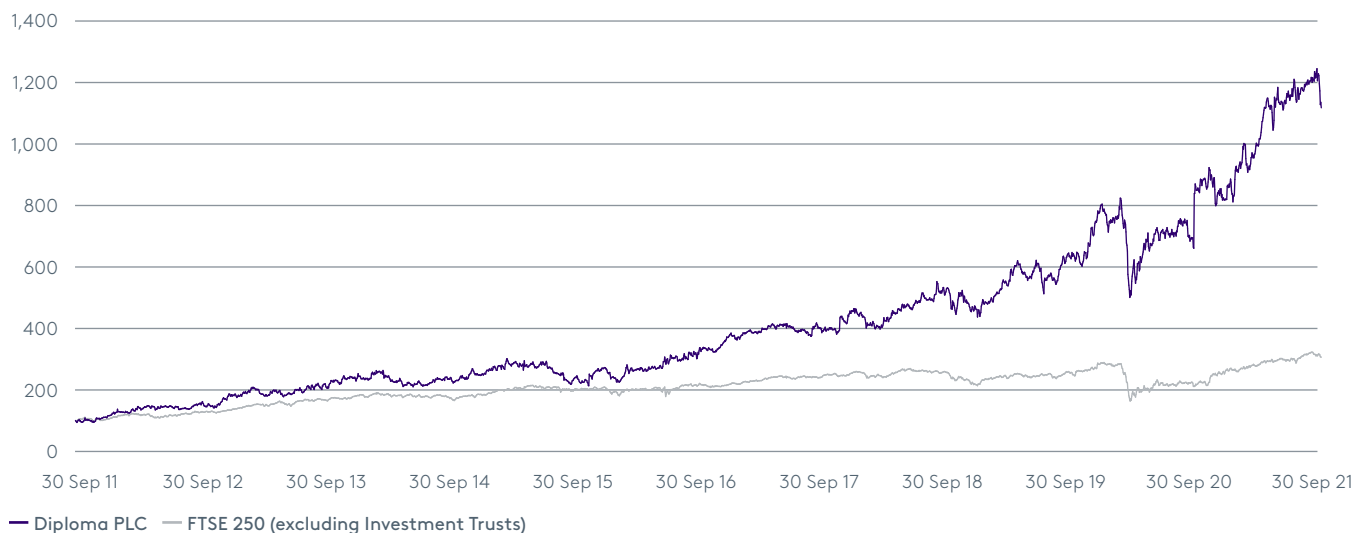
## REMUNERATION COMMITTEE REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

## Aligning pay with performance (unaudited)

The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2021 against the FTSE 250 Index (excluding Investment Trusts) as the Company is a member of this Index. The FTSE 250 Index was chosen because this is a recognised broad equity market index.

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



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

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

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
2021	Johnny Thomson	5,242	100%	100%	+32%
2020	Johnny Thomson	999	25%	–	+34%
2019	Johnny Thomson <sup>2</sup>	1,079	72%	–	+20%
2019	John Nicholas <sup>1</sup>	62	–	–	+20%
2018	John Nicholas <sup>1</sup>	14	–	–	+36%
2018	Richard Ingram <sup>2</sup>	235	–	–	+36%
2018	Bruce Thompson <sup>2</sup>	3,842	100%	99%	+36%
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	-1%
2014	Bruce Thompson	1,846	65%	61%	+8%
2013	Bruce Thompson	2,401	33%	100%	+42%
2012	Bruce Thompson	1,830	95%	100%	+54%
2011	Bruce Thompson	1,701	100%	100%	+16%

<sup>1</sup> John Nicholas was not eligible for an annual bonus or share award for service as interim Executive Chairman for the period 28 August 2018 to 25 February 2019.

<sup>2</sup> These amounts were prorated for the period served as CEO, with the exception of the annual bonus payable to Johnny Thomson, who joined the Company on 25 February 2019.

## Relative importance of Executive Director remuneration (unaudited)

	2021 £m	2020 £m	Change £m
Total employee remuneration	136.9	108.1	28.8
Total dividends paid	52.9	23.2	29.7



### Percentage change in remuneration of Directors and employees (unaudited)

Set out below is the change over the prior financial year in base salary/fees, benefits, pension and annual performance bonus of the Board and the Group's senior managers. Senior managers is a defined group of ca. 120 colleagues. The Committee chose senior managers for pay comparisons with the Board as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business. The figures for the Board are all on a full year basis to show the intended movement.

	Base salary/fee change (%) <sup>2</sup>		Pension change (%)		Taxable benefits change (%)		Bonus change (%)	
	2021 vs 2020	2020 vs 2019	2021 vs 2020	2020 vs 2019	2021 vs 2020	2020 vs 2019	2021 vs 2020	2020 vs 2019
<b>Executive Directors</b>								
Johnny Thomson <sup>3</sup>	no change	+3	-17	+3	+4	no change	+300	-64
Barbara Gibbes	no change	n/a	no change	n/a	+7	n/a	+300	n/a
<b>Non-Executive Directors</b>								
John Nicholas	no change	+3	n/a	n/a	n/a	n/a	n/a	n/a
Charles Packshaw	no change	+3	n/a	n/a	n/a	n/a	n/a	n/a
Andy Smith	no change	+3	n/a	n/a	n/a	n/a	n/a	n/a
Anne Thorburn <sup>4</sup>	11	+3	n/a	n/a	n/a	n/a	n/a	n/a
Geraldine Huse	no change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dean Finch	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Employees of the Parent Company<sup>1</sup></b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Senior management team</b>	<b>+1</b>	<b>+5</b>	<b>+1</b>	<b>+5</b>	<b>no change</b>	<b>no change</b>	<b>+77</b>	<b>-25</b>

1 There are no employees of the Parent Company.  
2 This does not take account of the voluntary pay reduction in the prior year.  
3 The reduction in pension was a voluntary reduction from 15% of base salary to 12.5% of base salary.  
4 The increase for Anne Thorburn was the result of her appointment to Senior Independent Director on 20 January 2021.

### Pay-for-performance: Executive Directors' potential value of 2022 remuneration packages

#### Johnny Thomson (%)

Minimum	91				9	£807,000
Target	34	5	21	42		£2,140,000
Maximum	21	2	26	51		£3,473,000
Stretch	17	2	20	61		£4,362,000

#### Barbara Gibbes (%)

Minimum	96				4	£399,000
Target	41	2	24	34		£946,000
Maximum	26	1	31	43		£1,494,000
Stretch	21	1	25	53		£1,813,000

Fixed: ● Base salary and benefits ● Pension  
Variable: ● Annual performance bonus ● Long-term incentive plans

1 Base salary is as at 1 October 2021; benefits are as set out on page 71.  
2 Stretch is calculated on the same basis as the Maximum bar; however, it includes a share price uplift of 50% over three years for the PSP.

On-target remuneration assumes an Annual Performance Bonus Plan of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 250% of base salary (CFO: 175%) applies to each PSP award. On-target vesting of PSP awards assumes an adjusted EPS growth of 8% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. No dividend equivalents are assumed, and no share price growth is assumed other than in the Stretch bar.

## GOVERNANCE

### Remuneration Committee

The Committee is chaired by Andy Smith and comprises independent non-Executive Directors. Charles Packshaw retired as Senior Independent Director on 20 January 2021. The remaining members, John Nicholas, Anne Thorburn and Geraldine Huse, continue to serve on the Committee. Dean Finch joined the Committee on 21 May 2021. The Group CEO and the Group HR Director attend meetings at the invitation of the Committee to provide advice to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

### The Remuneration Committee Report

The Directors' Remuneration Report and the Chairman's Statement will continue to be subject to an advisory vote by shareholders at the 2022 AGM.

### Remuneration principles and structure

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

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

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

## REMUNERATION COMMITTEE REPORT CONTINUED

# ANNUAL REPORT ON REMUNERATION CONTINUED

### Key duties and focus in 2021

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

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

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

- Approved Remuneration Committee work programme for 2021.
- Reviewed the AGM 2021 votes.
- Conducted extensive shareholder engagement following the voting outcome on the 2020 Remuneration Committee Report.
- Approved annual performance bonus targets and the subsequent bonus awards for 2021.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP (2018) which crystallised in 2021.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Reviewed the fees of the Chairman and non-Executive Directors, including oversight of non-Executive Director changes.
- Planning for the appointment of a new Chairman; appointment was confirmed in first few weeks of FY 2022.
- Reviewed remuneration framework for executive management and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2021 Remuneration Committee Report.

### Services from external advisors (unaudited)

The Committee ran a tender process in January 2021 and appointed Willis Towers Watson to provide advice and assist on remuneration matters. There was some residual work completed by Alvarez & Marsal Taxand UK LLP prior to the appointment of Willis Towers Watson. Stephenson Harwood LLP provided advice on the 2020 DRR. Going forward, legal advice will be provided to the Committee by the Company's appointed lawyers Simmons & Simmons LLP. The fees are agreed in advance with the advisor, based on the scope of work. All advisors are selected by the Committee based on their technical expertise and independence. None of the advisors have any relationship with any Director and the Committee is satisfied that the services of advisors are independent, which it validates by checking that the advisors are not providing other services to the Company. Details are shown in the table below:

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Willis Towers Watson	Committee	Remuneration advice	None	41,123
Alvarez & Marsal Taxand UK LLP	Committee	Remuneration advice	None	12,873
Stephenson Harwood LLP	Committee	Legal and remuneration advice	None	7,600

### Shareholder voting at previous Annual General Meeting (unaudited)

The Director's Remuneration Policy was approved by shareholders at the AGM held on 15 January 2020 and the Remuneration Committee's Annual Report ("Report") for the year ended 30 September 2020 was approved by shareholders at the AGM held on 20 January 2021, with the following votes being cast:

	Policy		2020 Report	
Votes for	60,768,041	79.98%	55,418,505	54.33%
Votes against	15,209,003	20.02%	46,588,460	45.67%
Withheld	21,745,098	-	1,261,627	-

At the AGM in January 2021, the 2020 DRR was approved with 54.33% of votes in favour. In accordance with the Investment Association Guidelines, the Group consulted shareholders and the main proxy advisory agents after the AGM. We published our response to the consultation on the Investment Association Register in June.

In summary, the main issue was the Committee's decision to allow early vesting of PSP awards for the retiring Finance Director, Nigel Lingwood. The circumstances relating to his retirement after 19 years of service were unique and will not recur. Nonetheless, the Committee notes shareholders' views and has reconfirmed that it does not intend to apply such discretion to PSP awards in the future.

A second concern that was raised by some shareholders was the lack of clear statement about Johnny Thomson's pension. This issue has been addressed in this year's report and Johnny's pension contribution will reduce to 4% with effect from 1 January 2023, which is in line with the majority of the UK workforce.

### Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of re-election	Expiry of term
John Nicholas	1 Jun 13	19 Jan 22	1 Jun 22
David Lowden	19 Oct 21	19 Jan 22	19 Oct 24
Andy Smith	9 Feb 15	19 Jan 22	9 Feb 24
Anne Thorburn	7 Sep 15	19 Jan 22	7 Sep 24
Geraldine Huse	20 Jan 20	19 Jan 22	20 Jan 23
Dean Finch	21 May 21	19 Jan 22	21 May 24

### Provision 40 table

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

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

## REMUNERATION COMMITTEE REPORT CONTINUED

## REMUNERATION POLICY

The Policy Table set out below summarises the key components of reward for the Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments. More detailed descriptions of the incentive plans are given in the subsequent sections.

The Remuneration Policy applies to our Executive and non-Executive Directors. The Remuneration Policy was approved by shareholders at the Annual General Meeting held on 15 January 2020 and is effective for three years. We have included below the Policy table which we consider to be the most helpful section of the Policy for investors. The full and original version of the Policy as approved by shareholders is available at [diplomapl.com/media/1353/directors-remunerationpolicy.pdf](http://diplomapl.com/media/1353/directors-remunerationpolicy.pdf)

## Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Base salary</b>	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	<p>There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required.</p> <p>Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.</p>	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for the senior management cadre more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
<b>Pensions</b>	Designed to be fair.	Pension contributions can either be paid directly into a personal pension savings scheme or taken as a separate cash allowance.	<p>For current Executive Directors' pension contributions of up to 15% of salary.</p> <p>Pension contributions for new Executive Director appointments will be no higher than the rate offered to the majority of our UK workforce, which is currently 4% of salary.</p>	No performance metric.
<b>Benefits</b>	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.
<b>Annual Performance Bonus Plan</b>	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	<p>Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee.</p> <p>Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be deferred in shares, but will remain eligible for dividends. The remaining bonus shall be paid in cash following the relevant year end.</p> <p>Malus and clawback provisions apply to bonus awards.</p> <p>The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.</p>	<p>Maximum of 125% of base salary for the Executive Directors.</p> <p>Performance below threshold results in zero payment. On-target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.</p>	<p>Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance.</p> <p>Different performance measures, including personal objectives, may be used for future cycles to take into account changes in the business strategy. Personal objectives, if used, will account for no more than 20% of the bonus.</p>

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Long-Term Incentive Plan – PSP Award</b>	Incentivise Executive Directors to achieve superior returns and long-term value growth.	<p>Performance assessed over rolling three-year performance periods.</p> <p>Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a “good leaver”.</p> <p>The Committee expects that typically awards of 250% will be made to the CEO, and awards of up to 200% will be made to the other Executive Directors.</p> <p>For awards granted after 17 January 2018, Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant.</p> <p>Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting.</p> <p>Malus and clawback provisions apply.</p> <p>The Committee may amend the formulaic outcome should it not be a fair reflection of the Company’s underlying performance or in exceptional circumstances.</p>	<p>The maximum opportunity as a percentage of salary is 250% for the CEO and 200% for other Executive Directors for each award made under the 2020 PSP.</p> <p>No more than 25% of the award will be payable at threshold performance.</p>	<p>Awards will be granted subject to a combination of financial measures (including, for example, adjusted EPS, ROATCE and TSR), tested over a period of at least three years.</p> <p>The Committee may change the weighting of the performance measures or introduce new performance measures for future awards, so that they are aligned with the Company’s strategic objectives.</p>

### Chairman and non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<b>Chairman and non-Executive Directors’ fees</b>	To attract and retain a Chairman and independent non-Executive Directors of the required calibre and experience.	<p>Paid quarterly in arrears and reviewed each year.</p> <p>Any reasonable business related expenses (including tax thereon) if determined to be a taxable benefit can be reimbursed.</p>	The Chairman’s and non-Executive Directors’ fees are determined by reference to the time commitment and relevant benchmark market data.	Annual Board evaluation.

## REMUNERATION COMMITTEE REPORT CONTINUED

# REMUNERATION POLICY CONTINUED

### Executive Directors

#### Base salary

Salary levels are determined based on a number of factors, including individual calibre and experience, their latest pay package, scope of responsibility and competitiveness of total remuneration against companies of a similar size and complexity.

In determining the annual base salary increases which apply from 1 October, the Committee considers a number of factors, including individual and business performance, scope of responsibility, comparative salaries in companies of a similar size and complexity and the range of remuneration increases applying across the Group.

The Committee also takes into account the salary increases applying across the senior management cadre. This comparator group comprises ca. 110 senior managers across the Group's businesses. This senior management cadre has been chosen as a representative group, as it provides a meaningful comparison considering the global and diverse nature of the Group's businesses.

#### Annual performance bonus

The Diploma PLC Annual Performance Bonus Plan is designed to reward the Executive Directors for meeting stretching annual performance targets. The level of bonus payable for achieving the minimum target is 5% of base salary. No bonus is payable if performance does not meet the minimum target.

At the start of the financial year the Committee agrees the performance measures for the Annual Performance Bonus Plan for the year ahead based on agreed financial targets for the business.

The 2020 Annual Performance Bonus Plan saw a diversification of performance measures to better align with the Company's objectives under Johnny Thomson's leadership as CEO. Group adjusted operating profit at constant currency remains the key deliverable and accounts for 50% of the bonus. 25% of the bonus is based on revenue performance at constant currency and 25% is based on free cash flow. Threshold will be reached at minus 5% on budget, on-target will be budget and maximum will be plus 5% on budget. This structure has remained consistent since 2020.

As part of the Policy, the Committee has discretion to override formulaic outcomes and amend payouts under the Annual Bonus Plan, should it determine that either it is not a fair reflection of the underlying performance of the business over the relevant performance period or in exceptional circumstances.

