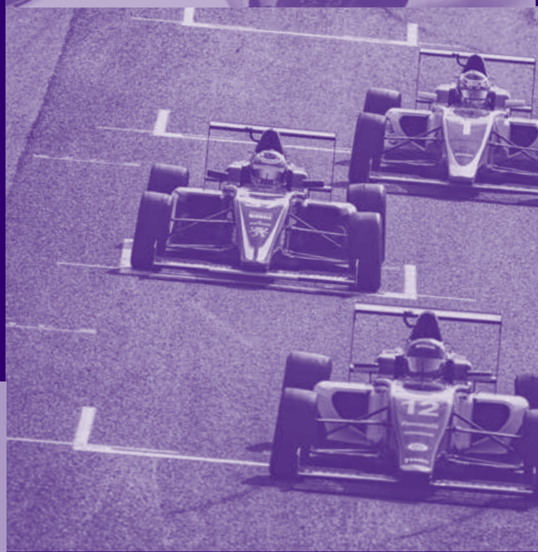
DIPLOMA PLC

Consistently delivering value



Diploma PLC
Annual Report
& Accounts 2020

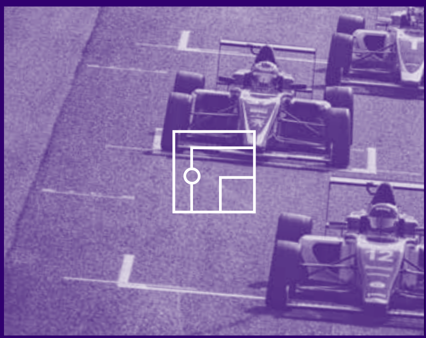
Diploma PLC is an international Group supplying specialised products and services to a wide range of end segments in our three Sectors of Seals, Controls and Life Sciences.

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.

Johnny Thomson
Chief Executive Officer

Seals

See pages 12-15



Controls

See pages 16-19

Life Sciences

See pages 20-23

Group at a Glance

Well diversified by geography and business area

We focus on supplying Essential Products and services across a range of specialised industry sectors.

See more on pages 2 and 3

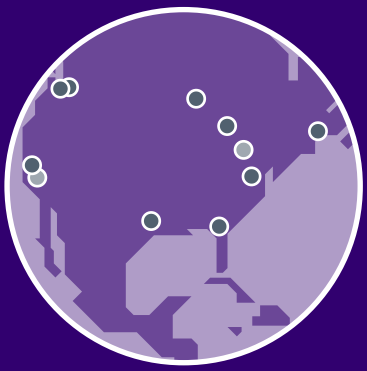
US revenue
(by destination)

£141.9m

Group revenue

26%

Locations



European revenue
(by destination)

£244.3m

Group revenue

UK	21%
Rest	24%

45%

Locations

International revenue
(by destination)

£152.2m

Group revenue

29%

Locations

- Seals
- Controls
- Life Sciences

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.

International Seals (38% of revenue): sealing products and filters supplied outside North America to Aftermarket and Industrial OEM customers as well as to Maintenance, Repair and Overhaul ("MRO") operations.

See more on pages 12-15

North American Seals (62% of revenue):

Aftermarket: next-day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery.

Industrial OEM: sealing products, custom-moulded and machined parts supplied to manufacturers of specialised industrial equipment.

MRO: high-quality gaskets and fluid sealing products supplied to end users with critical services in high-cost failure applications.

Primary growth drivers

- General economic growth
- Activity and spending levels in Heavy Construction and Infrastructure
- Growth in industrial production
- Capital expansion projects at major customers

Group revenue
45%

Employees
1,019

Controls

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

See more on pages 16-19

Interconnect (64% of revenue): wiring, cable, harness components and cable accessories used in specialised technical applications in Aerospace, Defence, Motorsport, Energy, Medical, Rail and Industrial.

Specialty Fasteners (21% of revenue): specialty aerospace-quality fasteners supplied to Civil, Motorsport, Industrial and Defence markets.

Fluid Controls (15% of revenue): temperature, pressure and fluid control products used in Food & Beverage and Catering industries.

Primary growth drivers

- General growth in the Industrial economy
- Activity and spending levels in Aerospace, Defence, Motorsport, Energy, Medical and Rail
- Equipment installation and maintenance in Food & Beverage and Catering
- Technology-enabled growth in building automation, antennae and data centres

Group revenue
29%

Employees
536

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 pages 20-23

Healthcare (85% of revenue): clinical diagnostic instrumentation, consumables and services supplied to hospital pathology and life sciences laboratories for the testing of blood tissue and other samples. Surgical medical devices, consumables and services supplied to hospital operating rooms, GI/Endoscopy suites and clinics.

Environmental (15% of revenue): environmental analysers, containment enclosures and continuous emissions monitoring systems.

Primary growth drivers

- Public and private Healthcare spending
- Ageing population and increasing life expectancy
- Increased Healthcare investment in research, testing and diagnostics
- Health & Safety and Environmental regulation

Group revenue
26%

Employees
425

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Quick guide

Look out for these icons throughout the report

Reference another page in the report

Reference further reading online

Impact of Covid-19 on our business

Highlights

Year ended 30 September 2020

Resilient performance despite challenging conditions

Revenue
£538.4m
2019: £544.7m
-1%

Acquisition spend[3]
£14.9m
2019: £78.3m

Adjusted operating profit[1]
£87.1m
2019: £97.2m
-10%

Statutory operating profit
£69.8m
2019: £84.1m
-17%

Free cash flow[2]
£72.5m
2019: £56.5m
+28%

Adjusted operating margin[1]
16.2%
2019: £17.8%
-160bps

ROATCE
19.1%
2019: 22.9%

Total dividend per share
30.0p
2019: 29.0p
+3%

	2020 pence		2019 pence
Adjusted earnings per share[1]	56.4	-12%	64.3
Basic earnings per share	43.5	-20%	54.7
Total dividend per share	30.0	+3%	29.0
Free cash flow per share[2]	64.0	+28%	49.9

1 Before acquisition related charges and fair value remeasurements.
2 Before cash payments on acquisitions and dividends.
3 In addition, Windy City Wire was acquired on 16 October 2020 for initial consideration of $450m.

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, 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 notes 2 and 3 to the consolidated financial statements.

Our Business Explained

Diploma's strong and successful distribution business model is developed around the proposition of Essential Products, Essential Solutions and Essential Values.

The Essential Products that are distributed are critical to customers' needs. The Essential Solutions – deep technical support in Life Sciences, responsive customer service in Seals, and value-add servicing in Controls – differentiate the Group from its competitors and drive customer loyalty. The Essential Values focus on empowering our employees, who are best placed to understand and deliver to their customers' needs.

The Group's value-add distribution model is built on strong foundations and supported by its Core Competencies and Organisational Capability.

The Group will grow by focusing on its core developed markets and products, both organically and by acquisition. This strategy will continue to deliver strong and consistent financial returns for shareholders.

Our proposition

What we put in

Essential Products

Most of the Group's revenues are generated from consumable products. Often, the products are used in repair and maintenance applications, and refurbishment and upgrade programmes, rather than supplied to original equipment manufacturers.

- Critical to customers' needs
- Customer opex rather than capex budgets
- Range of products, end markets and customer segments

What we get out

Growth and resilience

Our value-add distribution model

Core Competencies

Product

Supply chain management

Organisational Capability

Talent

Built on strong foundations

Resilient value-add distribution model

What we put in
Essential Solutions

Our businesses design their individual operating models to provide solutions that closely meet the requirements of their customers.

- Responsive customer service
- Deep technical support
- Added-value services

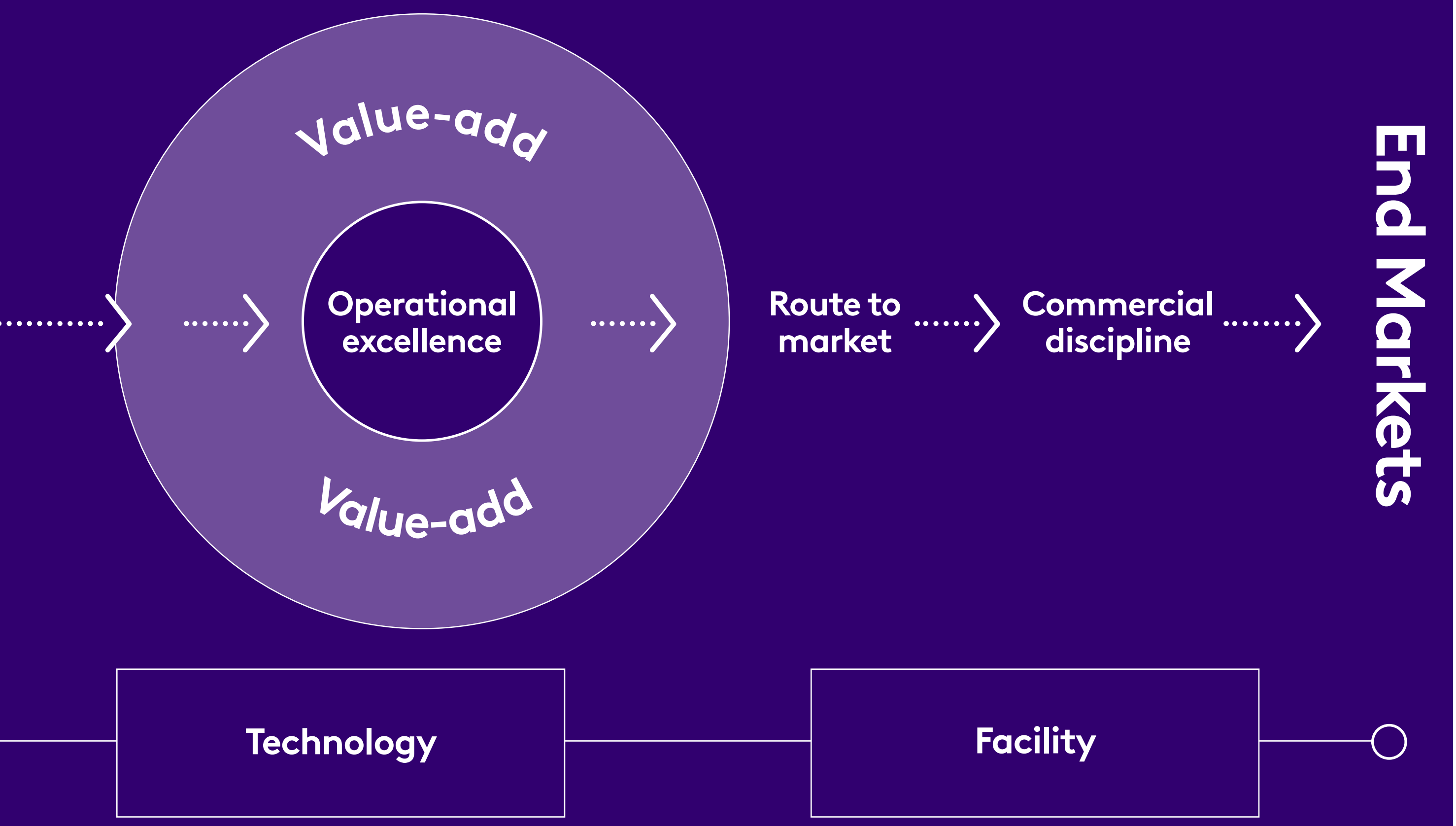
What we get out
Sustainable high margins

What we put in
Essential Values

Within our businesses we have strong, self-standing management teams who are committed to, and rewarded according to, the success of their businesses.

- Decentralised model
- Customer orientated teams
- Accountable for performance execution

What we get out
Empowered management teams



Passionate, accountable, customer-centric people

Strong positions in attractive markets

Successful M&A execution

Strong cash flow and robust balance sheet

Our Business Explained continued

Strategy

The Group has a proven and successful value-add distribution model. We hold strong positions in key markets with a clear route to market that provides organic growth potential and exciting acquisition opportunities in largely fragmented market environments.

Our strategy will continue to evolve as the Group gets larger and more complex. However, as we grow we will continue to maintain our strong foundations and to invest in and develop our Core Competencies and Organisational Capability.

It is a strategy that is based on continuity and builds on the foundations that underpin Diploma's success.

Focus our growth

Scalable businesses
The Group's increasing scale can be used to support long-term growth.

Attractive, developed markets
We can grow by focusing on core developed markets.

Core/adjacent products
We can continue to develop our product capability across the Group.

Organic growth focus
The Group still has relatively low market share in core markets and products.

Acquisition opportunities
Small to medium-sized bolt-on acquisitions continue to play an important part in the development of our Group.

Attractive returns
We operate in highly fragmented sectors with potential for attractive returns and strong cash flows.

Strengthen our Core Competencies

Supply chain management
Our suppliers are integral to our success. Strategic sourcing ensures 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.

Value-add
Value-add is at the heart of our business. We will continue to prioritise customer solutions as the key to our success.

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. This is a win-win for Diploma and our customers.

Develop our Organisational Capability

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

Technology
We continue to invest in technology 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.

Strong foundations

Value-add distribution model
We supply Essential Products to a range of end markets. Our Essential Solutions give sustainable high margins through added-value services and customer loyalty. Our empowered management teams embody our Essential Values.

Passionate, accountable, customer-centric people
Our decentralised structure encourages an entrepreneurial culture across our businesses and allows our managers to run their own businesses with the support of the Group.

Strong positions in attractive markets
We hold strong positions in key local markets with potential for greater penetration in the larger developed economies and across our product portfolio.

Successful M&A execution
We carefully select value-enhancing acquisitions that accelerate the underlying growth and take us into related strategic markets and adjacent product opportunities.

Strong cash flow and robust balance sheet
We generate strong free cash flow and have a robust balance sheet that helps fund a disciplined acquisition strategy and provides healthy returns to shareholders.

The value we create for our stakeholders

Colleagues

Our colleagues deliver our customer proposition, strategy and performance on a day-to-day basis and we support them by providing opportunities to grow and develop.

Read more about our colleagues in our **Corporate Responsibility** section on pages 33-36

Customers

We provide Essential Products and Solutions to our customers and drive customer loyalty through our value-add and customer-focused approach.

Read about our **Business Model and Strategy** on pages 2-4

Suppliers

As a distributor, our supply chain and responsible supply chain management are critical to our success.

Read more in our **Strategy** on page 4, in our **Sector Review** on pages 12-23 and in **Corporate Responsibility** on pages 33-36

Community

Good community relations are integral to the long-term development and sustainability of our operating businesses.

Read about our **Corporate Responsibility** on pages 33-36

Shareholders

Our strategic priorities are aimed at creating consistent and sustainable shareholder value.

Read about our **Financial Model and KPIs** on pages 10-11

Read more on how we engage with our stakeholders on pages 37-38

Chairman's Statement

2020 demonstrated the power of our value-add distribution model

John Nicholas
Chairman

"2020 has been a year of considerable progress for the Group in challenging market conditions."

2020 has been a year of considerable progress for the Group in challenging market conditions. We delivered a resilient performance, both operationally and financially. Our businesses reacted exceptionally quickly to Covid-19, making a difference to our colleagues, our customers and our communities through these uncertain times. Covid-19 demonstrated the power of our value-add distribution model, the diversity of our end market segments, the benefits of broad-based scalable businesses, and the importance of a robust balance sheet. By the end of the financial year, all Sectors were recovering, focusing on future growth, and delivering strong cash generation in a very challenging environment.

The Board was delighted with the enthusiastic support of our shareholders in the fundraising that we announced on 22 September 2020 in order to acquire Windy City Wire ("WCW"), a sizeable US business in the Controls Sector. The acquisition completed on 16 October 2020 and will enable the Group to enter the US Controls market with a scalable business. We are excited about the opportunity to add a strategic, high-quality, high-growth business to the Group portfolio.

Results

Group revenues decreased by only 1% to £538.4m (2019: £544.7m), demonstrating the resilience of the business model. The decrease in underlying revenues of 7% was offset by the 7% contribution from acquisitions, primarily from VSP Technologies ("VSP"), our US Seals acquisition made in July 2019, as well as smaller bolt-on acquisitions in other Sectors. There was a small headwind from currency movements of 1%.