The definition of adjusted operating profit is consistent with the Group's financial statements (see note 2 to the consolidated financial statements). However, the Committee has discretion to make amendments to take account of changes in accounting policy and/or material operational, market, exchange rate or environmental factors in order to more appropriately reflect management performance.

At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the objectives. Bonuses are normally paid in cash in December. The Policy requires that 50% of any bonus awarded for the financial year ended 30 September is deferred on a net of tax basis into shares until minimum shareholding requirement levels have been met.

#### Long-term incentive – Performance Share Plan ("PSP")

The Company operates a long-term incentive award plan for Executive Directors, being the Diploma PLC PSP. The PSP is designed to promote the long-term success of the Company, while also aligning the Directors' interests with those of Diploma PLC shareholders.

Shareholders approved a new PSP, based on the 2011 PSP but updated to reflect changes in policy and best practice developments at the 2020 AGM ("2020 PSP").

The PSP provides for a grant of conditional awards of a specified number of ordinary shares in the Company, or an option to acquire a specified number of shares at an exercise price determined by the Committee (which may be nil or a nominal amount). No payment is required for the grant of an award.

Awards, which are normally granted annually, must generally be made within 42 days after the announcement of the Company's annual results. When making the decision on the level of award, the Committee takes into consideration a number of factors, including the face value of the award and plan dilution limits.

The face value of an award is equal to the number of shares, or shares under option, multiplied by the relevant share price. The relevant share price will be the mid-market closing share price on the dealing day before the award. Normal awards are expected to be at 250% of salary for the CEO and up to 200% of salary for other Executive Directors.

All awards will normally vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. The vesting of awards is conditional on continued employment and the fulfilment of the agreed performance measures.

The performance conditions apply to each award so that the vesting of 50% of the award is based on growth in adjusted EPS and 50% of the award is based on the relative TSR performance, in both cases measured over a three-year period. These measures align with our long-term goal of value creation for shareholders through underlying financial growth and above-market shareholder returns.

The Committee believes that these continue to be the right measures to assess the delivery of the Board's updated strategy. Reflecting the importance of ROATCE, the Company introduced a ROATCE underpin on the adjusted EPS element which will ensure adjusted EPS growth is in the best interests of shareholders. This will be measured as the reported ROATCE against an agreed target in the third year of the performance condition; effective for awards issued after 15 January 2020.

Each performance condition is measured over a three-year period commencing on the first day of the financial year in which the award is made. There is no retesting of the performance metrics. At the minimum performance threshold, 25% of the PSP awards will vest.

The Committee will regularly monitor the continuing suitability of the performance conditions and may impose different performance conditions or targets for awards granted in subsequent years, to align with the Company's strategic objectives and having regard to prevailing market practice.

As part of the Policy the Committee has discretion to override formulaic outcomes and amend payments under the PSP, should it determine it is either not a fair reflection of the underlying performance of the business over the relevant performance period, or in exceptional circumstances.

The Committee may decide, on or before the grant of a share incentive award, that on exercise of the award, the participants may receive, in addition to the shares in which they then become entitled, a dividend equivalent in respect of the dividends (excluding any tax credit) which would have been paid to the participant in respect of shares vesting between the date of the award and the end of the holding period, or if earlier, the date of exercise. These dividend equivalent payments may be made in cash or in an equivalent number of shares.

For awards granted after 17 January 2018, Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant ("the Holding Period"), in order to provide longer-term shareholder alignment. The Holding Period continues to apply to post-cessation of employment and shall expire on the earliest of:

- the fifth anniversary of the date of grant of an award;
- the date of a change of control event;
- the death of the participant; or
- such other date as determined by the Committee in its discretion.

#### Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the calibre required to manage the Company and successfully deliver its strategic objectives.

The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed Directors.

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

The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

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

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

<sup>1</sup> Barbara Gibbes started as CFO designate on 2 March 2020 and was appointed to the Board as CFO on 22 June 2020.

#### Payment for loss of office

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

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

- Notice period of 12 months' base salary, pension and contractual benefits or payment in lieu of notice.
- Bonus payable for the period worked, subject to achievement of the relevant performance condition. Different performance measures (to the other Executive Directors) may be set for a departing Director as appropriate, to reflect any change in responsibility.
- Vesting of award shares under the Company's long-term incentive plan is not automatic and the Committee would retain discretion to allow partial vesting depending on the extent to which performance conditions had been met and the length of time the awards have been held. Time prorating may be disapplied if the Committee considers it appropriate, given the circumstances. For awards granted prior to 17 January 2018, performance will be measured to the date of cessation of employment and, to the extent applicable, vest shortly thereafter. For awards granted after 17 January 2018, performance will be normally measured to the end of the normal performance period and, to the extent applicable, vest on the normal vesting date, save in exceptional circumstances when the Committee may determine that early vesting should still apply.
- The Committee will provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement and outplacement services, where appropriate.

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

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

#### Change of control

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

## REMUNERATION COMMITTEE REPORT CONTINUED

# REMUNERATION POLICY CONTINUED

### Malus and clawback

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

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

### Remuneration for new appointments

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

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

- The remuneration structure will be kept simple where practicable, hence the use of base salary, benefits, pension (or cash allowance in lieu), annual performance bonus and long-term incentives.
- The emphasis on linking pay with performance shall continue; hence the use of variable pay in the form of an annual performance bonus and a long-term incentive award, which will continue to be a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with Diploma's approved Policy detailed above with a maximum aggregate variable pay opportunity of 375% of salary for the CEO and 325% for other Executive Directors. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses/an expatriate allowance paid, if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding requirement, deferral of annual performance bonus and the Holding Period for PSP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chairman or non-Executive Director will be set in line with the approved Policy.

### Committee discretion

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

The Committee will exercise its powers in accordance with the terms of the relevant Plan rules. The Committee also has discretions to set components of remuneration within a range from time to time as set out in the maximum opportunity sections of the Policy Table.

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

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

### Dilution

In any ten-year period, the number of shares which are or may be issued under option or other share awards under any discretionary share plan established by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time. In any ten-year period, the aggregate number of shares which are or may be issued under option, or other share awards under all share plans established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

### Consultation with shareholders

The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published Investor Guidelines or appropriate regulation including the UK Corporate Governance Code.



### **Policy in respect of external board appointments for Executive Directors**

The Committee recognises that external non-executive directorships may be beneficial for both the Company and Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

### **Employee and post-employment shareholding requirements**

The Committee has adopted shareholding requirements for Executive Directors, to encourage substantial long-term share ownership. These specify that, over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares with a value equivalent to 250% of base salary in the case of the CEO, and for other Executive Directors, to 200% of base salary ("the MSR").

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

As explained in the long-term incentive award section on page 81, Executive Directors are required to hold shares vesting under the PSP (net of tax) until the fifth anniversary of the grant ("the Holding Period"). The Holding Period applies to post-cessation of employment except where cessation is by reason of death, if there is a change of control, or the Committee exercises its discretion.

In addition, a post-cessation shareholding requirement is being introduced of 50% of the MSR for 12 months after the termination date (or if less than the MSR, the value of shares held at the cessation date). Post-cessation holding will apply to shares which are granted under the PSP after the approval of the 2020 Policy.

### **Chairman and non-Executive Directors Recruitment and term**

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

### **Fees**

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

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

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

## DIRECTORS' REPORT

This section comprises information which the Directors are required by law and regulation to include within the Annual Report & Accounts. The Directors who held office during the year are set out on pages 52 and 53.

### Shareholders

#### Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England and Wales under Company Number 3899848. At the date of this report there were 124,616,170 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year including the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, together with an indication of future developments is set out in the Strategic Report on pages 1 to 49, which incorporates the requirements of the Companies Act 2006 ("the Act").

#### Annual General Meeting

The Annual General Meeting ("AGM") will be held at midday on Wednesday, 19 January 2022 in the Great Hall, The Charterhouse, Charterhouse Square, London EC1M 6AN. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the Diploma PLC website.

#### Substantial shareholdings

At 30 September 2021, the Company had received formal notifications of the following holdings in its ordinary shares in accordance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules ("DTRs"):

	Percentage of ordinary shares (September 2021)	Percentage of ordinary share capital (November 2021)
Mawer Investment Management Limited	9.80	No change
Capital Research Global Investors	10.06	11.01
Royal London Group	4.95	No change
The Vanguard Group, Inc	3.42	No change
Mondrian Investment Partners Limited	3.14	No change

There have been no changes in the interests notified to the Company pursuant to the DTRs up to the date of this report.

#### Share capital

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

#### Shareholders

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

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

#### Contracts of significance and change of control

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

#### Restrictions on transfer of shares

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

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

#### Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 20 January 2021.

#### Authority to make market purchases of own shares

An authority to make market purchases of up to 10% of the issued share capital shares was given to the Directors by a special resolution at the AGM of the Company held on 20 January 2021. In the year to 30 September 2021, the Company has not acquired any of its own shares.

#### Liability insurance and indemnities

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

#### Disclosures required under Listing Rule 9.8.4C

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

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

#### Non-financial information

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include certain matters in its Strategic Report on pages 1 to 49 that would otherwise be required to be disclosed in this Directors' Report.

#### Non-financial information statement

Other information that is relevant to the Directors' Report and which is incorporated by reference into this report, can be viewed in the section on Delivering Value Responsibly on pages 34 to 47 and includes:

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

Other related information can also be found as follows:

- Business model – pages 2 to 3.
- Principal risks and how they are managed or mitigated – pages 28 to 33.
- Non-financial key performance indicators – page 17.
- Employee engagement – page 40.
- Stakeholder engagement – pages 48 to 49.

## Financial Results and dividends

The profit for the financial year attributable to shareholders was £69.8m (2020: £49.3m). The Directors recommend a final dividend of 30.1p per ordinary share, to be paid, if approved, on 4 February 2022. This, together with the interim dividend of 12.5p per ordinary share, amounts to 42.6p for the year (2020: 30.0p).

The results are shown more fully in the consolidated financial statements on pages 88 to 117 and summarised in the Finance Review on pages 24 to 27.

## Independent Auditors

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

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as independent auditor and a resolution to reappoint PwC will be proposed at the AGM to be held on 19 January 2022.

## Directors' assessment of going concern

The Directors continue to adopt the going concern basis in preparing the Annual Report & Accounts. Their assessment in reaching this conclusion is set out in the notes to the consolidated financial statements on page 113.

## Statement of Directors' responsibilities for preparing the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been

followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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

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

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

## Directors' confirmations

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

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Parent Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

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

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

This Directors' Report was approved by the Board of Directors on 22 November 2021 and is signed on its behalf by:

**JD Thomson**  
Chief Executive Officer

**B Gibbes**  
Chief Financial Officer

Registered office:  
12 Charterhouse Square  
London  
EC1M 6AX

Registered Number: 3899848

## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
<b>Revenue</b>	3,4	<b>787.4</b>	538.4
Cost of sales		<b>(499.0)</b>	(344.0)
<b>Gross profit</b>		<b>288.4</b>	194.4
Distribution costs		<b>(23.9)</b>	(14.0)
Administration costs		<b>(160.2)</b>	(110.6)
<b>Operating profit</b>	3	<b>104.3</b>	69.8
Financial expense, net	6	<b>(7.7)</b>	(3.1)
<b>Profit before tax</b>		<b>96.6</b>	66.7
Tax expense	7	<b>(26.9)</b>	(16.9)
<b>Profit for the year</b>		<b>69.7</b>	49.8
Attributable to:			
Shareholders of the Company		<b>69.8</b>	49.3
Minority interests	21	<b>(0.1)</b>	0.5
		<b>69.7</b>	49.8
<b>Earnings per share</b>			
Basic earnings	9	<b>56.1p</b>	43.5p
Diluted earnings		<b>55.9p</b>	43.4p

## ALTERNATIVE PERFORMANCE MEASURES<sup>1</sup>

	Note	2021 £m	2020 £m
Operating profit		<b>104.3</b>	69.8
Add: Acquisition related charges included in administration costs	11	<b>44.4</b>	17.3
<b>Adjusted operating profit</b>	3,4	<b>148.7</b>	87.1
Deduct: Interest expense	6	<b>(6.8)</b>	(2.7)
<b>Adjusted profit before tax</b>		<b>141.9</b>	84.4
<b>Adjusted earnings per share</b>	9	<b>85.2p</b>	56.4p

<sup>1</sup> The adjusted numbers set out above are non-statutory measures which are defined in note 2 of the financial statements.

The notes on pages 92 to 117 form part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
<b>Profit for the year</b>		<b>69.7</b>	49.8
<b>Items that will not be reclassified to the Consolidated Income Statement</b>			
Actuarial gains/(losses) in the defined benefit pension schemes	25	<b>7.4</b>	(0.4)
Deferred tax on items that will not be reclassified	7,14	<b>(0.8)</b>	0.4
		<b>6.6</b>	-
<b>Items that may be reclassified to the Consolidated Income Statement</b>			
Exchange rate losses on foreign currency net investments		<b>(16.2)</b>	(7.6)
Gains/(losses) on fair value of cash flow hedges	19	<b>0.4</b>	(0.1)
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	<b>0.1</b>	(0.4)
Deferred tax on items that may be reclassified	7,14	<b>(0.1)</b>	0.1
		<b>(15.8)</b>	(8.0)
<b>Total Other Comprehensive Income</b>		<b>(9.2)</b>	(8.0)
<b>Total Comprehensive Income for the year</b>			
		<b>60.5</b>	41.8
Attributable to:			
Shareholders of the Company		<b>60.8</b>	41.2
Minority interests		<b>(0.3)</b>	0.6
		<b>60.5</b>	41.8

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
<b>At 1 October 2019</b>		5.7	-	36.0	0.2	279.4	321.3	3.3	324.6
Total Comprehensive Income		-	-	(7.7)	(0.5)	49.4	41.2	0.6	41.8
Issue of share capital		0.6	188.6	-	-	-	189.2	-	189.2
Share-based payments	5	-	-	-	-	0.8	0.8	-	0.8
Tax on items recognised directly in equity	7	-	-	-	-	0.2	0.2	-	0.2
Notional purchase of own shares		-	-	-	-	(2.5)	(2.5)	-	(2.5)
Dividends	8,21	-	-	-	-	(23.2)	(23.2)	(0.2)	(23.4)
<b>At 30 September 2020</b>		<b>6.3</b>	<b>188.6</b>	<b>28.3</b>	<b>(0.3)</b>	<b>304.1</b>	<b>527.0</b>	<b>3.7</b>	<b>530.7</b>
Total Comprehensive Income		-	-	(16.2)	0.5	76.5	60.8	(0.3)	60.5
Share-based payments	5	-	-	-	-	1.8	1.8	-	1.8
Tax on items recognised directly in equity	7	-	-	-	-	1.0	1.0	-	1.0
Notional purchase of own shares		-	-	-	-	(0.5)	(0.5)	-	(0.5)
Acquisition of businesses		-	-	-	-	-	-	0.9	0.9
Minority interest put option		-	-	-	-	(0.9)	(0.9)	-	(0.9)
Minority interest issued		-	-	-	-	-	-	0.7	0.7
Dividends	8,21	-	-	-	-	(52.9)	(52.9)	(0.3)	(53.2)
<b>At 30 September 2021</b>		<b>6.3</b>	<b>188.6</b>	<b>12.1</b>	<b>0.2</b>	<b>329.1</b>	<b>536.3</b>	<b>4.7</b>	<b>541.0</b>

The notes on pages 92 to 117 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
<b>Non-current assets</b>			
Goodwill	10	260.7	159.0
Acquisition intangible assets	11	344.9	87.2
Other intangible assets	11	3.4	3.0
Property, plant and equipment	12	35.4	27.9
Leases – right-of-use assets	13	44.9	31.6
Deferred tax assets	14	0.4	0.7
		<b>689.7</b>	309.4
<b>Current assets</b>			
Inventories	15	139.8	100.6
Trade and other receivables	16	117.8	77.8
Assets held for sale	16	11.3	–
Cash and cash equivalents	18	24.8	206.8
		<b>293.7</b>	385.2
<b>Current liabilities</b>			
Borrowings	24	(18.0)	–
Trade and other payables	17	(127.0)	(87.1)
Current tax liabilities	7	(10.0)	(4.7)
Other liabilities	20	(11.7)	(11.5)
Lease liabilities	13	(9.7)	(7.2)
		<b>(176.4)</b>	(110.5)
<b>Net current assets</b>		<b>117.3</b>	274.7
<b>Total assets less current liabilities</b>		<b>807.0</b>	584.1
<b>Non-current liabilities</b>			
Retirement benefit obligations	25	(4.9)	(18.3)
Borrowings	24	(188.2)	–
Lease liabilities	13	(38.6)	(26.5)
Other liabilities	20	(12.0)	–
Deferred tax liabilities	14	(22.3)	(8.6)
		<b>541.0</b>	530.7
<b>Net assets</b>		<b>541.0</b>	530.7
<b>Equity</b>			
Share capital		6.3	6.3
Share premium		188.6	188.6
Translation reserve		12.1	28.3
Hedging reserve		0.2	(0.3)
Retained earnings		329.1	304.1
<b>Total shareholders' equity</b>		<b>536.3</b>	527.0
Minority interests	21	4.7	3.7
<b>Total equity</b>		<b>541.0</b>	530.7

The consolidated financial statements on pages 88 to 117 were approved by the Board of Directors on 22 November 2021 and signed on its behalf by:

**JD Thomson**  
Chief Executive Officer

**B Gibbes**  
Chief Financial Officer

The notes on pages 92 to 117 form part of these consolidated financial statements.

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
<b>Operating profit</b>		<b>104.3</b>	69.8
Acquisition related charges	23	<b>44.4</b>	17.3
Non-cash items and other	23	<b>9.8</b>	11.8
(Increase)/decrease in working capital	23	<b>(12.6)</b>	9.5
<b>Cash flow from operating activities</b>	23	<b>145.9</b>	108.4
Interest paid, net		<b>(5.6)</b>	(1.5)
Tax paid		<b>(24.2)</b>	(21.5)
<b>Net cash from operating activities</b>		<b>116.1</b>	85.4
<b>Cash flow from investing activities</b>			
Acquisition of businesses (net of cash acquired)	22	<b>(451.4)</b>	(13.8)
Deferred consideration paid	20	<b>(6.6)</b>	(1.1)
Proceeds from sale of business		<b>11.0</b>	0.8
Purchase of property, plant and equipment	12	<b>(4.9)</b>	(8.4)
Purchase of other intangible assets	11	<b>(1.3)</b>	(1.0)
Proceeds from sale of property, plant and equipment		<b>4.8</b>	5.8
<b>Net cash used in investing activities</b>		<b>(448.4)</b>	(17.7)
<b>Cash flow from financing activities</b>			
Proceeds from issue of share capital (net of fees)		<b>(0.6)</b>	189.8
Dividends paid to shareholders	8	<b>(52.9)</b>	(23.2)
Dividends paid to minority interests	21	<b>(0.3)</b>	(0.2)
Proceeds from minority interests	21	<b>0.7</b>	-
Purchase of own shares by Employee Benefit Trust		<b>-</b>	(1.8)
Notional purchase of own shares on exercise of share options		<b>(0.6)</b>	(0.7)
Proceeds from borrowings	24	<b>215.3</b>	-
Repayment of borrowings	24	<b>(12.4)</b>	(42.1)
Lease repayments		<b>(9.5)</b>	(7.6)
<b>Net cash from financing activities</b>		<b>139.7</b>	114.2
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(192.6)</b>	181.9
Cash and cash equivalents at beginning of year		<b>206.8</b>	27.0
Effect of exchange rates on cash and cash equivalents		<b>10.6</b>	(2.1)
<b>Cash and cash equivalents at end of year</b>	18	<b>24.8</b>	206.8

**ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)**

	Note	2021 £m	2020 £m
Net increase/(decrease) in cash and cash equivalents		<b>(192.6)</b>	181.9
Add: Dividends paid to shareholders	8	<b>52.9</b>	23.2
Dividends paid to minority interests	21	<b>0.3</b>	0.2
Proceeds from minority interests	21	<b>(0.7)</b>	-
Acquisition of businesses (net of cash acquired)	22	<b>451.4</b>	13.8
Acquisition and disposal expenses paid	23	<b>4.2</b>	-
Proceeds from sale of business (net of expenses)	22	<b>(11.0)</b>	-
Proceeds from issue of share capital (net of fees)		<b>0.6</b>	(189.8)
Deferred consideration paid	22	<b>6.6</b>	1.1
(Proceeds from)/repayment of borrowings (net)	24	<b>(202.9)</b>	42.1
<b>Free cash flow</b>		<b>108.8</b>	72.5
Cash and cash equivalents		<b>24.8</b>	206.8
Borrowings		<b>(206.2)</b>	-
<b>(Net debt)/cash and cash equivalents</b>	24	<b>(181.4)</b>	206.8

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2021

### 1. General information

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group") and were authorised by the Directors for publication on 22 November 2021. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, except where otherwise indicated.

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with International Accounting Standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements of the Parent Company, Diploma PLC, have been prepared in accordance with FRS 101 (Reduced Disclosure Framework) and are set out in a separate section of the Annual Report & Accounts on pages 118 to 119. A full list of subsidiary and other related undertakings is set out on pages 126 and 127.

### 2. Alternative performance measures

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

#### 2.1 Adjusted operating profit

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

#### 2.2 Adjusted profit before tax

At the foot of the Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as adjusted operating profit, after finance expenses (but before acquisition related finance charges) and before tax. The Directors believe that adjusted profit before tax is an important measure of the operational performance of the Group.

#### 2.3 Adjusted earnings per share

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

#### 2.4 Free cash flow

At the foot of the Consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on tangible and intangible assets, and including proceeds received from property disposals, but before expenditure on business combinations/investments and proceeds from business disposals, borrowings received to fund acquisitions and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment or distribution to shareholders.

#### 2.5 Trading capital employed and ROATCE

In the Sector analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents ("cash funds") and after adding back: borrowings (other than lease liabilities); retirement benefit obligations; deferred tax; and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets). Return on adjusted trading capital employed ("ROATCE") at the Group and Sector level is defined as the adjusted operating profit, divided by adjusted trading capital employed and adjusted for the full year effect of acquisitions and disposals. The Directors believe that ROATCE is an important measure of the profitability of the Group.

### 3. Business Sector analysis

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

For management reporting purposes, the Group is organised into three main reportable business Sectors: Life Sciences, Seals and Controls. These Sectors are the Group's operating segments as defined by IFRS 8 and form the basis of the primary reporting format disclosures below. The CODM reviews discrete financial information at this operating segment level. The principal activities of each of these Sectors are described in the Strategic Report on pages 18 to 23. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

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



3. Business Sector analysis continued

	Life Sciences		Seals		Controls		Corporate		Group	
	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020 £m
Revenue – existing	156.8	139.7	250.5	242.1	169.2	156.6	–	–	576.5	538.4
Revenue – acquisitions	23.6	–	13.2	–	174.1	–	–	–	210.9	–
<b>Revenue</b>	<b>180.4</b>	<b>139.7</b>	<b>263.7</b>	<b>242.1</b>	<b>343.3</b>	<b>156.6</b>	<b>–</b>	<b>–</b>	<b>787.4</b>	<b>538.4</b>
Adjusted operating profit – existing	37.0	30.4	44.6	40.5	31.6	25.5	(13.4)	(9.3)	99.8	87.1
Adjusted operating profit – acquisitions	6.2	–	1.9	–	40.8	–	–	–	48.9	–
<b>Adjusted operating profit</b>	<b>43.2</b>	<b>30.4</b>	<b>46.5</b>	<b>40.5</b>	<b>72.4</b>	<b>25.5</b>	<b>(13.4)</b>	<b>(9.3)</b>	<b>148.7</b>	<b>87.1</b>
Acquisition related charges	(4.6)	(2.4)	(9.7)	(9.1)	(30.1)	(5.8)	–	–	(44.4)	(17.3)
<b>Operating profit</b>	<b>38.6</b>	<b>28.0</b>	<b>36.8</b>	<b>31.4</b>	<b>42.3</b>	<b>19.7</b>	<b>(13.4)</b>	<b>(9.3)</b>	<b>104.3</b>	<b>69.8</b>
Operating assets	51.2	47.3	134.4	123.1	164.8	66.7	–	–	350.4	237.1
Goodwill	81.4	62.0	60.0	60.5	119.3	36.5	–	–	260.7	159.0
Acquisition intangible assets	47.2	12.6	50.4	53.9	247.3	20.7	–	–	344.9	87.2
	179.8	121.9	244.8	237.5	531.4	123.9	–	–	956.0	483.3
Unallocated assets:										
– Deferred tax assets							0.4	0.7	0.4	0.7
– Cash and cash equivalents							24.8	206.8	24.8	206.8
– Corporate assets							2.2	3.8	2.2	3.8
<b>Total assets</b>	<b>179.8</b>	<b>121.9</b>	<b>244.8</b>	<b>237.5</b>	<b>531.4</b>	<b>123.9</b>	<b>27.4</b>	<b>211.3</b>	<b>983.4</b>	<b>694.6</b>
Operating liabilities	(30.2)	(27.6)	(58.4)	(52.5)	(68.1)	(31.8)	–	–	(156.7)	(111.9)
Unallocated liabilities:										
– Deferred tax liabilities							(22.3)	(8.6)	(22.3)	(8.6)
– Retirement benefit obligations							(4.9)	(18.3)	(4.9)	(18.3)
– Acquisition related liabilities							(23.7)	(11.5)	(23.7)	(11.5)
– Corporate liabilities							(28.6)	(13.6)	(28.6)	(13.6)
– Borrowings							(206.2)	–	(206.2)	–
<b>Total liabilities</b>	<b>(30.2)</b>	<b>(27.6)</b>	<b>(58.4)</b>	<b>(52.5)</b>	<b>(68.1)</b>	<b>(31.8)</b>	<b>(285.7)</b>	<b>(52.0)</b>	<b>(442.4)</b>	<b>(163.9)</b>
<b>Net assets</b>	<b>149.6</b>	<b>94.3</b>	<b>186.4</b>	<b>185.0</b>	<b>463.3</b>	<b>92.1</b>	<b>(258.3)</b>	<b>159.3</b>	<b>541.0</b>	<b>530.7</b>

\* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)

	Life Sciences		Seals		Controls		Group	
	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020 £m
<b>Net assets</b>	<b>149.6</b>	<b>94.3</b>	<b>186.4</b>	<b>185.0</b>	<b>463.3</b>	<b>92.1</b>	<b>541.0</b>	<b>530.7</b>
Add/(deduct):								
– Deferred tax, net							21.9	7.9
– Retirement benefit obligations							4.9	18.3
– Acquisition related liabilities							23.7	11.5
– Net debt/(cash funds)							181.4	(206.8)
<b>Reported trading capital employed</b>							<b>772.9</b>	<b>361.6</b>
– Historic goodwill and acquisition related charges, net of deferred tax	32.0	34.7	55.3	47.3	42.3	17.4	129.6	99.4
<b>Adjusted trading capital employed</b>	<b>181.6</b>	<b>129.0</b>	<b>241.7</b>	<b>232.3</b>	<b>505.6</b>	<b>109.5</b>	<b>902.5</b>	<b>461.0</b>
Pro forma adjusted operating profit <sup>1</sup>	44.8	30.4	47.4	41.0	78.6	25.7	157.4	87.9
<b>ROATCE</b>	<b>24.7%</b>	<b>23.6%</b>	<b>19.6%</b>	<b>17.6%</b>	<b>15.5%</b>	<b>23.5%</b>	<b>17.4%</b>	<b>19.1%</b>

\* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

1 After annualisation of adjusted operating profit of acquisitions and disposals.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 3. Business Sector analysis continued

##### Other Sector information

	Life Sciences		Seals		Controls		Corporate		Group	
	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m	2021 £m	2020* £m
Capital expenditure	2.3	2.9	2.5	5.1	1.1	1.3	0.3	0.1	6.2	9.4
Depreciation and amortisation	2.6	2.6	2.9	2.1	4.1	0.6	0.1	0.1	9.7	5.4
<b>Revenue recognition</b>										
– immediately on sale	164.2	124.6	260.1	239.3	343.3	156.6	–	–	767.6	520.5
– over a period of time	16.2	15.1	3.6	2.8	–	–	–	–	19.8	17.9
	180.4	139.7	263.7	242.1	343.3	156.6	–	–	787.4	538.4

\* Re-presented to include central corporate costs separately in line with current year presentation. The corporate costs are not considered to be a separate operating segment.

Accrued income (“contract assets”) at 30 September 2021 of £0.8m (2020: £0.9m) and deferred revenue (“contract liabilities”) of £2.5m at 30 September 2021 (2020: £2.4m) are included in trade and other receivables (note 16) and trade and other payables (note 17), respectively.

#### 4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit <sup>1</sup>		Non-current assets <sup>2</sup>		Trading capital employed		Capital expenditure	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
United Kingdom	142.5	134.0	10.5	11.5	82.5	64.7	83.4	71.4	0.5	1.4
Rest of Europe	166.5	126.8	31.9	21.0	115.3	73.5	140.3	85.8	0.8	0.9
North America	411.8	228.5	94.7	46.7	443.7	133.8	496.1	165.7	4.1	6.3
Rest of world	66.6	49.1	11.6	7.9	47.8	36.7	53.1	38.7	0.8	0.8
	787.4	538.4	148.7	87.1	689.3	308.7	772.9	361.6	6.2	9.4

1 Re-presented to include central corporate costs separately in line with current year presentation.

2 Non-current assets excludes deferred tax assets.

#### 5. Group employee costs

##### Average number of employees

	2021	2020
Life Sciences	453	432
Seals	1,055	1,010
Controls	831	599
Corporate	31	27
<b>Number of employees – average</b>	<b>2,370</b>	<b>2,068</b>
<b>Number of employees – year end</b>	<b>2,498</b>	<b>2,002</b>

##### Group employee costs, including key management

	2021 £m	2020 £m
Wages and salaries	119.1	94.0
Social security costs	10.5	9.0
Other pension costs	5.5	4.3
Share-based payments	1.8	0.8
	136.9	108.1

##### Key management short-term remuneration, including Directors

	2021 £m	2020 £m
Salaries and short-term employee benefits	5.4	3.8
Pension costs	0.2	0.2
Share-based payments	1.8	0.8
	7.4	4.8

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

The Executive Directors’ remuneration and their interests in shares of the Company are given on pages 67 to 85 in the Remuneration Committee Report. The charge for share-based payments of £1.8m (2020: £0.8m) relates to the Group’s LTIP, described in the Remuneration Committee Report.

**5. Group employee costs** continued  
**Directors' short-term remuneration**

	2021 £m	2020 £m
Non-Executive Directors	0.4	0.3
Executive Directors	2.5	1.6
	<b>2.9</b>	<b>1.9</b>

**6. Financial expense, net**

	2021 £m	2020 £m
<b>Interest (expense)/income and similar charges</b>		
– bank facility and commitment fees	(0.5)	(0.2)
– interest income on bank deposits	–	0.1
– interest expense on bank borrowings	(4.1)	(0.9)
– notional interest expense on the defined benefit pension scheme (note 25)	(0.1)	(0.3)
– amortisation of capitalised borrowing fees	(0.3)	–
– interest on lease liabilities	(1.8)	(1.4)
<b>Net interest expense and similar charges</b>	<b>(6.8)</b>	<b>(2.7)</b>
– acquisition related finance charges	(0.9)	(0.4)
<b>Financial expense, net</b>	<b>(7.7)</b>	<b>(3.1)</b>

Acquisition related finance charges includes fair value remeasurements of put options for future minority purchases of £0.1m debit (2020: £0.1m credit), unwind of discount on acquisition liabilities of £nil (2020: £0.5m debit), and £0.8m debit (2020: £nil) for the amortisation of capitalised borrowing fees on acquisition related borrowings.