Underlying revenues were down 5% for Seals, demonstrating the resilience of the US Aftermarket and International Seals businesses; down 14% for Controls, which is most exposed to the UK economy as well as some more structurally impacted end segments; and down 4% for Life Sciences, which is now experiencing an impressive recovery due to pent-up demand. All Sector revenues were in recovery by the fourth quarter, compared to the third quarter, and continue on that trajectory as we enter into 2021.

Adjusted operating profit decreased by 10% to £87.1m (2019: £97.2m) and includes a non-recurring charge of £3.9m to reshape the cost base and ensure that resources are most efficiently allocated to support the future revenue growth. Adjusted profit before tax and adjusted earnings per share ("EPS") decreased by 13% to £84.4m (2019: £96.5m) and 12% to 56.4p (2019: 64.3p), respectively.

On a statutory basis the Group's operating profit was £69.8m (2019: £84.1m), down 17%, after £17.3m of acquisition related charges, largely comprised of amortisation of acquired intangibles. Statutory profit before tax was £66.7m (2019: £83.5m), down 20%, and statutory basic EPS was down 20% at 43.5p (2019: 54.7p).

Cash generation was exceptionally good with free cash flow of £72.5m (2019: £56.5m). As part of the response to the pandemic, the Group focused on cash collection and careful inventory management. As a result, the Group delivered a cash inflow from working capital of £9.5m (2019: £9.4m outflow) boosted by an unwinding of excess stock levels in the US OEM business after its ERP implementation.

Capital expenditure remained above historic levels at £9.4m, although modestly down on the prior year (2019: £10.9m), as we completed the investment in our US Aftermarket distribution facility in Louisville, Kentucky. This will enable us to drive revenue growth and operating efficiencies by accessing a much larger territory in the US on a guaranteed next-day delivery basis.

In September 2020, the Group completed a successful fundraising for £189.2m, to partially fund the acquisition of WCW, which completed after the year end. We were delighted with the support from both existing and new shareholders.

The Group's balance sheet remains strong with cash of £206.8m as at 30 September 2020, £17.0m of cash funds excluding the equity raise proceeds (2019: net debt of £15.1m). The Group had undrawn facilities of £60.0m at year end and had repaid its term loan in full. After the completion of the WCW acquisition, in October 2020, the Group has debt of ca. £180.0m and available facilities of ca. £135.0m (including a £50.0m accordion facility) following the refinancing undertaken as part of the acquisition. The Group therefore has sufficient liquidity to finance an additional contribution to its pension scheme, a final dividend, and execute on its encouraging pipeline of value-add, bolt-on acquisitions.

Dividends

The Board has a progressive dividend policy that aims to increase the dividend each year, broadly in line with the growth in adjusted EPS. Following the suspension of the interim dividend due to the uncertainty created by Covid-19, the Group has remained profitable and cash generative and consequently was able to repay all UK Government funding that had been used during the early phase of lockdown.

The resilience of the Group's performance and cash generation, and the confidence in future growth led the Board to recommend a final dividend of 30.0p per share (2019: 20.5p), meaning that the total dividend in relation to 2020 will be 30.0p per share (2019: 29.0p) representing a 1.0p (3%) increase. The level of dividend cover is ca. 1.9 times on an adjusted EPS basis (2019: 2.2 times). We expect to resume our historic dividend profile in 2021.

Board changes

We appointed a new Chief Financial Officer, Barbara Gibbes, to the Board on 22 June 2020 following a handover process with outgoing Group Finance Director, Nigel Lingwood. Nigel stepped down from the Board on the same date and formally retired on 30 September 2020.

A new non-Executive Director, Geraldine Huse, was appointed on 20 January 2020 and we welcome her onto the Board. Geraldine offers a fresh perspective and impressive experience as a senior executive for Procter & Gamble, currently leading its Canadian business.

After nearly eight years on the Board, Charles Packshaw will retire as the Senior Independent non-Executive Director at the conclusion of the Annual General Meeting in January 2021. On behalf of the Board I would like to thank him for his excellent contribution and wise counsel. The Nomination Committee has commenced a search process for a new non-Executive Director. A further announcement will be made in due course regarding Charles' successor as Senior Independent Director.

Colleagues

Our colleagues have been instrumental in delivering the customer-focused and value-add service that allowed the Group to respond so resiliently to the challenges of the Covid-19 pandemic. I would like to record my deep thanks to all of our colleagues who, during this extremely challenging period, have remained focused on doing their jobs safely for their customers and in their communities.

Outlook

The Group has a resilient business model with a broad geographic spread of businesses supported by a robust balance sheet and consistently generates strong cash flow. This model enables the Group to respond to the challenges of the Covid-19 pandemic and supports our confidence in our future growth and our inorganic growth.

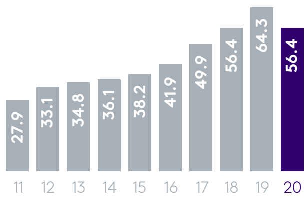
The Group's business model targeting GDP+ organic growth supplemented by acquisitions is unchanged. As the Group grows in size, the growth in any one year will be subject to the availability of attractive acquisition targets. However, the Board continues to expect double-digit growth through the economic cycle.

Despite the ongoing uncertainty from Covid-19, and absent any detrimental macro events, we are confident that the Group is well positioned to deliver underlying growth in 2021, supplemented by a material contribution from the WCW acquisition. We expect that in the first half of 2021, existing businesses will show modest sales and margin improvement over the second half of 2020 but below pre-Covid-19 comparatives.

"Our business responded exceptionally to Covid-19, making a difference to our colleagues, our customers, and our communities."

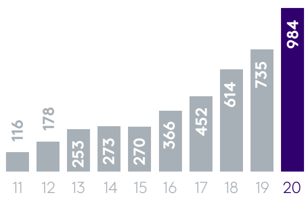
Adjusted EPS growth (pence)

+12%p.a.[1]



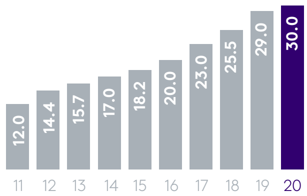
TSR growth (TSR index 2010 = 100)

+26%p.a.[1]



Dividend growth (pence)

+13%p.a.[1]



1 Ten-year compound.

Chief Executive's Review

Strong execution against strategic priorities

Johnny Thomson
Chief Executive Officer

"This has been a year of excellent progress and we will carry this positive momentum into the next year."

This has been a year of excellent progress for the Group. Despite the circumstances of 2020, we delivered a strong and robust performance and will carry this positive momentum into the next year.

The Group's reported revenues decreased by 1% with adjusted operating profit of £87.1m at a margin of 16.2% after one-off restructuring costs of £3.9m. Cash flow was exceptionally strong with 113% free cash flow conversion.

Our response to Covid-19

The Group is responding well to Covid-19. It has been a challenging time for everyone personally and professionally. I am immensely proud of how our businesses have responded. I would like to thank all of my colleagues for their outstanding efforts.

We established standard crisis protocols that continue today. This includes weekly Executive meetings on our response to the crisis. This has ensured that we respond quickly, that we are consistent in our approach where appropriate, and that we are learning from each other's experiences in this unusual environment. We mandated certain Group practices in response to the pandemic, but as a decentralised Group we also recognise the value of local autonomy in empowering our excellent managements teams to respond appropriately. Finally, we deployed a comprehensive communication structure to ensure that the whole organisation was aligned and well informed at all times.

Our action and communications were based around the focus of Making a Difference to Our Colleagues, Our Customers, and Our Communities.

Our Colleagues

Our priority is to protect the safety and wellbeing of our colleagues. We established minimum practice guidelines for all businesses to ensure that the workspace and procedures were safe. At times this has included working from home, split shift working patterns, and other measures such as deep cleaning, temperature checks and social distancing. Importantly, we have also been acutely aware of the mental health risks at this time and have various practices, networks and helplines to support our colleagues.

Our Customers

We supply essential products to customers in essential industries. Not only have all businesses remained open and operational but we have worked hard to offer the same high levels of service throughout the pandemic. We were particularly gratified to support the Covid-19 fight with some of our products, including supplying seals for ventilators and components for Covid-19 testing.

Our Communities

It was also important that we stepped up to support the communities that our colleagues live and work in. There were many great examples of our businesses doing this through donations of personal protective equipment, or by supporting local charities.