**7. Tax expense**

	2021 £m	2020 £m
<b>Current tax</b>		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	5.5	3.5
Overseas tax	21.5	15.6
	<b>27.0</b>	<b>19.1</b>
Adjustments in respect of prior year:		
UK corporation tax	2.1	0.1
Overseas tax	0.5	0.1
<b>Total current tax</b>	<b>29.6</b>	<b>19.3</b>
<b>Deferred tax</b>		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	(1.9)	(1.1)
Overseas	(0.8)	(1.3)
<b>Total deferred tax</b>	<b>(2.7)</b>	<b>(2.4)</b>
<b>Total tax on profit for the year</b>	<b>26.9</b>	<b>16.9</b>

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax balance relating to the retirement benefit scheme and cash flow hedges of £0.9m was debited (2020: £0.5m credit) directly to the Consolidated Statement of Comprehensive Income. A further £1.0m was credited (2020: £0.2m credit) to the Consolidated Statement of Changes in Equity, comprising current tax of £0.8m (2020: £0.2m) and deferred tax of £0.2m (2020: £nil) which relates to share-based payments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 7. Tax expense continued

##### Factors affecting the tax charge for the year

The difference between the total tax charge calculated by applying the effective rate of UK corporation tax of 19.0% to the profit before tax of £96.6m and the amount set out above is as follows:

	2021 £m	2020 £m
<b>Profit before tax</b>	<b>96.6</b>	66.7
Tax on profit at UK effective corporation tax rate of 19.0% (2020: 19.0%)	<b>18.4</b>	12.7
Effects of:		
– higher tax rates on overseas earnings	<b>4.7</b>	3.6
– adjustments in respect of prior years	<b>2.6</b>	0.2
– change to future tax rate in the United Kingdom	<b>0.5</b>	0.5
– other permanent differences	<b>0.7</b>	(0.1)
<b>Total tax on profit for the year</b>	<b>26.9</b>	16.9

The Group earns its profits in the UK and overseas. The Group prepares its consolidated financial statements for the year to 30 September and the statutory tax rate for UK corporation tax in respect of the year ended 30 September 2021 was 19.0% (2020: 19.0%) and this rate has been used for tax on profit in the above reconciliation.

The Group's net overseas tax rate is higher than that in the UK, primarily because profits earned in the US, Canada, Germany and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2021 have been calculated by reference to the future UK corporation tax rate of 25% (2020: 19.0%), as substantively enacted at 30 September 2021.

At 30 September 2021, the Group had outstanding tax liabilities of £10.0m (2020: £4.7m) of which £2.7m (2020: £0.6m) related to UK tax liabilities and £7.3m (2020: £4.1m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

#### 8. Dividends

	2021 pence per share	2020 pence per share	2021 £m	2020 £m
Interim dividend, paid in June	<b>12.5</b>	–	<b>15.6</b>	–
Final dividend of the prior year, paid in January	<b>30.0</b>	20.5	<b>37.3</b>	23.2
	<b>42.5</b>	20.5	<b>52.9</b>	23.2

The Directors have proposed a final dividend in respect of the current year of 30.1p per share (2020: 30.0p), which will be paid on 4 February 2022, subject to approval by shareholders at the Annual General Meeting ("AGM") on 19 January 2022. The total dividend for the current year, subject to approval of the final dividend, will be 42.6p per share (2020: 30.0p).

The Diploma PLC Employee Benefit Trust holds 90,640 (2020: 118,553) shares, which are ineligible for dividends.

#### 9. Earnings per share

##### Basic and diluted earnings per share

Basic earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 124,468,210 (2020: 113,397,329) and the profit for the year attributable to shareholders of £69.8m (2020: £49.3m). Basic earnings per share is 56.1p (2020: 43.5p). Diluted earnings per share is 55.9p (2020: 43.4p) and is based on the average number of ordinary shares (which includes any potentially dilutive shares) of 124,794,473.

Further description of the Company's share capital is set out in note (e) to the Parent Company Financial Statements on page 119.

##### Adjusted earnings per share

Adjusted EPS, which is defined in note 2, is calculated as follows:

	2021 pence per share	2020 pence per share	2021 £m	2020 £m
<b>Profit before tax</b>			<b>96.6</b>	66.7
Tax expense			<b>(26.9)</b>	(16.9)
Minority interests			<b>0.1</b>	(0.5)
<b>Earnings for the year attributable to shareholders of the Company</b>	<b>56.1</b>	43.5	<b>69.8</b>	49.3
Acquisition related charges and acquisition related finance charges, net of tax	<b>29.1</b>	12.9	<b>36.3</b>	14.7
<b>Adjusted earnings</b>	<b>85.2</b>	56.4	<b>106.1</b>	64.0

**10. Goodwill**

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2019	64.0	59.1	31.9	155.0
Acquisitions	–	2.2	4.1	6.3
Exchange adjustments	(2.0)	(0.8)	0.5	(2.3)
At 30 September 2020	62.0	60.5	36.5	159.0
Acquisitions (note 22)	24.1	6.8	86.7	117.6
Disposals	(3.8)	–	–	(3.8)
Reclassification to held for sale	–	(4.7)	–	(4.7)
Exchange adjustments	(0.9)	(2.6)	(3.9)	(7.4)
<b>At 30 September 2021</b>	<b>81.4</b>	<b>60.0</b>	<b>119.3</b>	<b>260.7</b>

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

The key assumptions used to prepare the cash flow forecasts relate to gross margins, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue growth rates generally approximate to the average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The cash flow forecasts use the budgeted figures for 2022, and then the three-year strategy cash flows for the next two years. From year four onwards the long-term growth rate of 2% is utilised.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2020: ca. 11%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well-developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors, the Board considers that it is appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 11. Acquisition and other intangible assets

	Customer relationships £m	Supplier relationships £m	Trade names, brands and databases £m	Total acquisition intangible assets £m	Other intangible assets £m
<b>Cost</b>					
At 1 October 2019	144.9	29.7	3.0	177.6	8.3
Additions	–	–	–	–	1.0
Acquisitions (note 22)	7.6	–	–	7.6	–
Disposals	–	–	–	–	(1.6)
Exchange adjustments	(1.7)	(0.2)	(0.1)	(2.0)	(0.1)
At 30 September 2020	150.8	29.5	2.9	183.2	7.6
Additions	–	–	–	–	1.4
Acquisitions (note 22)	264.4	1.0	41.4	306.8	0.2
Disposals	(1.5)	(1.0)	(1.1)	(3.6)	(0.9)
Reclassification to held for sale	(6.9)	–	–	(6.9)	(0.4)
Exchange adjustments	(14.4)	(0.7)	(1.7)	(16.8)	(0.3)
<b>At 30 September 2021</b>	<b>392.4</b>	<b>28.8</b>	<b>41.5</b>	<b>462.7</b>	<b>7.6</b>
<b>Amortisation</b>					
At 1 October 2019	59.1	19.4	3.0	81.5	5.6
Charge for the year	13.7	1.7	–	15.4	0.6
Disposals	–	–	–	–	(1.6)
Exchange adjustments	(0.4)	(0.4)	(0.1)	(0.9)	–
At 30 September 2020	72.4	20.7	2.9	96.0	4.6
Acquisitions (note 22)	14.6	–	4.1	18.7	–
Charge for the year	12.7	1.7	–	14.4	0.7
Disposals	(1.5)	(1.0)	(1.1)	(3.6)	(0.7)
Reclassification to held for sale	(5.4)	–	–	(5.4)	(0.1)
Exchange adjustments	(2.0)	(0.3)	–	(2.3)	(0.3)
<b>At 30 September 2021</b>	<b>90.8</b>	<b>21.1</b>	<b>5.9</b>	<b>117.8</b>	<b>4.2</b>
<b>Net book value</b>					
<b>At 30 September 2021</b>	<b>301.6</b>	<b>7.7</b>	<b>35.6</b>	<b>344.9</b>	<b>3.4</b>
At 30 September 2020	78.4	8.8	–	87.2	3.0

Acquisition related charges are £44.4m (2020: £17.3m) and comprise £33.1m (2020: £15.4m) of amortisation of acquisition intangible assets, £9.7m of acquisition expenses (2020: £1.9m) and a £1.6m (2020: £nil) net charge, being the gain on disposal of a1-CBISS Limited offset by the write-down of assets now held for sale.

Acquisition intangible assets relate to items acquired through business combinations which are amortised over their useful economic life.

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

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

## 12. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	Total £m
<b>Cost</b>					
At 1 October 2019	15.0	4.9	25.7	15.3	60.9
Additions	0.6	0.6	4.7	2.5	8.4
Acquisitions of businesses	–	–	0.3	–	0.3
Disposals	(2.1)	(1.4)	(2.4)	(5.5)	(11.4)
Exchange adjustments	0.3	1.3	4.0	(0.5)	5.1
At 30 September 2020	13.8	5.4	32.3	11.8	63.3
Additions	–	0.5	2.4	2.0	4.9
Acquisitions of businesses (note 22)	–	2.3	19.1	0.4	21.8
Disposals	(3.3)	(0.2)	(2.7)	(1.4)	(7.6)
Reclassification to held for sale	(8.0)	–	(2.6)	–	(10.6)
Exchange adjustments	(0.6)	(0.2)	(1.6)	–	(2.4)
<b>At 30 September 2021</b>	<b>1.9</b>	<b>7.8</b>	<b>46.9</b>	<b>12.8</b>	<b>69.4</b>
<b>Depreciation</b>					
At 1 October 2019	5.0	2.5	16.7	10.0	34.2
Charge for the year	0.5	0.5	1.9	1.9	4.8
Disposals	(0.3)	(1.4)	(2.3)	(5.2)	(9.2)
Exchange adjustments	0.1	1.4	4.5	(0.4)	5.6
At 30 September 2020	5.3	3.0	20.8	6.3	35.4
Charge for the year	0.4	1.1	5.9	1.8	9.2
Disposals	(1.6)	(0.1)	(2.6)	(1.2)	(5.5)
Reclassifications to held for sale	(3.0)	–	(1.5)	–	(4.5)
Exchange adjustments	(0.2)	–	(0.3)	(0.1)	(0.6)
<b>At 30 September 2021</b>	<b>0.9</b>	<b>4.0</b>	<b>22.3</b>	<b>6.8</b>	<b>34.0</b>
<b>Net book value</b>					
<b>At 30 September 2021</b>	<b>1.0</b>	<b>3.8</b>	<b>24.6</b>	<b>6.0</b>	<b>35.4</b>
At 30 September 2020	8.5	2.4	11.5	5.5	27.9

Land included within freehold properties above which is not depreciated is £2.7m (2020: £2.7m). Capital commitments contracted, but not provided, were £0.8m (2020: £0.6m).

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

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

The Stamford Land falls within the Stamford North Urban Extension ("SNUE") proposal which sits within the local authority areas of South Kesteven District Council ("SKDC") in Lincolnshire and Rutland County Council ("RCC"). The SNUE is a major allocation within the SKDC Adopted Local Plan and is a proposed major allocation within the RCC Draft Local Plan, which is currently at the Regulation 19 stage. Larkfleet submitted a planning application on the Stamford Land in the second half of FY2021 and we are awaiting formal notification of any further developments.

In the Directors' opinion, the current fair value of its land at 30 September 2021 is £1.0m (2020: £1.0m) with a book value of £nil (2020: £nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 13. Leases – right-of-use assets and lease liabilities

##### Right-of-use assets

	Land & buildings £m	Plant & machinery £m	Motor vehicles £m	IT & office equipment £m	Total £m
<b>Cost</b>					
At 1 October 2020	34.3	0.5	3.3	0.8	38.9
Additions	24.9	0.1	1.6	0.3	26.9
Disposals	(2.2)	–	(0.4)	–	(2.6)
Reclassifications to held for sale	(0.7)	–	(0.2)	–	(0.9)
Exchange adjustments	(0.6)	–	(0.1)	–	(0.7)
<b>At 30 September 2021</b>	<b>55.7</b>	<b>0.6</b>	<b>4.2</b>	<b>1.1</b>	<b>61.6</b>
<b>Depreciation</b>					
At 1 October 2020	5.8	0.1	1.2	0.2	7.3
Charge for the year	9.0	0.1	1.4	0.3	10.8
Disposals	(0.6)	–	(0.2)	–	(0.8)
Reclassification to held for sale	(0.4)	–	(0.1)	–	(0.5)
Exchange adjustments	(0.1)	–	–	–	(0.1)
<b>At 30 September 2021</b>	<b>13.7</b>	<b>0.2</b>	<b>2.3</b>	<b>0.5</b>	<b>16.7</b>
<b>Net book value</b>					
<b>At 30 September 2021</b>	<b>42.0</b>	<b>0.4</b>	<b>1.9</b>	<b>0.6</b>	<b>44.9</b>
At 30 September 2020	28.5	0.4	2.1	0.6	31.6

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

##### Lease liabilities

The movement on the lease liability is set out below:

	2021 £m	2020 £m
At 1 October	33.7	33.7
Additions	26.9	6.9
Disposals	(1.9)	(0.1)
Lease repayments	(11.3)	(7.6)
Interest on lease liabilities	1.8	1.4
Reclassifications to held for sale	(0.3)	–
Exchange movements	(0.6)	(0.6)
<b>At 30 September</b>	<b>48.3</b>	<b>33.7</b>
Analysed as:	£m	£m
Repayable within one year	9.7	7.2
Repayable after one year	38.6	26.5

Leases of low-value assets and short-term leases are accounted for applying paragraph 6 of IFRS 16. Lease costs of £2.4m (2020: £2.0m) in respect of low-value assets, short-term leases, and variable lease payments not included in the measurement of lease liabilities have been recognised within administration costs. The total cash outflow in respect of leases was £13.7m (2020: £9.6m).

#### 14. Deferred tax

The movement on deferred tax is as follows:

	2021 £m	2020 £m
At 1 October	(7.9)	(8.3)
Credit for the year (note 7)	2.7	2.4
Acquisitions, disposals and transfers to assets held for sale	(16.6)	(2.2)
Accounted for in Other Comprehensive Income or directly in Equity	(0.7)	0.5
Exchange adjustments	0.6	(0.3)
<b>At 30 September</b>	<b>(21.9)</b>	<b>(7.9)</b>



#### 14. Deferred tax continued

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

	Assets		Liabilities		Net	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Property, plant and equipment	0.4	0.5	(5.8)	(2.9)	(5.4)	(2.4)
Goodwill and intangible assets	-	-	(26.6)	(14.0)	(26.6)	(14.0)
Retirement benefit obligations	2.2	3.5	-	-	2.2	3.5
Inventories	2.8	1.9	(0.2)	(0.1)	2.6	1.8
Share-based payments	1.1	0.4	-	-	1.1	0.4
Trading losses	-	-	-	-	-	-
Leases	0.8	0.6	-	-	0.8	0.6
Other temporary differences	3.7	2.5	(0.3)	(0.3)	3.4	2.2
	11.0	9.4	(32.9)	(17.3)	(21.9)	(7.9)
Deferred tax offset	(10.6)	(8.7)	10.6	8.7	-	-
	0.4	0.7	(22.3)	(8.6)	(21.9)	(7.9)

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas withholding tax (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been recognised in respect of unremitted earnings from overseas businesses of £157.3m (2020: £131.5m) was £8.0m (2020: £6.7m).

#### 15. Inventories

	2021 £m	2020 £m
Finished goods	139.8	100.6

Inventories are stated net of impairment provisions of £15.8m (2020: £10.6m). During the year £2.0m (2020: £2.2m) was recognised as a charge against cost of sales, comprising the write-down of inventories to net realisable value.

#### 16. Trade and other receivables and assets held for sale

	2021 £m	2020 £m
Trade receivables	112.0	71.0
Less: loss allowance	(3.6)	(1.2)
	108.4	69.8
Other receivables	3.6	2.7
Prepayments and accrued income	5.8	5.3
	117.8	77.8

##### Assets held for sale

Assets held for sale (£11.3m) includes one operating facility whereby the freehold property will be sold and leased back to the business and the Group's investment in one Seals business that was sold after the year end, as disclosed in note 28.

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

	2021 £m	2020 £m
UK sterling	26.3	19.0
US dollars	48.4	18.2
Canadian dollars	8.9	11.0
Euros	11.4	12.6
Other	17.0	10.2
	112.0	71.0

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

	2021 £m	2020 £m
Not past due	92.9	59.5
Past due	15.5	10.3
Past due, but impaired	3.6	1.2
	112.0	71.0

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 16. Trade and other receivables continued

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

	2021 £m	2020 £m
Up to one month past due	12.4	8.6
Between one and two months past due	2.4	1.2
Between two and four months past due	0.7	0.4
Over four months past due	–	0.1
	<b>15.5</b>	<b>10.3</b>

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

	2021 £m	2020 £m
At 1 October	1.2	1.2
Charged against profit, net	1.3	0.1
Set up on acquisition	1.5	–
Utilised by write-off	(0.4)	(0.1)
At 30 September	<b>3.6</b>	<b>1.2</b>

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

#### 17. Trade and other payables

	2021 £m	2020 £m
Trade payables	74.5	45.0
Other payables	9.0	8.0
Other taxes and social security	6.8	6.1
Accruals and deferred income	36.7	28.0
	<b>127.0</b>	<b>87.1</b>

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

	2021 £m	2020 £m
UK sterling	20.9	10.6
US dollars	36.3	18.8
Canadian dollars	0.5	0.7
Euros	14.7	11.3
Other	2.1	3.6
	<b>74.5</b>	<b>45.0</b>

#### 18. Cash and cash equivalents

	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2021 Total £m	UK £m	US\$ £m	C\$ £m	Euro £m	Other £m	2020 Total £m
Cash at bank	8.5	2.5	0.6	5.6	3.8	21.0	32.4	3.4	1.0	9.1	3.1	49.0
Short-term deposits	–	0.9	1.3	–	1.6	3.8	–	156.2	1.3	–	0.3	157.8
	<b>8.5</b>	<b>3.4</b>	<b>1.9</b>	<b>5.6</b>	<b>5.4</b>	<b>24.8</b>	<b>32.4</b>	<b>159.6</b>	<b>2.3</b>	<b>9.1</b>	<b>3.4</b>	<b>206.8</b>

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

#### 19. Financial instruments

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

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

The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivities is set out below and on pages 32 and 33 within Internal Control and Risk Management, all of which have been audited.

**19. Financial instruments** continued**a) Credit risk**

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

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

The Group establishes a loss allowance that represents its estimate of potential losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable (see below) and considers factors which may impact risk of default including Covid-19. When the receivable is deemed irrecoverable, the provision is written off against the underlying receivable. During the year, the Group had no significant unrecoverable trade receivables.

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

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

	Carrying amount	
	2021 £m	2020 £m
Trade receivables	108.4	69.8
Other receivables	3.6	2.7
Cash and cash equivalents	24.8	206.8
	<b>136.8</b>	<b>279.3</b>

There is no material difference between the book value of the financial assets and their fair value at each reporting date. An analysis of the ageing and currency of trade receivables and the associated loss allowance is set out in note 16. An analysis of cash and cash equivalents is set out in note 18.

**Impairment of financial assets**

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

The expected loss rates are based on the payment profiles of revenues over a period of 84 months ended 30 September 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information including macroeconomic factors by obtaining and reviewing relevant market data affecting the ability of the customers to settle the receivables.

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

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

**b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group continually monitors net cash and forecasts cash flows to ensure that sufficient resources are available to meet the Group's requirements in the short, medium and long term. Additionally, compliance with bank covenants is monitored regularly and during 2021 all bank covenant tests were complied with. The applicable financial covenants are interest cover and leverage, whereby EBITDA must be at least 4x net finance charges (as defined by the SFA); and the ratio of net debt to EBITDA must not exceed 3x.

On 13 October 2020, the Group entered into a new SFA which comprises a three-year amortising term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £185.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The SFA had an accordion option to increase the revolving facility amount which was exercised during the second half of the year, increasing the revolving facility aggregate principal amount by £50.0m to the aforementioned £185.0m. Interest on the SFA is payable between 125–275bps above the applicable interbank or risk-free rate, depending on the ratio of net debt to EBITDA.

As at 30 September 2021, the term loan is fully drawn and has an outstanding principal amount of £113.5m (\$153.0m). The Group has utilised £95.1m of the revolving facility.

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

	2021 £m	2020 £m
Expiring within one year	–	–
Expiring after one year	89.9	60.0

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 19. Financial instruments continued

The Group's financial liabilities are as follows:

	2021 £m	2020 £m
Trade payables	74.5	45.0
Other payables	9.0	8.0
Other liabilities (note 20)	25.3	11.5
Borrowings	212.7	–
	<b>321.5</b>	64.5
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	116.5	64.5
One to two years	28.3	–
Two to five years	176.7	–
	<b>321.5</b>	64.5

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

#### c) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars and Euros. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 16, 17 and 18, respectively.

The Group holds forward foreign exchange contracts in certain of the Group's businesses to hedge forecast transactional exposure to movements in the US dollar, Euro, UK Sterling, Swedish Krona and Japanese Yen. These forward foreign exchange contracts are classified as cash flow hedges and are stated at fair value. The notional value of forward contracts as at 30 September 2021 was £46.0m (2020: £39.3m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2021 was £0.3m asset (2020: £0.1m liability). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was £0.1m credit (2020: £0.4m debit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £0.4m credit (2020: £0.1m debit).

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

	2021 £m	2020 £m
Decrease in adjusted operating profit (at average rates)		
US dollar: UK sterling	7.1	2.7
Canadian dollar: UK sterling	2.4	2.0
Euro: UK sterling	1.6	1.2
Decrease in total equity (at spot rates)		
US dollar: UK sterling	7.2	4.6
Canadian dollar: UK sterling	10.2	8.3
Euro: UK sterling	3.2	3.5

#### d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's results. The Group's interest rate risk arises primarily from its cash funds and borrowings. The Group does not undertake any hedging of interest rates. All cash deposits, held in the UK and overseas, are held on a short-term basis at floating rates or overnight rates, based on the relevant UK base rate, or equivalent rate. Surplus funds are deposited with commercial banks that meet the credit criteria approved by the Board, for periods of between one and six months at rates that are generally fixed by reference to the relevant UK base rate, or equivalent rate. An increase of 1% in interest rates would have a ca. £2m impact on adjusted operating profit.

#### e) Fair values

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

#### Derivatives

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

#### Trade and other receivables/payables

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

**19. Financial instruments** continued**Borrowings**

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

**Other and lease liabilities**

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

**f) Capital management risk**

The Group's capital structure comprises the retained earnings reserve (£329.1m), cash funds (£24.8m) and medium-term bank borrowing facilities. The Group's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain robust capital ratios to support the development of the business including executing acquisitions and providing strong returns to shareholders.

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

**20. Other liabilities**

	2021 £m	2020 £m
Future purchases of minority interests	5.2	4.2
Deferred consideration	18.5	7.3
	<b>23.7</b>	11.5
Analysed as:		
Due within one year	11.7	11.5
Due after one year	12.0	-

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

	2021 £m	2020 £m
At 1 October	4.2	4.3
Minority interest on acquisition of Techsil	0.9	-
Exchange movements	-	-
Fair value remeasurements	0.1	(0.1)
At 30 September	5.2	4.2

At 30 September 2021, the Group's minority interests retained put options to sell their minority interests of 10% held in each of M Seals and Kentek and 5% in Techsil (acquired during the year). At 30 September 2021, the estimate of the financial liability to acquire these outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2021. This led to a remeasurement of the options and the liability increased by £0.1m (2020: £0.1m decrease) reflecting a revised estimate of the future performance of these businesses. In aggregate, £0.1m (2020: credit £0.1m) has been debited to the Consolidated Income Statement in respect of this remeasurement of the liability. Through acquiring Techsil during the year, a further £0.9m financial liability has been recognised on the Consolidated Statement of Financial Position.

Deferred consideration comprises the following:

	1 Oct 2020 £m	Additions £m	Revaluation £m	Payments £m	Foreign Exchange £m	30 Sep 2021 £m
VSP Technologies	5.5	-	-	(5.5)	-	-
Sphere	0.8	-	0.1	-	0.1	1.0
CR Systems	1.0	-	-	(1.1)	0.1	-
HSP	-	0.1	-	-	-	0.1
PDI	-	0.8	-	-	(0.1)	0.7
S&W	-	3.6	-	-	(0.1)	3.5
FITT	-	1.7	0.6	-	(0.1)	2.2
Biospecifix	-	0.4	-	-	-	0.4
Kungshusen	-	5.4	-	-	-	5.4
Techsil	-	1.1	-	-	-	1.1
AHW	-	4.0	-	-	0.1	4.1
	<b>7.3</b>	<b>17.1</b>	<b>0.7</b>	<b>(6.6)</b>	-	<b>18.5</b>

During the year, outstanding deferred consideration of £6.6m was paid to the vendors of VSP Technologies (£5.5m) and CR Systems (£1.1m).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 21. Minority interests

	£m
At 1 October 2019	3.3
Minority interest contribution	-
Share of profit	0.5
Dividends paid	(0.2)
Exchange adjustments	0.1
At 30 September 2020	3.7
Acquisition of business	0.9
Minority interest issued	0.7
Share of profit	(0.1)
Dividends paid	(0.3)
Exchange adjustments	(0.2)
<b>At 30 September 2021</b>	<b>4.7</b>

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

#### 22. Acquisitions and disposals of businesses

##### Acquisition of Windy City Wire Cable & Technology Products LLC

On 16 October 2020, the Group completed the acquisition of SEP III Wire & Holdings, LLC, the holding company of Windy City Wire Cable & Technology Products LLC ("WCW"), a leading value-add distributor of premium quality, low voltage wire and cable in the US. The consideration was £347.7m (\$449.6m), net of cash acquired of £0.9m (\$1.1m).

The acquisition was funded partly by an equity placing announced on 22 September 2020 (gross proceeds of £193.7m offset by related transaction costs of £4.5m) with the remaining balance being funded through a new committed debt facility. On 13 October 2020, the Group entered into a new debt facility agreement ("SFA") which comprises a three-year term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility ("RCF") for an aggregate principal amount of £135.0m. The term loan was fully drawn and the RCF partly drawn to assist with the acquisition of WCW.

Acquisition expenses of £7.6m have been recognised in respect of the transaction across FY 2020 and FY 2021. This includes \$5.5m (£4.0m) of remuneration due to WCW's management which is predicated on the individuals remaining within the business at the end of three years. The maximum outflow is \$15.0m at the end of FY 2023.

The provisional fair value of WCW net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £45.1m following fair value adjustments of £3.1m. The principal fair value adjustments relate to fixed assets (£1.2m reduction in the book value) and an increase in the provisions held against inventory (£0.8m) and trade receivables (£0.7m). The intangible assets of £233.1m relates to customer relationships (£191.7m), patented technology (£34.0m) and brand (£7.4m).

##### Acquisition of Simonsen and Weel A/S

On 31 December 2020, the Group completed the acquisition of Simonsen and Weel A/S ("S&W"), a distributor of clinical nutrition products and medically supervised compression garments, as well as specialty medical devices for operating rooms and intensive care units, based in Denmark, for initial consideration of £31.3m (DKK 257.3m), net of cash acquired of £1.3m (DKK 11.0m). Deferred consideration of up to £3.6m (DKK 30.0m) is payable based on the performance of S&W in the 12 months following the acquisition and has been recognised in full.

Acquisition expenses of £0.4m have been recognised in FY 2021.

The provisional fair value of S&W net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £0.2m following fair value adjustments of £0.2m. The provisions held against inventory and trade receivables were increased by £0.3m and £0.1m, respectively, and an excess accrual of historic tax liabilities of £0.2m was released.

##### Other acquisitions

The Group completed a further eight other acquisitions during the year. This comprised the purchase of the trade and assets of Power Dynamics Gasket Company, Inc. ("PDI") (22 December 2020); HSP GmbH ("HSP") (2 October 2020); Biospecific (30 June 2021) and Aircraft Hardware West, Inc. ("AHW") (20 September 2021). In addition, the Group purchased 100% of the share capital of FITT Management Pty Limited ("FITT Resources") (15 January 2021); Kungshusen Medicinska Aktiebolag ("Kungshusen") (14 July 2021); Specialised Wiring Accessories Limited ("SWA") (31 July 2021); and 95% of the share capital of Techsil Group Holdings Limited ("Techsil") (30 August 2021).

The combined consideration for these acquisitions was £72.4m, net of cash acquired of £7.1m. Deferred consideration of up to £13.5m is payable based on the performance of the businesses.

Acquisition expenses of £3.2m have been recognised in respect of these transactions in the financial year.

The provisional fair value of the combined net assets acquired excluding acquisition intangibles, related deferred tax, and cash is £17.1m following fair value adjustments of £2.4m. Fair value adjustments principally relate to an increase in provisions held against inventory of £1.7m.

## 22. Acquisitions and disposals of businesses continued

The following table summarises the consideration paid for the acquisitions completed in the period and fair value of assets acquired and liabilities assumed, with values being provisional pending completion of a final valuation.

	WCW		S&W		Others		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets <sup>1</sup>	-	233.1	-	25.3	-	48.4	-	306.8
Deferred tax	-	(3.2)	-	(5.6)	-	(8.6)	-	(17.4)
Property, plant and equipment	21.0	19.8	0.3	0.3	1.6	1.7	22.9	21.8
Inventories	19.3	18.5	2.7	2.4	18.3	16.6	40.3	37.5
Trade and other receivables	18.9	18.2	4.2	4.1	10.3	10.1	33.4	32.4
Trade and other payables	(11.0)	(11.4)	(6.8)	(6.6)	(10.7)	(11.3)	(28.5)	(29.3)
<b>Net assets acquired</b>	<b>48.2</b>	<b>275.0</b>	<b>0.4</b>	<b>19.9</b>	<b>19.5</b>	<b>56.9</b>	<b>68.1</b>	<b>351.8</b>
Goodwill (see note 10)	-	72.7	-	15.0	-	29.9	-	117.6
Minority interests	-	-	-	-	-	(0.9)	-	(0.9)
Cash paid		348.6		32.6		79.5		460.7
Cash acquired		(0.9)		(1.3)		(7.1)		(9.3)
		347.7		31.3		72.4		451.4
Deferred consideration		-		3.6		13.5		17.1
<b>Total consideration</b>		<b>347.7</b>		<b>34.9</b>		<b>85.9</b>		<b>468.5</b>

1 Acquired intangibles relate to customer and supplier relationships (£265.4m), patented technology (£34.0m), and brand (£7.4m).

### Acquisitions revenue and adjusted operating profit

From the date of acquisition to 30 September 2021, each acquired business contributed the following to Group revenue and adjusted operating profit:

	Acquisition date	Revenue £m	Adj. <sup>2</sup> £m	Pro forma revenue £m	Operating profit <sup>1</sup> £m	Adj. <sup>2</sup> £m	Pro forma operating profit <sup>1</sup> £m
WCW	16 Oct 2020	168.3	7.3	175.6	39.8	1.7	41.5
S&W	31 Dec 2020	21.2	7.2	28.4	5.7	1.9	7.6
FITT	15 Jan 2021	11.0	4.5	15.5	1.9	0.8	2.7
PDI	22 Dec 2020	2.2	0.7	2.9	-	-	-
HSP	2 Oct 2020	3.2	-	3.2	0.6	-	0.6
Biospecifix	30 Jun 2021	0.3	0.6	0.9	0.1	0.1	0.2
Kungshusen	14 Jul 2021	2.1	8.1	10.2	0.4	1.7	2.1
SWA	31 Jul 2021	1.6	7.8	9.4	0.1	0.7	0.8
Techsil	30 Aug 2021	0.9	9.8	10.7	0.3	2.9	3.2
AHW	20 Sep 2021	0.1	7.2	7.3	-	0.9	0.9
		<b>210.9</b>	<b>53.2</b>	<b>264.1</b>	<b>48.9</b>	<b>10.7</b>	<b>59.6</b>

1 Adjusted operating profit.

2 Pro forma revenue and adjusted operating profit has been extrapolated from the results reported since acquisition to indicate what these businesses would have contributed if they had been acquired at the beginning of the financial year on 1 October 2020. These amounts should not be viewed as confirmation of the results of these businesses that would have occurred if these acquisitions had been completed at the beginning of the year.

### Disposals

On 2 September 2021, the Group disposed of 100% of a1-CBISS Limited for £12.0m. A profit on disposal of £5.8m was recognised on the sale and is included as a credit within acquisition related charges.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 23. Reconciliation of operating profit to cash flow from operating activities

	2021 £m	2021 £m	2020 £m	2020 £m
<b>Operating profit</b>		<b>104.3</b>		69.8
Acquisition related charges (note 11)		<b>44.4</b>		17.3
<b>Adjusted operating profit</b>		<b>148.7</b>		87.1
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	<b>20.7</b>		12.7	
Share-based payments expense (note 5)	<b>1.8</b>		0.8	
Defined benefit pension scheme payment in excess of interest	<b>(5.8)</b>		(0.2)	
Profit on disposal of assets	<b>(2.8)</b>		(1.0)	
Acquisition and disposal expenses paid	<b>(4.2)</b>		–	
Other non-cash movements	<b>0.1</b>		(0.5)	
<b>Non-cash items and other</b>		<b>9.8</b>		11.8
<b>Operating cash flow before changes in working capital</b>		<b>158.5</b>		98.9
(Increase)/decrease in inventories	<b>(13.5)</b>		1.6	
(Increase)/decrease in trade and other receivables	<b>(16.3)</b>		10.3	
Increase/(decrease) in trade and other payables	<b>17.2</b>		(2.4)	
<b>(Increase)/decrease in working capital</b>		<b>(12.6)</b>		9.5
<b>Cash flow from operating activities</b>		<b>145.9</b>		108.4

#### 24. Net cash funds/(net debt)

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

	1 Oct 2020 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sep 2021 £m
Cash and cash equivalents	206.8	(192.6)	10.6	–	<b>24.8</b>
Borrowings	–	(202.9)	(3.3)	–	<b>(206.2)</b>
<b>Cash funds/(net debt)</b>	206.8	(395.5)	7.3	–	<b>(181.4)</b>
	1 Oct 2019 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sep 2020 £m
Cash and cash equivalents	27.0	181.9	(2.1)	–	206.8
Borrowings	(42.1)	42.1	–	–	–
<b>(Net debt)/cash funds</b>	(15.1)	224.0	(2.1)	–	206.8

During the year, the Group entered into a new SFA which comprises a three-year amortising term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £185.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The SFA had an accordion option to increase the revolving facility amount which was exercised during the second half of the year, increasing the revolving facility aggregate principal amount by £50.0m to the aforementioned £185.0m. Interest on the SFA is payable between 125–275bps above the applicable interbank or risk-free rate, depending on the ratio of net debt to EBITDA.