Financial responsibility

At the onset of the crisis we took actions to ensure we had sufficient cash and liquidity. However, our businesses adapted well to the crisis and we were able to repay all UK Government funding that we received in the initial weeks. Our Board and Executive team took a voluntary 20% reduction in salary at the peak of the crisis.

Culture

This year has reinforced the strength of our culture. Each business has its own identity but there are some common traits which have enabled us to navigate the last year and to deliver a resilient performance.

Continuous improvement is driven by a "can do" attitude and a restless desire to evolve, even in challenging times. Our decentralised model encourages **accountability**, empowering our business leadership teams and resulting in agile, innovative businesses that were able to adapt to the unusual circumstances this year. **Respect** for our colleagues, customers, suppliers and communities motivates everything we do. We appreciate that if we look after our colleagues, they will look after our customers, suppliers and communities. The crisis and our approach to communication has without doubt strengthened the cultural identity across the Group and I believe this will be a key to our success in the future.

Strategy

We have an effective strategy built on the strong foundations of our value-add distribution model. We will continue to focus our growth in key markets and products and build high-quality, scalable businesses for organic growth.

Our strong performance last year demonstrates the resilience of our proposition of **Essential Products**, **Essential Solutions** and **Essential Values**. The Essential Products that we supply are funded by our customers' operating, rather than capital budgets. Our Essential Solutions support our long-term customer relationships and attractive margins. Our Essential Values give autonomy to our businesses, ensuring that they are agile, responsive and empowered to serve their customers.

Focus our growth

We focus on core, developed markets and current and adjacent product ranges for our growth. We are looking to create and build high-quality, scalable businesses with organic growth potential. We will focus on the Core Competencies and Organisational Capability that allow us to execute our proposition and value-add business model at scale.

Core Competencies

Following last year's refresh of the strategy and identification of our five Core Competencies, each of our businesses now understands and has prioritised the Core Competencies according to their strategic needs. As we scale, we will continue to focus on improving the Core Competencies that underpin our business model and drive our success.

Organisational Capability

In order to be able to deliver the Competencies at scale, we must develop the Organisational Capabilities that will allow us to do so: **facility**, **technology** and **talent.**

Over the last two years, we have invested over $8.0m in a state-of-the-art warehouse **facility** for our US Seals Aftermarket business in Louisville, Kentucky. Since opening in August 2020, we have almost completely transitioned from our existing facility in Clearwater, Florida. This will finalise in December 2020, when our Florida facility will be closed and sold.

The advanced automation of our artificial intelligence driven warehouse puts us at the forefront of distribution. It will use robots to pick orders; making efficient use of space, increasing inventory capacity, and improving the speed and accuracy of order fulfilment. The location of the Louisville facility, next to a UPS hub, means that we can offer next-day delivery at a later cut-off time and to a larger area of the US.

In **technology**, we have undertaken a number of ERP implementations and e-commerce upgrades across the Sectors.

I am particularly pleased with the progress we have made on **talent** this year. We have embedded a new Executive team. We have made some key appointments, both in the PLC team and in business leadership roles. I am delighted that Barbara Gibbes has joined as Chief Financial Officer and welcome her to the Group. Other key appointments have come from internal promotions, external expertise or acquisitions. I would like to take this opportunity to welcome Rich Galgano and his team from Windy City Wire ("WCW"), our most recent acquisition.

Within the organisation, we have made excellent progress at embedding talent management processes and this allows us to ensure that we continue to have great people running our businesses. There is always more that can be done, and we continue to focus on succession management across the Group and our diversity and inclusion agenda.

Our talent mix is a great blend of long tenure and experience in the Group, combined with newer appointments that bring fresh perspectives. My team and I remain focused on ensuring that all of our colleagues fulfil their potential at Diploma. Although Covid-19 threw us some challenges this year, we have taken this opportunity to embed and develop our talent and we enter the next year as a more cohesive and aligned team, well placed for the future.

Acquisitions

Bolt-on acquisitions remain a core element of the Group's strategy to deliver double-digit revenue growth. In 2020, we made two value-add acquisitions, CR Systems in the Controls Sector and PumpNSeal in International Seals for a total acquisition spend of ca. £13.8m. These businesses are excellent examples of Diploma bolt-on acquisitions that offer the relevant Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering, leading to increased value to shareholders.

After the year end, in October 2020, we completed the strategic acquisition of WCW for an initial consideration of $450m. WCW has an impressive value-add customer proposition and is a perfect fit with our business model, providing a scalable platform for our Controls Sector in the US. The business has an excellent performance track record and is well positioned to deliver growth in the future.

> **"I am particularly pleased with the progress we have made on talent."**

Acquisitions continue to be an integral part of the Group's growth strategy and we currently have an attractive and encouraging pipeline of potential opportunities. With the enhanced organic growth potential of the Group we are confident that we will continue to deliver strong and consistent financial returns for shareholders.

Sector performance

The Group produced a resilient financial performance in a challenging 2020 across all three Sectors.

The Seals Sector performed very well through the crisis with reported revenues up 10%, underpinned by a strong acquisition contribution of 16%, primarily from VSP Technologies ("VSP"), which achieved double-digit growth in the first half of the year. Underlying revenues for the Sector declined by only 5%.

Our Hercules Aftermarket business performance was strong and was able to leverage its scale and diverse customer base in order to manage the challenges created by Covid-19. After a few years of challenging conditions, including the 2018 ERP implementation, US and China trade tariffs and Covid-19, our US OEM businesses are seeing their efforts pay off with performance improving steadily through Q4 and into FY21. International Seals performed well, supported by the diversity of its end segments. Underlying revenues were down just 3% and overall growth reached 6% on a reported basis.

The Controls Sector had a more challenging year due to its exposure to the UK and Civil Aerospace. As a result, revenues were down 12% on a reported basis and down 14% on an underlying basis. We have taken positive measures to align the cost base and position the Sector for future growth and the Sector as a whole is now on an upward trajectory. We are excited to further diversify our Controls revenues with the acquisition of WCW in the US.

It has been a positive year for Life Sciences. Revenues declined by only 4% on a reported and underlying basis. Although Healthcare was initially the most affected by the Covid-19 lockdown restrictions, the easing of hospital access and travel restrictions has meant that elective surgery procedures and non-Covid-19 related diagnostics have resumed and pent-up demand following Covid-19 related deferrals has created significant demand. I feel very positive about the benefits of this backlog in procedures and diagnostics and the growth opportunities in this Sector.

Financial Model and KPIs

Consistent and sustainable shareholder value creation

Diploma has delivered excellent shareholder returns over many years and the Group's businesses are in a great position to continue this track record.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to stable underlying revenue growth, sustainable and attractive margins and strong cash flow generation. This year, underlying revenue growth, after adjusting for currency movements and acquisitions, is down 7% and down 1% on a reported basis, with the growth rate adversely affected in the second half of the year due to the impact of Covid-19. Our growth has recovered well in the latter months of the year and momentum is good for the 2021 financial year.

In 2020, our margins reduced due to negative operating leverage as revenues declined, but through careful cost management this was kept to a minimum and profitability was preserved even after incurring some restructuring charges to align the cost base for the revenue profile going forward and to ensure the businesses are well positioned for growth in 2021.

Our free cash flow generation in 2020 was very strong at 113% which was the result of improved working capital management, both cash collection and careful inventory management, with a boost from £5.8m of cash receipts from property transactions.

Acquisitions are not made just to add revenue and profit, but rather to bring into the Group successful businesses that have a strong customer proposition, add value to the Group from their growth potential, capable management and a good track record of profitable growth and cash generation. As part of our strategy to focus the business for strong growth, we invest in the businesses post-acquisition to build a firm foundation to allow them to move to a new level of growth and improve operating margins. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment in the high teens and hence support our Group objectives for return on adjusted trading capital employed.

We measure the success of the growth of the business with KPIs. We maintain a consistent approach to our balance sheet with net debt/EBITDA typically below two times. Leverage depends on actual acquisition spend, which can fluctuate. At year end, we were in a net cash position.

This year, the Group invested ca. £14.9m in acquisitions during the first half of the year and ended the year with an encouraging pipeline of attractive bolt-on acquisitions. Our total acquisition spend over five years is ca. £166m. The acquisitions completed over the last three years have contributed ca. 14% of 2020 revenues.