As at 30 September 2021, the term loan is fully drawn and has an outstanding principal amount of £113.5m (\$153.0m). The Group has utilised £95.1m of the revolving facility. Borrowings include £0.4m (2020: £nil) of accrued interest and the carrying amount of capitalised debt fees is £2.8m (2020: £nil). As at 30 September 2020, the Group had a committed multi-currency revolving facility of £60.0m, of which £nil had been utilised.

Total net debt is £229.7m (2020: net cash of £173.1m) comprising cash funds of £24.8m (2020: £206.8m), borrowings of £206.2m (2020: £nil), and lease liabilities of £48.3m (2020: £33.7m). Bank covenants are tested against net cash funds only.

#### 25. Retirement benefit obligations

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

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

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

	2021 £m	2020 £m
Diploma Holdings PLC UK Pension Scheme	<b>2.7</b>	12.7
Kubo Pension Scheme	<b>2.2</b>	5.6
<b>Pension scheme net deficit</b>	<b>4.9</b>	18.3



## 25. Retirement benefit obligations continued

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

	2021 £m	2020 £m
Diploma Holdings PLC UK Pension Scheme	(0.1)	(0.3)
Kubo Pension Scheme	(0.5)	(0.4)
Amounts charged to the Consolidated Income Statement	(0.6)	(0.7)

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

### Diploma Holdings PLC UK Pension Scheme

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

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

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

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

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

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

	2021 £m	2020 £m
Market value of Scheme assets:		
Equities <sup>1</sup>	21.9	17.5
Gilts	5.7	-
Buy-In policy <sup>2</sup>	10.5	10.5
Cash	0.2	0.1
	38.3	28.1
Present value of Scheme liabilities	(41.0)	(40.8)
<b>Pension scheme net deficit</b>	<b>(2.7)</b>	<b>(12.7)</b>

<sup>1</sup> Quoted market price in an active market.

<sup>2</sup> The Buy-In policy was valued on the same basis as the underlying pensioner liabilities.

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

### b) Amounts charged to the Consolidated Income Statement

	2021 £m	2020 £m
Charged to operating profit	-	-
Interest cost on liabilities	(0.6)	(0.8)
Interest on assets	0.5	0.5
Charged to financial expense, net (note 6)	(0.1)	(0.3)
<b>Amounts charged to the Consolidated Income Statement</b>	<b>(0.1)</b>	<b>(0.3)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 25. Retirement benefit obligations continued

##### c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2021 £m	2020 £m
Investment gain/(loss) on Scheme assets in excess of interest	5.0	(1.2)
Effect of changes in financial assumptions on Scheme liabilities	0.1	(0.4)
Effect of changes in demographic assumptions on Scheme liabilities	(0.9)	0.6
Experience adjustments on Scheme liabilities	–	0.1
<b>Actuarial gain/(losses) charged/(credited) in the Consolidated Statement of Comprehensive Income</b>	<b>4.2</b>	<b>(0.9)</b>

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income, since the transition to IFRS, is £9.7m (2020: £13.9m).

##### d) Analysis of movement in the pension deficit

	2021 £m	2020 £m
At 1 October	12.7	12.0
Amounts charged to the Consolidated Income Statement	0.1	0.3
Contributions paid by employer	(5.9)	(0.5)
Net effect of remeasurements of Scheme assets and liabilities	(4.2)	0.9
<b>At 30 September</b>	<b>2.7</b>	<b>12.7</b>

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

	2021 £m	2020 £m
At 1 October	40.8	42.7
Past service cost	–	–
Interest cost on liabilities	0.6	0.8
Impact from changes in actuarial assumptions	0.8	(0.3)
Benefits paid	(1.2)	(2.4)
<b>At 30 September</b>	<b>41.0</b>	<b>40.8</b>

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

	2021 £m	2020 £m
At 1 October	28.1	30.7
Interest on assets	0.5	0.5
Return on Scheme assets	5.0	(1.2)
Contributions paid by employer	5.9	0.5
Benefits paid	(1.2)	(2.4)
<b>At 30 September</b>	<b>38.3</b>	<b>28.1</b>

The actual return on the Scheme assets during the year was a gain of £5.5m (2020: £0.7m loss).

#### Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2021, the major categories of assets were as follows:

	2021 %	2020 %
North America equities	23	14
UK equities	10	16
European equities (non-UK)	10	16
Asia-Pacific and Emerging Markets equities	10	17
Gilts	14	–
Buy-In policy	33	37

#### Principal actuarial assumptions for the Scheme at balance sheet dates

	2021 %	2020 %	2019 %	2018 %
Inflation rate – RPI	3.4	2.9	3.4	3.4
– CPI	3.0	1.9	2.4	2.4
Expected rate of pension increases – CPI	3.0	1.9	2.4	2.4
Discount rate	2.0	1.5	1.8	2.9

## 25. Retirement benefit obligations continued

### Demographic assumptions

Mortality table used:	S3PA
Year the mortality table was published:	CMI 2019
Allowance for future improvements in longevity:	Year of birth projections, with a long-term improvement rate of 1.0%
Allowance made for members to take a cash lump sum on retirement:	Members are assumed to take 100% of their maximum cash sum (based on current commutation factors)
The weighted average duration of the defined benefit obligation is around 18 years	

### Sensitivities

The sensitivities of the 2021 pension liabilities to changes in assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	8.9	3.7
Inflation	Increase by 0.5%	4.8	2.0
Life expectancy	Increase by one year	3.6	1.5

### Risk mitigation strategies

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

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

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

The Company is required to agree a schedule of contributions with the Trustees of the Scheme following each triennial actuarial valuation. Following the triennial actuarial valuation carried out as at 30 September 2019, the Company agreed to contribute £0.5m in cash to the Scheme annually. A one-off contribution was also made in the year of ca. £5.1m.

### The Kubo Pension Scheme ("the Kubo Scheme")

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

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

	2021 £m	2020 £m
Assets of the Kubo Scheme <sup>1</sup>	12.4	9.4
Actuarial liabilities of the Kubo Scheme	(14.6)	(15.0)
<b>Pension scheme net deficit</b>	<b>(2.2)</b>	<b>(5.6)</b>

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

#### b) Amounts charged to the Consolidated Income Statement

	2021 £m	2020 £m
Service cost	(0.5)	(0.4)
<b>Amount charged to operating profit in the Consolidated Income Statement</b>	<b>(0.5)</b>	<b>(0.4)</b>

#### c) Analysis of movement in the pension deficit

	2021 £m	2020 £m
At 1 October	5.6	5.8
Amounts charged to the Consolidated Income Statement	0.5	0.4
Contributions paid by employer	(0.5)	(0.4)
Net effect of remeasurements of Kubo Scheme assets and liabilities	(3.2)	(0.5)
Exchange adjustments	(0.2)	0.3
<b>At 30 September</b>	<b>2.2</b>	<b>5.6</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 30 SEPTEMBER 2021

#### 25. Retirement benefit obligations continued

##### d) Amounts recognised in the Consolidated Statement of Comprehensive Income

The actuarial gain credited to the Consolidated Statement of Comprehensive Income is £3.2m (2020: £0.5m gain).

	2021 £m	2020 £m
Investment gain/(loss) on Scheme assets in excess of interest	2.8	0.1
Effect of changes in financial assumptions on Scheme liabilities	–	0.6
Effect of changes in demographic assumptions on Scheme liabilities	1.0	0.0
Experience adjustments on Scheme liabilities	(0.6)	(0.2)
<b>Actuarial gain/(losses) charged/(credited) in the Consolidated Statement of Comprehensive Income</b>	<b>3.2</b>	<b>0.5</b>

#### Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2021	2020
Expected rate of pension increase	0%	0%
Expected rate of salary increase	1.0%	1.0%
Discount rate	0.2%	0.2%
Interest credit rate	0.5%	0.5%
Mortality	BVG2020	BVG2015

#### Sensitivities

The sensitivities of the 2021 pension liabilities to changes in assumptions are as follows:

Factor	Assumption	Impact on pension liabilities	
		Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.25%	4.5	0.7
Life expectancy	Increase by one year	2.5	0.4

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

	£m
Best estimate of employer's contribution in 2022	0.4
Best estimate of employees' contribution in 2022	0.4

The weighted average duration of the defined benefit obligation is approximately 18 years (2020: 20 years).

#### 26. Auditors' remuneration

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

	2021 £m	2020 £m
Fees payable to the auditors for the audit of:		
– the Company's Annual Report & Accounts	0.5	0.2
– the Company's subsidiaries	0.8	0.6
<b>Audit fees</b>	<b>1.3</b>	<b>0.8</b>

Non-audit fees of £28,200 (2020: £15,500) were paid to the Group's auditor for carrying out "agreed upon procedures" on both the Half Year Announcement (which is unaudited), and providing access to their technical database.

#### 27. Exchange rates

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

	Average		Closing	
	2021	2020	2021	2020
US dollar (US\$)	1.37	1.29	1.35	1.29
Canadian dollar (C\$)	1.73	1.73	1.71	1.73
Euro (€)	1.15	1.14	1.16	1.10
Swiss franc (CHF)	1.25	1.23	1.26	1.19
Australian dollar (AUD)	1.83	1.89	1.87	1.80

#### 28. Post balance sheet events

On 16 November 2021, the Group completed the disposal of its 90% interest in Kentek Oy ("Kentek") for £10.0m. As at 30 September 2021, the net assets of Kentek have been classified as held for sale, and written down to their fair value which resulted in a £7.3m charge within acquisition related charges.

## GROUP ACCOUNTING POLICIES FOR THE YEAR ENDED 30 SEPTEMBER 2021

### 1.1 Basis of preparation

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

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the applicable legal requirements of the Companies Act 2006. In addition to complying with International Accounting Standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

### Going concern

The consolidated financial statements have been prepared on a going concern basis. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 24 to 27. In addition, pages 102 to 105 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Given the continued uncertainty of the Covid-19 pandemic and taking into account the recent guidance issued by the FCA and FRC, the Directors have considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described further on pages 29 to 33.

### Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 19 and 24 to the consolidated financial statements. During the year, the Group entered into a new SFA which comprises a three-year amortising term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £185.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The SFA had an accordion option to increase the revolving facility amount which was exercised during the second half of the year, increasing the revolving facility aggregate principal amount by £50.0m to the aforementioned £185.0m. Interest on the SFA is payable between 125–275bps above the applicable interbank or risk-free rate, depending on the ratio of net debt to EBITDA.

As at 30 September 2021, the term loan is fully drawn and has an outstanding principal amount of £113.5m (\$153.0m). The Group has utilised £95.1m of the revolving facility.

### Operational and business impact of Covid-19

The Group operates businesses which continued to trade successfully throughout the lockdown periods, demonstrating the resilience and power of our value-add model, the diversity of our end segments and the benefits of a geographically diverse scalable business. Changes were made to the operating processes and practices in the prior year to ensure the business can respond to and meet the specific local government requirements in each country in which it operates. Despite the continued challenges from the pandemic the Group continues to generate strong profit and free cash flows in each month. The Group generated free cash flows for the year of £108.8m (103% cash conversion) and adjusted operating profits of £148.7m which was 71% up on the prior year.

### Financial modelling

The Group has modelled a base case and downside case in its assessment of going concern. The base case is driven off the Group's detailed budget which is built up on a business by business case and considers both the micro and macroeconomic factors which could impact performance in the industries and geographies in which that business operates. The downside case models steep decline in revenues and operating margins as well as materially adverse working capital movements. These sensitivities factor in a continued unfavourable impact from the Covid-19 pandemic.

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

### Going concern basis

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

### 1.2 Basis of consolidation

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

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

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

#### 1.2.a. New accounting standards adopted

There have been no new accounting standards adopted during the year.

### 1.3 Acquisitions

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

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

### 1.4 Divestments

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

## GROUP ACCOUNTING POLICIES CONTINUED FOR THE YEAR ENDED 30 SEPTEMBER 2021

### 1.5 Revenue recognition

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

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

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

### 1.6 Employee benefits

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

- a) Defined contribution pension plans: Contributions to the Group's defined contribution schemes are recognised as an employee benefit expense when they fall due.
- b) Defined benefit pension plan: The deficit recognised in the balance sheet for the Group's defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation is calculated by independent actuaries using the projected unit cost method and by discounting the estimated future cash flows using interest rates on high-quality corporate bonds. The pension expense for the Group's defined benefit plan is recognised as follows:
- i) Within the Consolidated Income Statement:
    - Service cost of current members of the Kubo Scheme.
    - Gains and losses arising on settlements and curtailments
      - where the item that gave rise to the settlement or curtailment is recognised in operating profit.
    - Interest cost on the net deficit of the plan - calculated by applying the discount rate to the net defined benefit liability at the start of the annual reporting period.
  - ii) Within the Consolidated Statement of Comprehensive Income (Other Comprehensive Income):
    - Actuarial gains and losses arising on the assets and liabilities of the plan related to actual experience and any changes in assumptions at the end of the year.
- c) Share-based payments: Equity-settled transactions (which are where the Executive Directors and certain senior employees receive a part of their remuneration in the form of shares in the Company, or rights over shares) are measured at fair value at the date of grant. The fair value determined at the grant date takes account of the effect of market based measures, such as Total Shareholder Return ("TSR") targets upon which vesting of part of the award is conditional and is expensed to the Consolidated Income Statement on a straight-line basis over the vesting period, with a corresponding credit to equity. The cumulative expense recognised is adjusted to take account of shares forfeited by Executives who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely that shares will vest. For the market-based measure, the Directors have used a value model to determine fair value of the shares at the date of grant.

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

### 1.7 Foreign currencies

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

- a) Reporting foreign currency transactions in functional currency: Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:
- i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Consolidated Income Statement.
  - ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated.
  - iii) Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date the fair value was determined. Where a gain or loss on non-monetary items is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity and conversely, where a gain or loss on a non-monetary item is recognised in the Consolidated Income Statement, any exchange component of that gain or loss is also recognised in the Consolidated Income Statement.
- b) Translation from functional currency to presentational currency: When the functional currency of a Group entity is different from the Group's presentational currency, its results and financial position are translated into the presentational currency as follows:
- i) Assets and liabilities are translated using exchange rates prevailing at the balance sheet date.
  - ii) Income and expense items are translated at average exchange rates for the year, except where the use of such an average rate does not approximate the exchange rate at the date of the transaction, in which case the transaction rate is used.
  - iii) All resulting exchange differences are recognised in Other Comprehensive Income; these cumulative exchange differences are recognised in the Consolidated Income Statement in the period in which the foreign operation is disposed of.
- c) Net investment in foreign operations: Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the Consolidated Income Statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated financial statements such exchange differences are initially recognised in Other Comprehensive Income as a separate component of equity and subsequently recognised in the Consolidated Income Statement on disposal of the net investment.

### 1.8 Taxation

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

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

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

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

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

### 1.9 Property, plant and equipment

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

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

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

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

### 1.10 Intangible assets

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

#### a) Research and development costs

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

#### b) Computer software costs

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

#### c) Acquired intangible assets – business combinations

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

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

#### d) Goodwill – business combinations

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

### 1.11 Impairment of tangible and intangible assets

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

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

#### a) Impairment of goodwill

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

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

## GROUP ACCOUNTING POLICIES CONTINUED FOR THE YEAR ENDED 30 SEPTEMBER 2021

### b) Impairment of other tangible and intangible assets

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

#### 1.12 Inventories

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

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

#### 1.13 Financial instruments

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

##### a) Trade receivables and loss allowance

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

##### b) Trade payables

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

##### c) Cash and cash equivalents

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

##### d) Put options held by minority interests

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

##### e) Derivative financial instruments and hedge accounting

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

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

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

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

##### f) Borrowings

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

#### 1.14 Investments (fair value through Other Comprehensive Income)

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

#### 1.15 Leases

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

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

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

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

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

#### 1.16 Other liabilities

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

#### 1.17 Dividends

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

#### 1.18 Share capital and reserves

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

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



- b) Hedging reserve – The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.
- c) Retained earnings reserve – The retained earnings reserve comprises total cumulative recognised income and expense attributable to shareholders. Bonus issues of share capital and dividends to shareholders are also charged directly to this reserve. In addition, the cost of acquiring shares in the Company and the liability to provide those shares to employees, is accounted for in this reserve.

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

### 1.19 Related parties

There are no related party transactions (other than with key management) that are required to be disclosed in accordance with IAS 24. Details of their remuneration are given in note 5 to the consolidated financial statements.

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

The IASB has published a number of new IFRS standards, amendments and interpretations to existing standards which are not yet effective, but will be mandatory for the Group's accounting periods beginning on or after 1 October 2020. An assessment of the impact of these new standards and interpretations is set out below:

*Amendments to IFRS 3 (Business Combinations)*  
*Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform)*  
*Amendments to IAS 1 and IAS 8 (Definition of Material)*  
*Amendments to the Conceptual Framework for Financial Reporting*

The Group does not anticipate that the adoption of these standards and interpretations that are effective for the year ended September 2021 will have a material effect on its financial statements.

### 1.21 Significant accounting estimates and critical judgements

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

Acquisition accounting is a significant accounting estimate.

#### 1.21.1 Acquisition accounting (estimate)

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

The significant assumptions in valuing the Windy City Wire ("WCW") intangible assets, which was acquired in the year, together with the sensitivity analysis, are set out below:

- Discount rate: +/- 1% – ca. £7m – all WCW intangibles;
- Revenue growth rate: +/- 1% – ca. £17m – all WCW intangibles; and
- Customer attrition rate: +/- 1% – ca. £15m – customer relationships.

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

#### 1.21.2 Goodwill impairment (estimate)

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

#### 1.21.3 Inventory provisions (estimate)

Inventories are stated at the lower of cost and net realisable value as set out in note 1.12 of the Group Accounting Policies. In the course of normal trading activities, estimates are used to establish the net realisable value of inventory and impairment charges are made for obsolete or slow-moving inventories and against excess inventories.

The decision to make an impairment charge is based on a number of factors including management's assessment of the current trading environment, aged profiles and historical usage and other matters which are relevant at the time the consolidated financial statements are approved.

#### 1.21.4 Defined benefit pension (estimate)

Defined benefit pensions are accounted for as set out in note 1.6 of the Group Accounting Policies. Determining the value of the future defined benefit obligation requires estimates in respect of the assumptions used to calculate present values. These include discount rate, future mortality and inflation rate. Management makes these estimates in consultation with an independent actuary. Details of the estimates and key sensitivities made in calculating the defined benefit obligation at 30 September 2021 are set out in note 25 to the consolidated financial statements.

## PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2021

	Note	2021 £m	2020 £m
<b>Fixed assets</b>			
Investments	d	297.2	264.8
<b>Creditors: amounts falling due within one year</b>			
Amounts owed to Group undertakings		(34.7)	(19.5)
<b>Net assets</b>		<b>262.5</b>	<b>245.3</b>
<b>Capital and reserves</b>			
Called up share capital	e	6.3	6.3
Share premium		188.6	188.6
<b>Profit and loss account<sup>1</sup></b>		<b>67.6</b>	<b>50.4</b>
<b>Total shareholders' equity</b>		<b>262.5</b>	<b>245.3</b>

1 Includes profit after tax for the year of £69.6m (2020: £29.5m).

The financial statements of Diploma PLC and the notes on page 119, which form part of these financial statements, company number 3899848, were approved by the Board of Directors on 22 November 2021 and signed on its behalf by:

**JD Thomson**  
Chief Executive Officer

**B Gibbes**  
Chief Financial Officer

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total shareholders' equity £m
At 1 October 2019		5.7	–	45.5	51.2
Total Comprehensive Income	a	–	–	29.5	29.5
Shares issued	e	0.6	188.6	–	189.2
Dividends paid	f	–	–	(23.2)	(23.2)
Settlement of LTIP awards	e	–	–	(1.4)	(1.4)
<b>At 30 September 2020</b>		<b>6.3</b>	<b>188.6</b>	<b>50.4</b>	<b>245.3</b>
Total Comprehensive Income	a	–	–	69.6	69.6
Shares issued	e	–	–	–	–
Dividends paid	f	–	–	(52.9)	(52.9)
Settlement of LTIP awards	e	–	–	0.5	0.5
<b>At 30 September 2021</b>		<b>6.3</b>	<b>188.6</b>	<b>67.6</b>	<b>262.5</b>

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2021

### a) Accounting policies

#### a.1) Basis of accounting

The Parent Company Financial Statements ("the Financial Statements") have been prepared consistently in accordance with the Companies Act 2006 and FRS 101 (Reduced Disclosures Framework). The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly, they continue to adopt the going concern basis in preparing the Financial Statements. The Financial Statements, which are prepared on a historical cost basis, are presented in UK sterling and all values are rounded to the nearest 100,000 except when otherwise indicated.

Diploma PLC is a public company limited by shares incorporated in the United Kingdom, and registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London EC1M 6AX. The financial statements were authorised by the Directors for publication on 22 November 2021.

The following disclosures have not been provided as permitted by FRS 101:

- a cash flow statement and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS;
- disclosures in respect of the compensation of key management personnel as required.

The Company has also taken the exemption under FRS 101 available in respect of the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 (Share-based Payment) in respect of Group settled share-based payments as the consolidated financial statements of the Company include the equivalent disclosures within the Remuneration Committee Report.

#### a.2) Total Comprehensive Income

Total Comprehensive Income comprises dividends received from subsidiaries, interest payable on inter-company balances at the UK base rate, plus 1.5% and that are repayable on demand.

#### a.3) Dividends

Dividend income is recognised when received. Final dividend distributions are recognised in the Company's Financial Statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

#### a.4) Diploma PLC Employment Benefit Trust and employee share schemes

Shares held by the Diploma PLC Employee Benefit Trust ("the Trust") are stated at cost and accounted for as a deduction from shareholders' equity in accordance with IAS 32, as applied by FRS 101. Shares that are held by the Trust are not eligible for dividends until such time as the awards have vested and options have been exercised by the participants.

#### a.5) Auditors' remuneration

Fees payable to the auditors for the audit of the Company's financial statements of £3,500 (2020: £3,500) were borne by a fellow Group undertaking.

### b) Directors' and employees' remuneration

No remuneration is paid directly by the Company; information on the Directors' remuneration (which is paid by a subsidiary company) and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 67 to 85 and note 5 to the Consolidated Financial Statements on page 94. The Company had no employees (2020: none).

### c) Company profit and loss account

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. There were no gains or losses either in the current or preceding years recognised in Other Comprehensive Income. The Company's profit for the year was £69.6m (2020: profit of £29.5m), before settlement of LTIP awards.

### d) Investments

	2021 £m	2020 £m
Shares in Group undertakings held at cost		
<b>At 30 September</b>	<b>297.2</b>	264.8

A full list of subsidiary and other related undertakings is set out on pages 126 and 127. Investments in subsidiaries are reviewed annually to see if there are any indicators of impairment. There were none (2020: none).

### e) Called up share capital

	2021 Number	2020 Number	2021 £m	2020 £m
Issued, authorised and fully paid ordinary shares of 5p each				
<b>At 30 September</b>	<b>124,563,515</b>	124,563,515	<b>6.3</b>	6.3

During the year 27,914 ordinary shares in the Company (2020: 33,314) were transferred from the Trust to participants on an after income tax basis in connection with the exercise of options in respect of awards which had vested under the 2011 Long-Term Incentive Plan, as set out in the Remuneration Committee Report. At 30 September 2021, the Trust held 90,640 (2020: 118,553) ordinary shares in the Company representing 0.1% of the called up share capital. The market value of the shares at 30 September 2021 was £2.6m (2020: £2.6m).

### f) Dividends

Details in respect of dividends proposed and paid during the year by the Company are included in note 8 to the consolidated financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- Diploma PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated and Parent Company Statements of Financial Position as at 30 September 2021; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; the Group Accounting Policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

#### Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the Group Accounting Policies, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 26, we have provided no non-audit services to the Parent Company or its controlled undertakings in the period under audit.

#### Our audit approach Overview

##### Audit scope

- The Group is split into three Sectors (Life Sciences, Seals and Controls) and we have conducted audit work across all of them. Through our full scope audits and additional specified procedures performed at a Group level we have achieved coverage of 79% (2020: 77%) of Group profit before tax and 77% (2020: 79%) of Group revenue.

##### Key audit matters

- Provision for impairment of inventories – Controls Sector (Group)
- Accounting for the Windy City Wire acquisition (Intangibles valuation) (Group)

##### Materiality

- Overall Group materiality: £4.8m (2020: £3.8m) based on 5% of profit before tax (2020: Approximately 5% of 3-year average profit before tax).
- Overall Parent Company materiality: £3.0m (2020: £2.6m) based on 1% of total assets (2020: 1% of total assets).
- Performance materiality: £3.6m (Group) and £2.2m (Parent Company).

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for the Windy City Wire acquisition (Intangibles valuation) is a new key audit matter this year in light of the significance of this acquisition in October 2020. COVID-19, which was a key audit matter last year, is no longer included as the level of estimation uncertainty associated with the future impact of COVID-19 and resulting impact on the amounts presented in the financial statements has reduced. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>Provision for impairment of inventories – Controls Sector (Group)</b> Refer to page 117 (Significant accounting estimates and critical judgements (Inventory provisions) and note 15 (Inventories).</p> <p>The Controls Sector holds significant levels of inventory with total inventory, at 30 September 2021, of £68.3m (2020: £32.7m) which is recorded net of a provision of £6.3m (2020: £4.5m) in the Controls businesses.</p> <p>There is a risk associated with the valuation of the inventory provision within the Controls Sector in particular due to the impact of COVID-19 on certain industries in which the Controls businesses operate, for example the aerospace industry. Determining the quantum of these provisions for impairment requires significant management estimation based on the level of stock, its ageing profile and its future demand.</p> <p>There is also a risk that management is able to understate the inventory provision to manipulate results and improve profits in the Consolidated Income Statement.</p>	<p>Our audit procedures included understanding and evaluating the effectiveness of design of controls and systems related to the inventory provision process, together with substantive audit procedures.</p> <p>The substantive audit procedures performed to address the identified significant risk were performed at the component level and varied depending on the nature of the trading business and its stock. The audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated the appropriateness of the provisioning methodologies used in the Control businesses inventory provisions.</li> <li>• We confirmed the year on year consistency of the provisioning methodologies.</li> <li>• We understood, evaluated, tested and, where appropriate, challenged key assumptions within the provisioning models.</li> <li>• We performed analysis on key assumptions to understand the sensitivity and impact of reasonably possible changes to assumptions on the provisions.</li> <li>• We performed look back procedures, including a review of current and prior year write offs to assess the historical accuracy of the provisions.</li> <li>• We examined post year end margins and tested samples of stock item cost to recent selling prices to identify any indication of under provision.</li> <li>• The Group team issued instructions and performed a review of the component teams work papers to ensure appropriate and sufficient procedures had been performed to address the risk. The Group team was also responsible for the audit of the inventory provisions in the UK Controls businesses.</li> </ul> <p>Based on the procedures performed, we noted no material issues arising from our work.</p>
<p><b>Accounting for the Windy City Wire acquisition (Intangibles valuation) (Group)</b> Refer to page 117 (Significant accounting estimates and critical judgements (Acquisition accounting) and note 22 (Acquisition and disposals of businesses).</p> <p>The Group acquired SEP III Wire &amp; Holdings, LLC, the holding company of Windy City Wire Cable &amp; Technology Products LLC ("WCW") on 16 October 2020, for a consideration of £347.7m.</p> <p>Management engaged an external expert to support them with the fair valuation of the acquired intangibles. Acquired intangible assets of £233.1m were identified and recognised in respect of this acquisition. These included customer relationships (£191.7m), patented technology (£34.0m) and brand (£7.4m).</p> <p>The determination of the fair value of these intangibles involves a significant level of estimation, particularly around future cash flows and involves making key assumptions of revenue growth rates, margins, discount rate, customer attrition rate and long term growth rates. In making such future assumptions there is an inherent level of estimation uncertainty and subjectivity.</p> <p>We have identified a significant risk associated with the valuation of the intangibles due to the magnitude of the acquisition, significant level of estimation involved in determining the fair value of the acquired intangibles (as set out above) and their sensitivity to changes in key assumptions given their materiality.</p>	<p>Procedures undertaken to address the significant risk identified in respect of the valuation of the acquired intangibles included:</p> <ul style="list-style-type: none"> <li>• We validated the mathematical accuracy of management's models and appropriateness of the methodologies used to determine the fair values, with support from our internal valuation experts.</li> <li>• We obtained an understanding of the assumptions used to determine these estimates and identified the following key assumptions: <ul style="list-style-type: none"> <li>- Discount rates: We engaged our valuation experts to challenge the reasonableness of the discount rates using comparable market data.</li> <li>- Forecast revenue growth rates and margins: We compared the assumptions in respect of forecast revenue growth rates and margins to historical trading experience; obtained market evidence on the forecasts through our own independent research; examined actual trading performance post acquisition; and compared the forecasts to the Board approved budget and 3 year forecast.</li> <li>- Customer attrition rates: In respect of the customer relationship intangible asset, we challenged management on the customer attrition rate assumption and forecast cash flows. We considered an alternate customer attrition profile through independent modelling based on historical customer sales with the support of our valuation experts. Our independent modelling validated management's estimate of the fair value.</li> </ul> </li> </ul> <p>From our procedures we concluded that management's estimate of the fair values of the acquired intangibles are appropriate.</p>

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is focused on three core Sectors, Life Sciences, Seals and Controls with operations primarily geographically located in Australia, Canada, the USA, the UK and Continental Europe. Within the aforementioned Sectors are a number of businesses / management reporting entities which are consolidated by Group management. The financial statements are a consolidation of multiple reporting components representing the operating businesses within these three core Sectors. Our audit scope was determined by considering the significance of each component's contribution to profit before tax and contribution to individual financial statement line items, with specific consideration to obtaining sufficient coverage over significant risks and other areas of higher risk. We identified 18 financial reporting components across eight countries for which we determined that full scope audits would need to be performed. Through our full scope audits and additional specified procedures performed at a Group level we have achieved coverage of 79% of the Group's profit before tax and 77% of the Group's revenue, giving us the evidence we needed for our opinion on the financial statements as a whole.

The reporting components, excluding those audited by the Group engagement team, were audited by eight component teams. The Group engagement team attended audit clearance meetings via video conference, met with certain UK businesses management teams and discussed the audit approach and audit findings with all reporting component teams via video conference. Our attendance at the clearance meetings, review and discussion of the audit working papers of a number of overseas locations, together with the additional procedures performed at Group level, gave us the evidence we needed for our opinion on the financial statements as a whole. Our audit procedures at the Group level included the audit of the consolidation, fair value adjustments and intangible asset valuations on acquisitions, goodwill and investment impairment reviews, pensions and certain tax procedures. The Group engagement team also performed the audit of the Parent Company and four UK components.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
<b>Overall materiality</b>	£4.8m (2020: £3.8m).	£3.0m (2020: £2.6m).
<b>How we determined it</b>	5% of profit before tax (2020: Approximately 5% of 3 year average profit before tax).	1% of total assets (2020: 1% of total assets).
<b>Rationale for benchmark applied</b>	An appropriate measure for a listed group and one of the key measures used by the shareholders in assessing the statutory performance of the Group. This year, current year profit before tax has been used as a benchmark instead of the 3 year average benchmark used in 2020 when performance was adversely impacted for a period by the COVID-19 pandemic.	Measure used by the shareholders in assessing the performance of a holding company and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.3m and £4.2m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3.6m for the Group financial statements and £2.2m for the Parent Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment, and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £250,000 (Group audit) (2020: £190,000) and £149,000 (Parent Company audit) (2020: £130,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's going concern assessment to ensure it was based upon the latest Board approved forecasts and that the cash flow assumptions were consistent with our understanding of the outlook for the Group's businesses and the wider market;
- Testing the mathematical accuracy of the model;
- Corroborating key model inputs with other procedures performed over the course of the audit;
- Discussing conclusions with management across the business to ensure consistency and gain perspective on the developments within the business;
- Comparison of the prior year forecasts against current year actual performance to assess management's ability to forecast accurately; and
- Reviewing the latest signed financing agreements to validate covenants used in the modelling and the timing of debt maturities.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### Directors' Remuneration

In our opinion, the part of the Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

### Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Parent Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

### Responsibilities for the financial statements and the audit Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities for preparing the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.



### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to indirect and direct tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent journal entries to manipulate the financial performance and management bias in significant accounting estimates, in particular relating to the understatement of inventory provisions in the Controls sector, in order to achieve management incentive scheme targets. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- enquiring of Group and local management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of internal audit reports in so far as they related to the financial statements;
- inspecting management reports and Board minutes;
- obtaining and understanding the results of whistleblowing procedures;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular relating to provisions for impairment of inventories in the Controls sector (see related key audit matter above);
- reviewing selected component auditors' work;
- incorporating elements of unpredictability into our work;
- identifying and testing journal entries, including those posted with unusual account combinations; and
- reviewing financial statement disclosures and testing these to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Other required reporting

#### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Remuneration Committee Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 1 March 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 30 September 2018 to 30 September 2021.

**Christopher Burns (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London

22 November 2021

## SUBSIDIARIES OF DIPLOMA PLC

	Registered office address*		Registered office address*
<b>Seals</b>			
HB Sealing Products, Inc.	D	FS Cables Limited	A
HKX, Inc.	E	FSC Global Limited <sup>1</sup>	A
RTD Seals Corp.	C	Caplink Limited <sup>1</sup>	A
VSP Technologies, Inc.	C	Shoal Group Limited	A
HB Sealing Products Limited	W	Specialised Wiring Accessories Limited <sup>2</sup>	A
M Seals A/S <sup>3</sup>	S	M-Tec Limited <sup>1</sup>	A
M Seals AB <sup>3</sup>	T	Techsil Limited <sup>2&amp;3</sup>	A
M Seals UK Limited <sup>2</sup>	A	Glueline Limited <sup>1</sup>	A
EDCO Seal and Supply Limited <sup>2</sup>	A	Twist Acquisitions, LLC	AF
Diploma (Tianjin) Trading Co. Limited	AB	WCW Intermediate Holdings LLC	AF
Diploma CCA Limited	A	Windy City Wire Cable & Technology Products LLC	AF
FPE Seals Limited	A	<b>Life Sciences</b>	
DMR Seals (Holdings) Limited <sup>2</sup>	A	Somagen Diagnostics Inc.	F
DMR Gaskets Limited <sup>2</sup>	A	AMT Electrosurgery Inc.	V
DMR Seals Limited <sup>2</sup>	A	Vantage Endoscopy Inc.	V
A.B. Seals Limited <sup>1</sup>	A	Big Green Surgical Company Pty Limited	X
Swan Seals (Aberdeen) Limited <sup>1</sup>	A	Diagnostic Solutions Pty Limited	X
FPE Seals BV	P	Sphere Surgical Pty Limited	X
Kentek Oy <sup>3</sup>	K	Aspire Surgical Pty Limited	X
ZAO Kentek <sup>3</sup>	O	Diploma Healthcare Group NZ Limited	Z
Kentek Eesti Ou <sup>3</sup>	L	Techno-Path (Distribution) Limited	AC
SIA Kentek Latvija <sup>3</sup>	M	Abacus dx Pty Limited	X
UAB Kentek Lietuva <sup>3</sup>	N	Abacus dx Limited	Z
Kubo Tech AG	Q	a1-envirosciences GmbH	G
Kubo Tech GmbH	R	a1-Envirosciences Limited <sup>2</sup>	A
PumpNSeal Australia Pty Limited	X	Hitek Limited <sup>1</sup>	A
TotalSeal Group Australia Pty Limited	Y	Hitek Group Limited <sup>1</sup>	A
TotalSeal New Caledonia SAS	AA	Simonsen and Weel A/S	AI
Fitt Management Pty Limited	AH	Simonsen and Weel AB	AG
Fitt Resources Pty Limited	AH	Kungshusen Medicinska AB	AJ
Fitt Trading Pty Limited	AH	<b>Intermediate holding companies</b>	
<b>Controls</b>			
IS-Rayfast Limited	A	Diploma Holdings PLC	A
IS-Motorsport, Inc.	C	Diploma Holdings, Inc.	C
Amfast Limited <sup>1</sup>	A	Pride Limited	A
Clarendon Specialty Fasteners Limited	A	Diploma Australia Holdings Limited	A
Clarendon Specialty Fasteners (Asia) Limited	AD	Diploma Canada Holdings Limited	A
Clarendon Specialty Fasteners, Inc.	B	Diploma Overseas Limited	A
Clarendon Engineering Supplies Limited <sup>1</sup>	A	Napier Group Limited	A
Clarendon Speciality Fasteners GmbH	AE	Williamson, Cliff Limited <sup>2</sup>	A
Cabletec Interconnect Component Systems Limited <sup>1</sup>	A	Newlandglebe Limited <sup>2</sup>	A
CR Systems Components GmbH	AE	Diploma Holding Germany GmbH	H
Sommer GmbH	H	Diploma Canada Healthcare Inc.	F
Filcon Electronic GmbH	I	Diploma Australia Healthcare Pty Limited	X
Actios SAS	U	Diploma Australia Seals Pty Limited	X
Gremtek SAS	U	Techsil Group Holdings Limited <sup>2&amp;3</sup>	A
Gremco UK Limited <sup>2</sup>	A	Techsil Holdings Limited <sup>2&amp;3</sup>	A
Gremtek GmbH <sup>1</sup>	J	<hr/>	
Ascome SARL	U	1 Dormant company.	
Cablecraft Limited	A	2 These subsidiaries, which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act, with Diploma PLC providing the relevant guarantee.	
Birch Valley Plastics Limited <sup>1</sup>	A	3 These subsidiaries are 90% owned, all other subsidiaries are wholly owned, with the exception of Techsil Limited, which is 95% owned.	
Krempfast Limited <sup>2</sup>	A	All subsidiaries are owned through ordinary shares.	
Betaduct Limited <sup>1</sup>	A	* Registered office address shown overleaf	
Hawco Limited	A		
Abbeychart Limited <sup>1</sup>	A		
HA Wainwright Limited <sup>1</sup>	A		
Hawco Refrigeration Limited <sup>1</sup>	A		
Hawco, Inc.	C		
Microtherm UK Limited <sup>1</sup>	A		
IS Group (Europe) Limited <sup>1</sup>	A		
Specialty Fasteners Limited <sup>1</sup>	A		
Specialty Fasteners & Components Limited <sup>1</sup>	A		
FSC UK Limited <sup>1</sup>	A		

- A 12 Charterhouse Square, London, EC1M 6AX, UK.
- B 5716 Corsa Avenue, Ste 110, Westlake Village, CA 91362-7354, USA.
- C 919 North Market Street, Suite 950, Wilmington, DE 19801, USA.
- D 17888 67th Court North, Loxahatchee, FL 33470-2525, USA.
- E 4505 Pacific Highway East, Suite C2, Fife, WA 98424-2638, USA.
- F 3400 First Canadian Centre, 350-7th Avenue SW, Calgary, Alberta T2P 3N9, Canada.
- G Eichsfelder Strasse 1, 40595, Düsseldorf, Germany.
- H Kraichgaustrasse 5, D-73765 Neuhausen, Germany.
- I Rotwandweg 5, D-82024, Taufkirchen/München, Germany.
- J 20-24 Robert Bosch Strasse, 25451 Quickborn, Germany.
- K Nuolikuja 8, FI-01740, Vantaa, Finland.
- L Laki tn 16, Kristiine linnaosa, Tallinn, Harju maakond, 10621, Estonia.
- M Maskavas iela 459, Riga, LV-1063, Latvija.
- N Vilniaus r. sav., Bukiškio k., Bičiulių g. 29, Lithuania.
- O Dom 2, Liter B, Proezd Mebel'nyj, 197374, St. Petersburg, Russia.
- P Industrieterrein Dombosch 1, Elftweg 38, 4941 VP Raamsdonksveer, the Netherlands.
- Q Im Langhag 5, 8307 Illnau-Effretikon, Switzerland.
- R Gewerbeallee 12a, 4221 Steyregg, Austria.
- S Bybjergvej 13, DK 3060, Espergaerde, Denmark.
- T Industrivägen 17, SE-302, 41 Halmstad, Sweden.
- U 58 rue du Fosse blanc, 92230 Gennevilliers, France.
- V 333 Bay St., Suite 2400, Toronto, Ontario M5H 2T6, Canada.
- W 226 Lockhart Road, Barrie, Ontario, L4N 9G8, Canada.
- X 46 Albert Street, Preston, Victoria, 3072, Australia.
- Y 72 Platinum Street, Crestmead, Queensland, 4132, Australia.
- Z Office of Bendall & Cant Ltd, Southern Cross Building, 61 High Street, Auckland, New Zealand.
- AA 22 Avenue des Géomètres Pionniers, ZAC PANDA – 98835, Dumbéa, New Caledonia.
- AB 18 Fuyuandao Road, Wuqing Development Area, Tianjin, China.
- AC Fort Henry Business Park, Ballina, Co. Tipperary, Ireland.
- AD 98/155 Soi Supapong 1 Yak 6, Srinakarín Road, Nongbon, Bangkok, Thailand.
- AE Kriegackerstrasse 32, 72469 Messtetten, Germany.
- AF 386 Internationale Drive Suite H Bolingbrook, IL 60440 United States.
- AG Flöjelbergsgatan 8 A, 43137 Mölndal, Sweden.
- AH 27 Awaba Street, Lisarow NSW 2250, Australia.
- AI Vejlegårdsvej 59, 2665 Vallensbæk Strand, Denmark.
- AJ Kikarvägen 14, 647 35 Mariefred, Sweden.

## FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

**Announcements (provisional dates)**

Q1 Trading Update released	19 January 2022
Annual General Meeting (2021)	19 January 2022
Half Year Results announced	16 May 2022
Q3 Trading Update released	21 July 2022
Preliminary Results announced	21 November 2022
Annual Report posted to shareholders	5 December 2022
Annual General Meeting (2022)	18 January 2023

**Dividends (provisional dates)**

Interim announced	16 May 2022
Paid	6 June 2022
Final announced	21 November 2022
Paid (if approved)	February 2023

**Annual Report & Accounts**

Copies can be obtained from the Group Company Secretary at the address shown opposite.

**Share Registrar****Computershare Investor Services PLC**

The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: 0370 7020010

Its website for shareholder enquiries is:  
[www.computershare.co.uk](http://www.computershare.co.uk)

**Shareholders' enquiries**

If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

**Group Company Secretary and Registered Office**

John Morrison Solicitor  
12 Charterhouse Square  
London EC1M 6AX  
Telephone: 020 7549 5700

Registered in England and Wales, number 3899848.

**Website**

Diploma's website is [www.diplomaplc.com](http://www.diplomaplc.com)

## ADVISORS

**Corporate Stockbrokers**

**Numis Securities**  
10 Paternoster Square  
London EC4M 7LT

**Barclays Bank PLC**

1 Churchill Place  
London E14 5HP

**Independent Auditor****PricewaterhouseCoopers LLP**

1 Embankment Place  
London WC2N 6RH

**Solicitors****Simmons & Simmons LLP**

CityPoint  
One Ropemaker Street  
London EC2Y 9SS

**Bankers****Barclays Bank PLC**

1 Churchill Place  
London E14 5HP

**HSBC Bank plc**

City Corporate Banking Centre  
60 Queen Victoria Street  
London EC4N 4TR

## FIVE YEAR RECORD

Year ended 30 September	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
<b>Revenue</b>	<b>787.4</b>	538.4	544.7	485.1	451.9
<b>Adjusted operating profit</b>	<b>148.7</b>	87.1	97.2	84.9	78.2
Finance expense, net	<b>(6.8)</b>	(2.7)	(0.7)	(0.1)	(0.7)
<b>Adjusted profit before tax</b>	<b>141.9</b>	84.4	96.5	84.8	77.5
Acquisition related charges <sup>1</sup>	<b>(44.4)</b>	(17.3)	(13.1)	(9.6)	(9.7)
CEO transition costs	<b>-</b>	-	-	(2.1)	-
Fair value remeasurements	<b>(0.9)</b>	(0.4)	0.1	(0.4)	(1.0)
<b>Profit before tax</b>	<b>96.6</b>	66.7	83.5	72.7	66.8
Tax expense	<b>(26.9)</b>	(16.9)	(21.1)	(18.3)	(18.6)
<b>Profit for the year</b>	<b>69.7</b>	49.8	62.4	54.4	48.2
<b>Capital structure</b>					
Equity shareholders' funds	<b>536.3</b>	527.0	321.3	291.2	262.0
Minority interest	<b>4.7</b>	3.7	3.3	3.1	4.8
Add/(deduct): cash and cash equivalents	<b>(24.8)</b>	(206.8)	(27.0)	(36.0)	(22.3)
borrowings	<b>206.2</b>	-	42.1	-	-
retirement benefit obligations	<b>4.9</b>	18.3	17.8	10.5	9.9
acquisition related liabilities <sup>2</sup>	<b>23.7</b>	11.5	11.3	5.6	6.6
deferred tax, net	<b>21.9</b>	7.9	8.3	8.4	8.2
<b>Reported trading capital employed</b>	<b>772.9</b>	361.6	377.1	282.8	269.2
Add: historic goodwill and acquisition related charges, net of deferred tax	<b>129.6</b>	99.4	84.3	74.6	66.3
<b>Adjusted trading capital employed</b>	<b>902.5</b>	461.0	461.4	357.4	335.5
Net (decrease)/increase in net (debt)/funds	<b>(395.5)</b>	224.0	(51.9)	13.1	11.9
Add: dividends paid	<b>53.2</b>	23.4	30.1	27.0	23.7
acquisition of businesses (including minority interests), net of disposals	<b>450.5</b>	14.9	78.3	20.4	20.1
proceeds from issue of share capital (net of fees)	<b>0.6</b>	(189.8)	-	-	-
<b>Free cash flow<sup>3</sup></b>	<b>108.8</b>	72.5	56.5	60.5	55.7
<b>Per ordinary share (p)</b>					
Basic earnings	<b>56.1</b>	43.5	54.7	47.5	42.0
Adjusted earnings <sup>4</sup>	<b>85.2</b>	56.4	64.3	56.4	49.8
Free cash flow <sup>3</sup>	<b>87.4</b>	64.0	49.9	53.5	49.3
Dividends	<b>42.6</b>	30.0	29.0	25.5	23.0
Total shareholders' equity <sup>5</sup>	<b>431</b>	423	284	257	232
Dividend cover <sup>6</sup>	<b>2.0</b>	1.9	2.2	2.2	2.2
<b>Ratios</b>	<b>%</b>	%	%	%	%
Return on adjusted trading capital employed ("ROATCE") <sup>7</sup>	<b>17.4</b>	19.1	22.9	24.5	24.0
Working capital: revenue	<b>15.8</b>	16.0	16.5	15.1	15.0
Adjusted operating margin	<b>18.9</b>	16.2	17.8	17.5	17.3

1 Acquisition related charges comprise the amortisation and impairment of acquisition intangible assets, acquisition expenses and adjustments to deferred consideration.

2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.

3 Free cash flow is defined in note 2 to the consolidated financial statements. Free cash flow per share is the free cash flow balance divided by the weighted average number of ordinary shares in issue during the year.

4 Adjusted earnings per share is calculated in accordance with note 9 to the consolidated financial statements.

5 Total shareholders' equity per share has been calculated by dividing equity shareholders' funds by the number of ordinary shares in issue at the year end.

6 Dividend cover is calculated on adjusted earnings as defined in note 2 to the consolidated financial statements.

7 ROATCE represents adjusted operating profit, before acquisition related charges (adjusted for the full year effect of acquisitions and disposals), as a percentage of adjusted trading capital employed. Trading capital employed and adjusted trading capital employed are calculated as defined in note 2 to the consolidated financial statements.

**DIPLOMA PLC**

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London EC1M 6AX

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