We announced the acquisition of Windy City Wire ("WCW") just before the year end and completed the acquisition in early financial year 2021. The initial consideration was $450m. This is a great strategic investment in a large, scalable US business with excellent organic growth potential.

The Group's return on total investment measure is the pre-tax return on adjusted trading capital employed, excluding net cash, but including all goodwill and acquired intangible assets ("ROATCE"). This measures how successful we are at generating returns on the investments that we make. We target returns in the high teens, demonstrating a strong track record of shareholder value creation.

As the Group continues to expand it will continue to pursue these metrics in its financial model.

Financial model

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

Key Performance Indicators

Initiatives	KPIs

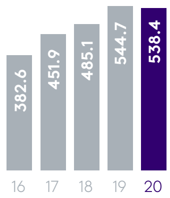
GDP+ underlying revenue growth

We focus on Essential Products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues.

Reported revenue growth (£m)

+10%

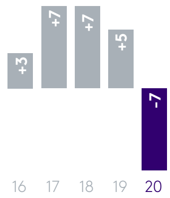
Five-year compound



Underlying revenue growth (%)

+3%

Five-year average



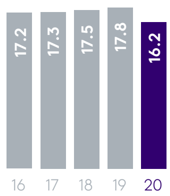
Attractive margins

Our attractive operating margins are sustained through the quality of customer service, the depth of technical support and value-adding activities.

Adjusted operating margin (%)

17.2%

Five-year average



Adjusted operating margin (bps)

Improvement in adjusted operating margin of acquired businesses three years after acquisition.

+200–300bps

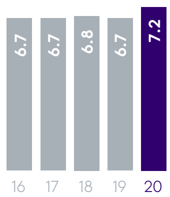
Agile and responsive organisation

We encourage an entrepreneurial culture in our businesses through our decentralised organisation.

Length of service (years)

6.8 years

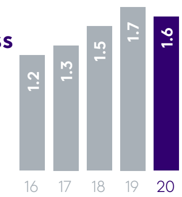
Five-year average



Average working days lost to sickness (%)

1.5%

Five-year average



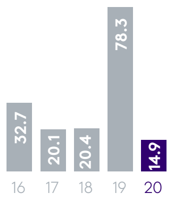
Acquisitions to accelerate growth

Carefully selected, value enhancing acquisitions accelerate the underlying growth and take us into related strategic markets.

Acquisition spend (£m)

£33.3m

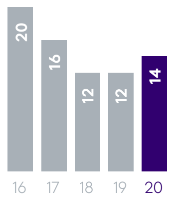
Five-year average



Revenue from acquisitions (% of total)

15%

Five-year average



Calculated as reported revenues from acquisition completed in the last three years.

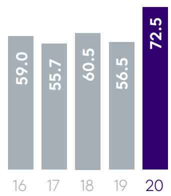
Strong cash flow

A robust balance sheet and strong cash flow fund our growth strategy and provide healthy, growing dividends. Cash conversion was 113.3% this year and 101.6% over a five-year average.

Free cash flow (£m)

£60.8m

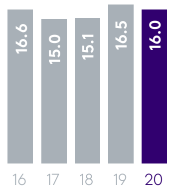
Five-year average



Working capital (% of revenue)

16%

Five-year average



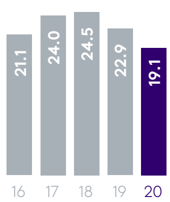
Value creation

We aim to create value by targeting ROATCE in the high teens.

ROATCE (%)

22%

Five-year average



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

"An encouraging and resilient performance from the Seals Sector."

Anne Thorburn
Non-Executive Director

Geography

61% North America

9% International

30% Europe

Principal segments

- 26% North American Aftermarket
- 22% US Industrial OEM
- 14% US MRO
- 38% International

Customers

44% Industrial OEM

14% MRO

24% Heavy Construction

2% Dump & Refuse Trucks

15% Other Industrial

1% Logging & Agriculture

Products

31% Seals & Seal Kits

22% Gaskets

16% O-Rings

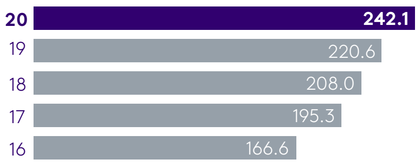
9% Filters

19% Cylinder & Other

3% Attachment Kits

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

+12% p.a.



Revenue

£242.1m

	2020	2019	
Revenue	**£242.1m**	£220.6m	+10%
Adjusted operating profit	**£36.0m**	£38.1m	(6%)
Adjusted operating margin	**14.9%**	17.3%	(240bps)
Free cash flow	**£32.2m**	£17.7m	+82%
ROATCE	**15.7%**	19.3%	(360bps)

Seals

Highlights for the year

- Sector revenue growth of 10%, reflecting excellent contribution from acquisition of VSP; underlying revenues down 5% after adjusting for currency and acquisitions
- NA Aftermarket broadly flat demonstrating an impressive performance in challenging circumstances
- US Industrial OEM revenues down by 10% on an underlying basis, driven by soft industrial environment compounded by Covid-19 but now recovering well
- Excellent contribution from VSP
- International Seals performed well due to the diversity of end customer segments

Potential for growth

- Structural growth drivers include incrementally higher US infrastructure spend
- Successful go-live of state-of-the-art distribution facility for NA Aftermarket will allow significant growth by accessing expanded US territories
- Leverage US Industrial OEM platform to broaden distribution activities organically and through acquisition
- Substantial opportunities to grow VSP through new product development, expanded activities outside South-Eastern US and through bolt-on acquisitions
- Focus on new platforms to build scale in International Seals through acquisition and increased cross-selling in existing businesses

North America

The **Aftermarket** business in North America ("NA") supplies a variety of seals and associated products that support a broad range of mobile machinery including heavy construction, mining, logging, agriculture, material handling and refuse collection. The products are generally supplied on a next-day delivery basis and are used in the repair and maintenance of equipment after it has completed its initial warranty period or has been sold on the pre-used market. The main customers are machinery and cylinder repair shops, engine and transmission rebuilders and other heavy equipment parts distributors.

The **Industrial OEM** businesses in the US supply seals, gaskets, O-rings, and custom moulded and machined parts to a range of Industrial OEM customers. The business works closely with customers to select the most appropriate seal design, material and manufacturer for the application; provide technical support and guidance during the product development process; and deliver the logistics capabilities to supply from inventory to support small to medium-sized production runs.

In Maintenance, Repair and Overhaul ("**MRO**") operations, 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 flanged connection expertise, product recommendations and installation training to best practices. Market focus is primarily Transportation (Rail and ISO Tanks), Chemical Processing, Power (generating and LNG facilities) and Marine (US Navy and Coast Guard). Customer product availability requirements range from hours to days.

International

The **International Seals** businesses outside NA supply a range of seals, gaskets, filters, custom moulded and machined parts and hydraulic cylinder components to both Aftermarket and Industrial OEM customers. The businesses also supply products to end users operating process plants within the Mining, Oil & Gas, Pharmaceutical, Chemical, Food & Beverage and Energy sectors, where products are required to support MRO operations.

Market drivers

In the **NA Aftermarket** businesses, the principal drivers are gross domestic product ("GDP") growth, construction spending, and sales of new construction equipment. The decrease in industrial output and demand as a result of Covid-19 meant that average equipment age is increasing with a corresponding impact on repairs. The economic conditions in the South and Central American economies served by the NA Aftermarket businesses were significantly impacted by Covid-19 and continue to be challenging due to local and global uncertainty.

For the US **Industrial OEM** Seals businesses, US/China tariffs and softer industrial markets provided some headwinds before the impact of Covid-19. While certain end segments performed well during Covid-19 (swimming pool manufacturers, spray technologies) industrial output performance drives growth in this business segment.

In **MRO**, the principal market driver is US Industrial Production and in particular the subset relating to Chemical Manufacturing and the Chemical Activity Barometer. The baseline demand for fluid sealing in critical services at fixed plant locations is typically resilient to market cycles, but growth can be tied to capital expansion projects at major customers.

Market drivers – International

The **International Seals** businesses operate in a range of countries and diverse market sectors and each has its own specific market drivers. The most relevant market drivers and indicators are therefore the general GDP growth and Industrial sector performance for the major geographies that the businesses operate in.

In the UK, the Construction sector, which drives the Aftermarket business, reflects the caution amongst customers, heightened Brexit uncertainty, and a weak outlook for the UK economy. Nordic economies have been resilient over the last three years, and Switzerland has also been relatively stable. The Mining sector in Australia has held up well during Covid-19, particularly within iron ore and gold, and sustained recovery is being projected over the medium term.

Sector performance

Reported revenues of the Seals Sector businesses increased by 10% to £242.1m (2019: £220.6m), with underlying revenues down 5%, acquisitions during 2019 and 2020 contributing 16%, and a 1% headwind from currency.

Adjusted operating margins reduced by 240bps to 14.9% (2019: 17.3%), due to the impact of Covid-19 during the second half of the financial year, non-recurring reorganisation costs of £1.6m, and dual running costs as we transition to a new distribution facility. There was a positive mix impact on gross margins despite reducing revenues as sales to smaller, higher margin customers were sustained, particularly in the NA Aftermarket business.

North American Seals

NA Seals accounts for 62% of Sector revenues and were up 12% on a reported basis and down 7% on an underlying basis, with significant acquisition (VSP in Q4 2019) contribution of 20% and an adverse 1% movement from currency.

The **NA Aftermarket** Seals businesses reported broadly flat underlying revenues despite the Covid-19 impact during the second half of the financial year, a strong performance thanks to its scale and the diversity of its customer base. US domestic sales were up on prior year, driven by strong performance in the Repair segment, partially offset by de-stocking amongst distribution customers. The business also benefited from its exposure to largely South Eastern States, which remained more open during the pandemic.

We have invested $8.0m in a new, automated distribution facility in Louisville, Kentucky, which went live in August 2020. It will be fully operational, in line with our plan, after a staged customer migration programme. The existing facility in Clearwater, Florida, will be run down and provide contingency until operations are fully stabilised before a planned close down by the end of December.

The new facility contains an artificial intelligence driven AutoStore which will be more effective, efficient and ready for greater scale. It is located next to a major logistics hub. This provides access to a much wider area of the US, particularly the West Coast and industrial Mid-West, on a guaranteed next-day delivery basis. This will enable us to drive market share gains in those regions and accelerate the business's growth.

In terms of technology, we launched a new version of our market-leading Hercules webstore, which now accounts for over 40% of orders. We are excited about the functionality this brings our customers, including multi-spec ordering and custom designs.

The US **Industrial OEM** business was impacted by softer Industrial markets in the first half of the 2020 financial year, and particularly the impact on our customers of US/China trade tariffs. This was compounded by Covid-19 in the second half. Underlying revenues were down 10% for the full year (adverse currency impact of 1%). We have been rebuilding the management team in this business and they are beginning to see the rewards for their work as the trends in revenue growth improved dramatically in Q4 and into the new year.

In **MRO**, VSP, acquired in July 2019, performed extremely well in the nine months of 2020 and was initially less impacted by the Covid-19 crisis than other businesses. Customers in the Oil & Gas sector, particularly in the Transportation segment, have been negatively affected by reduced demand driven by lower oil prices, and we have also seen customers defer scheduled plant outages and maintenance work, leading to a reduction in revenues during the final quarter compared to the prior year. However, this trend is now beginning to reverse and we are confident that VSP will contribute significantly to the Group again in the new year.

International Seals

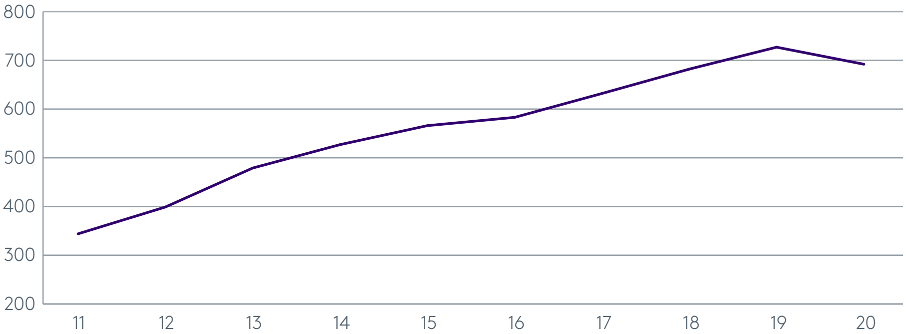
International Seals, which accounts for 38% of the Seals Sector, delivered one of the most resilient Sector performances in the Diploma portfolio, owing to its diverse customer base, end markets and geographies. Business into renewable energy and medical end segments, offset business into Oil & Gas and Industrial sectors. Reported revenues were up 6%, with underlying revenues only 3% down, a 10% contribution from acquisitions and 1% currency headwind.

The UK economy continues to be sluggish and we expect our UK businesses' recovery to track industrial output. During the final quarter we reorganised the businesses, including last year's DMR Seals purchase, into an Aftermarket cluster and an OEM cluster. This will allow for a more coordinated approach to market in these segments and provide an improved platform for scalable growth. To support this reorganisation, we have invested in an ERP platform in the Aftermarket business which will go live early in the 2021 financial year. We have started to see better performance from the UK businesses in Q4.

Our Continental European businesses delivered a strong performance that was driven by our Scandinavian business, M Seals, and our Swiss business, Kubo. They have very diverse end segments and markets which supported excellent growth in the year.

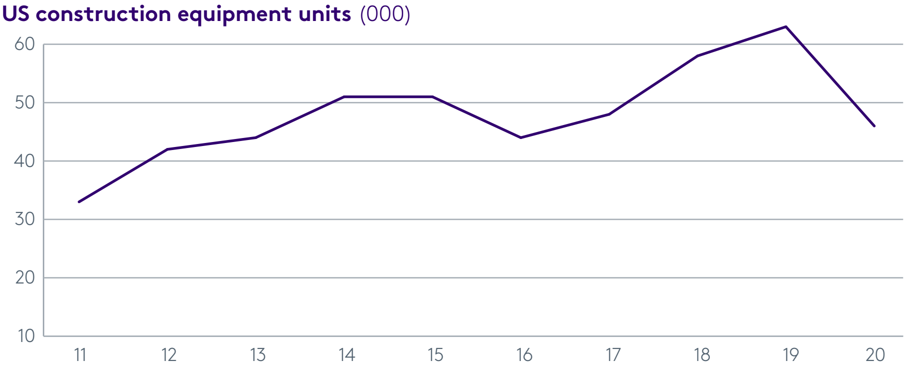
In Australia, we acquired PumpNSeal in January 2020, a specialist supplier of process pumps, pumping systems and sealing solutions located in Perth, which contributed £5.1m to 2020 revenues. We have combined the West Coast operation of our existing Australian business with this acquisition which will optimise the supporting cost base and provide a platform going into 2021.

US construction spend (US$bn)



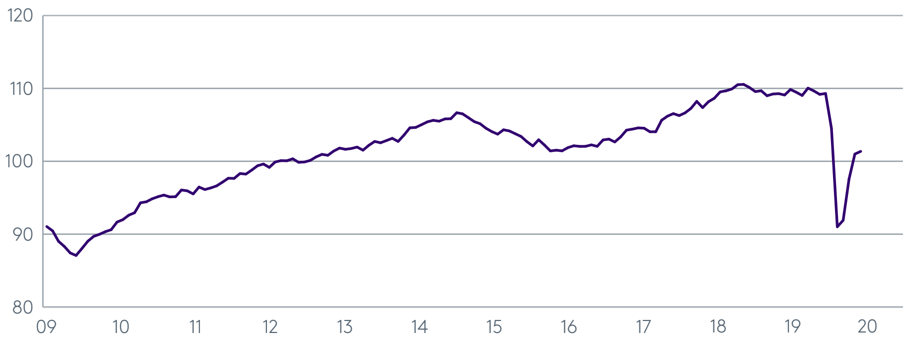
Source: Cyclast Intercast, 2020 estimate

US construction equipment units (000)



Source: Cyclast Intercast, 2020 estimate

US industrial production index

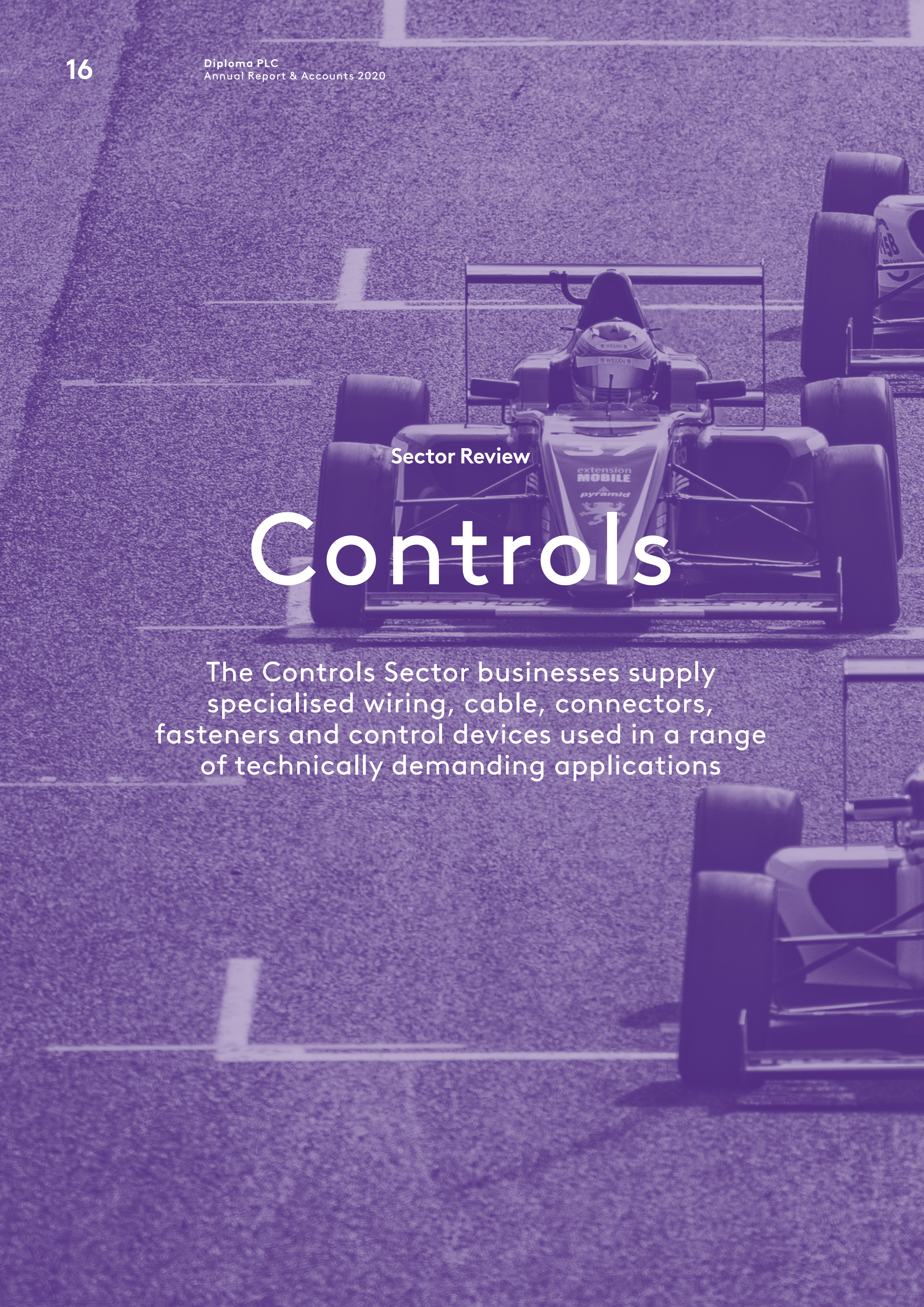


Source: US Federal Reserve (seasonally adjusted)

GDP growth in principal International Seals territories

Real GDP growth	2016	2017	2018	2019	**2020**
UK	+1.9	+1.9	+1.3	+1.5	**-9.8**
Nordic region	+2.3	+2.3	+1.8	+1.4	**-3.5**
Switzerland	+1.7	+1.9	+2.7	+1.2	**-5.3**
Russia	+0.2	+1.8	+2.5	+1.3	**-4.1**
Australia	+2.8	+2.4	+2.8	+1.8	**-4.2**

Source: IMF and Nordic Statistics



Sector Review

Controls

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

"

The Controls Sector returned to growth in the fourth quarter and is now on an upward trajectory."

Andy Smith
Non-Executive Director

Geography

52% UK

13% International

35% Continental Europe

Customers

36% Industrial

11% Motorsport

18% Civil Aerospace

7% Energy & Utilities

13% Defence

5% Medical & Scientific

9% Food & Beverage

1% Rail

Principal segments

- 64% Interconnect
- 21% Specialty Fasteners
- 15% Fluid Controls

Products

53% Wire & Cable

8% Equipment & Components

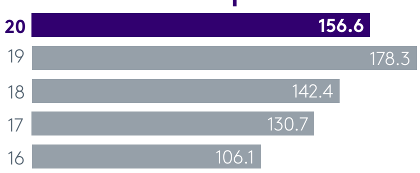
23% Fasteners

7% Control Devices

9% Connectors

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

+11%p.a.



Revenue

£156.6m

	2020	2019	
Revenue	**£156.6m**	£178.3m	(12%)
Adjusted operating profit	**£22.8m**	£31.6m	(28%)
Adjusted operating margin	**14.6%**	17.7%	(310bps)
Free cash flow	**£27.3m**	£24.7m	+11%
ROATCE	**21.1%**	31.0%	(990bps)

Controls

Highlights for the year

- Sector revenue down 12% on a reported basis and 14% on an underlying basis
- Created new UK platform for cabling and cabling-solutions businesses
- Measures taken to align the cost base and prepare for future growth

Potential for growth

- Grow the Interconnect business geographically within Europe and broaden the product offer to include more own-branded solutions
- Leverage UK platform to accelerate cross-selling opportunities and maximise sales and marketing channels
- Specialty Fasteners will build on existing positions in Motorsport and focus expansion within Europe and the US
- Target growth from new refrigeration products in Fluid Controls and drive export business into North America

Our **Interconnect** businesses supply high performance electrical interconnect products used in technically demanding applications across multiple industries including Aerospace & Defence, Motorsport, Energy, Medical, Rail and Industrial.

Most of the products supplied are used in refurbishment, upgrade and maintenance work for equipment in service. Products include electrical wiring, cable, protective sleeving, connectors and harnessing products, and customised assemblies.

Value-adding activities enhance the customer offering, including marking of protective sleeves and cables, customised labelling solutions, cut-to-length tubing, kitting, connector assembly and prototype quantities of customised multi-core cables. We also supply internally manufactured products, including flexible braided products for screening, earthing and lightning protection, power shunt connectors, multi-core cables, cable markers, sleeving and trunking.

Our **Specialty Fasteners** business, Clarendon, supplies aerospace-quality fasteners to the Civil Aerospace (focus on aircraft seating and cabin interiors), Motorsport and Industrial & Defence markets. Clarendon supports key customers with its automated inventory replenishment solution utilising bespoke dispensing racks located within the customers' production cells.

The **Fluid Controls** businesses supply a range of fluid control products used broadly in the Food & Beverage sector, in applications including food retail and transportation, catering equipment, vending machines, coffee brewing, pure water, and water-cooling systems. Products include fluid controllers, compressors, valves, temperature and pressure measurement devices, and specialised vending and liquid dispensing components.

Market drivers

The Controls businesses focus on specialised, technical applications across a range of industries, with ca. 90% of Sector revenues generated in the UK and Continental Europe (principally Germany and France). The background market drivers are therefore the growth of the industrial economies of the UK, Germany and France.

A good indicator of the health of the UK industrial economy is the UK Index of Production which shows that activity levels have been impacted by a weak Manufacturing sector exacerbated by Brexit uncertainty. Comparative indices in Europe were more resilient before the impact of Covid-19 during the second half of the financial year 2020.

Although the **Interconnect** and **Specialty Fasteners** businesses are influenced by the general industrial economic cycles, there are also more specific drivers within their main market segments.

The Civil Aerospace market has historically been a high growth segment for these businesses. This sector was structurally impacted by the travel restrictions imposed by Covid-19 related lockdown measures, resulting in an expected drop of world passenger traffic airline seats by some 50% for the 2020 calendar year. Although the market has temporarily contracted, we continue to see activity sustained in large markets, such as the Asia Pacific region and the US, and we continue to gain market share in the more challenging European markets.

In the Defence sector, the UK remains committed to maintaining the NATO spend target of 2% of gross domestic product ("GDP"); Germany has pledged to increase defence spending from ca. 1.3% of GDP in 2018 to ca. 1.5% of GDP in 2024.

In Motorsport, the major drivers of demand in Formula 1 are the number of races and teams and the change in engine design rules. The planned engine upgrade has been postponed until the 2022 season. However, the future for Formula 1 and high performance motorsport looks very positive in the long term.

In the UK, the new five-year rail funding control period started in April 2019 and the High Speed Two project officially started in September 2020. In Germany, electricity generation and distribution remain a positive sector due to the fragmented nature of the local supply of electricity, where it is the responsibility of towns and cities.

The UK Construction sector is a key end segment for our cables and cable accessories business, which is an early cycle business that will respond quickly to any recovery in UK construction.

The **Fluid Controls** businesses generate ca. 60% of their revenues from the Food & Beverage sector in the UK. Consumer-facing products continue to be a challenge with refrigeration within home delivery vehicles being a growth area for the business after the significant Covid-19 impact.

Sector performance

In the Controls Sector, reported revenues decreased by 12% to £156.6m (2019: £178.3m). Underlying revenues were down 14%, which was partly offset by a 2% contribution from acquisitions. Growth was impacted by the Sector's significant exposure to the UK economy and Civil Aerospace, the most severely Covid-19 affected end market within the Group.

Adjusted operating margins decreased by 310bps to 14.6% (2019: 17.7%), and include a £2.3m non-recurring restructuring cost in order to ensure that the most affected businesses have the right platform for future growth and to integrate businesses together for better revenue performance in the future. All businesses sought to preserve margins by managing expenses tightly.

The **Interconnect** business accounts for 64% of Controls revenues and reported a decrease in revenues of 12% and includes a strong performance in the first half.

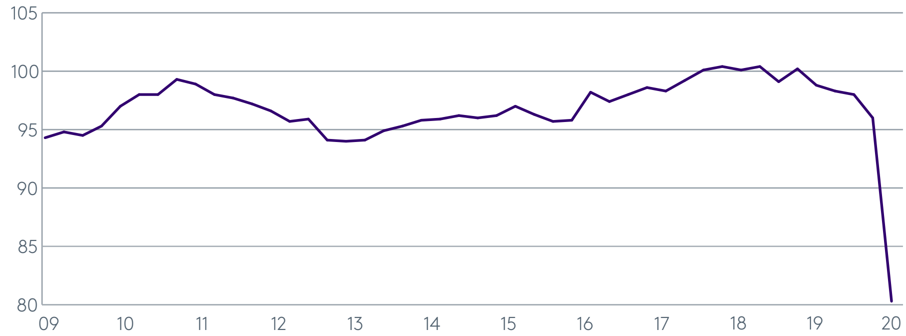
The IS Group's performance in the UK was down 15% on prior year, but revenue declines in France and Germany were less pronounced due to the relative strength of the Automotive business and the Energy sector. In Germany, further progress in the Energy sector is expected to be converted in the next financial year as contractual supplier relationships have been expanded. The order books have been steadily improving across the IS Group in Q4 and we are starting to see that translate into much improved revenue performance in the early part of the new year.

During 2020, we combined two separately run cabling and cabling-solutions businesses under one management team to take advantage of compatible customer and product ranges, and build scale to unlock investment in the customer proposition and growth. This business – Shoal Group – is an early cycle business and as such made good progress in the latter months of the year as the lockdowns across Europe eased.

The **Specialty Fasteners** business was heavily impacted by Covid-19 due to its exposure to Civil Aerospace and Motorsport end segments. The business accounts for 21% of Controls revenues and reported a decrease in revenues of 9%, reflecting an underlying decrease of 21%, before contributions from acquisitions of 12%.

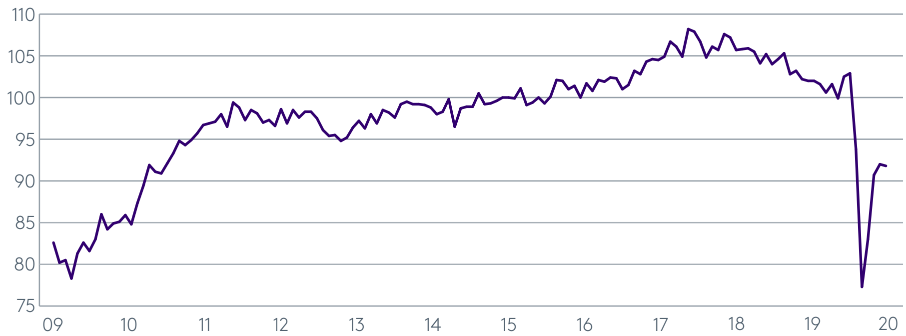
While the business enjoyed great momentum in the first half of the year, revenue streams fell significantly early in the crisis. We have taken actions to restructure the business appropriately for growth. However, we remain very optimistic about the future. The US and Asian Civil Aerospace markets have remained rewarding for us, we have been winning market share in the more challenging European Civil Aerospace markets.

UK Index of Production



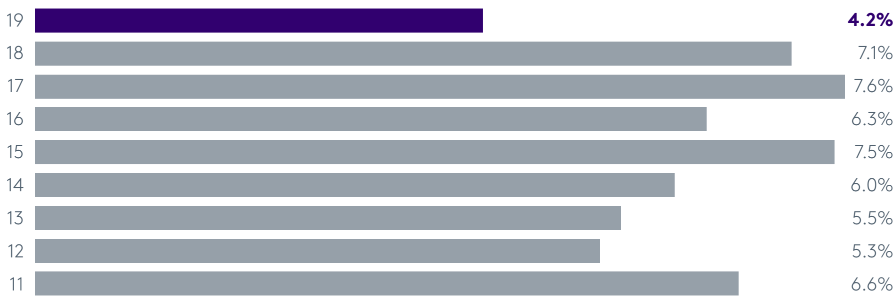
Source: UK Office of National Statistics. GDP estimates in chained volume measures and at current market prices, base year (2015) = 100

German production sector output



Source: Deutsche Bundesbank. Including construction, calendar and seasonally adjusted, reference year 2010 = 100

World passenger traffic (annual growth rate)



Source: IATA & ICAO

Motorsport revenues have been improving again, and finally we have been working hard to diversify further the revenue opportunities. In the short term, revenue declines have improved significantly and we remain very optimistic about the longer-term future for the business too.

The **Fluid Controls** business makes up 15% of the Sector and is based primarily in the UK. Reported and underlying revenues decreased by 18%. The business supplies the Food & Beverage industry, as well as vending machines and drinks markets, which were all heavily affected by the impact of lockdowns on hospitality. These reductions were offset by exposure to the Refrigeration market, in particular OEMs producing refrigeration elements for food delivery vehicles, a very high growth end segment in FY20 and FY21.

Sector Review

Life Sciences

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

Geography

49% Canada

26% Australasia

25% Europe

Customers

83% Clinical

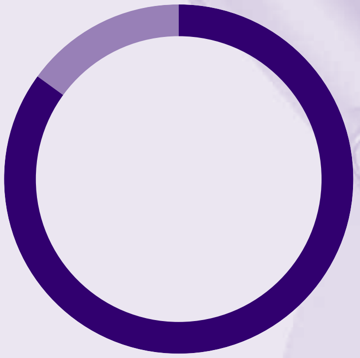
2% Life Sciences Research

6% Utilities

2% Other Life Sciences

7% Chemical & Pharmaceutical

Principal segments



- 85% Healthcare
- 15% Environmental

Products

68% Consumables

11% Service

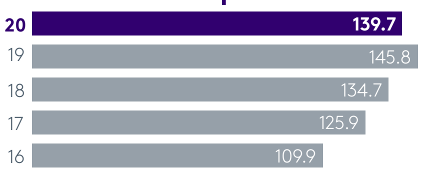
21% Instrumentation

> "The Life Sciences Sector experienced the most significant recovery of all the Group's Sectors."

Charles Packshaw
Non-Executive Director

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

+6%p.a.



Revenue

£139.7m

	2020	2019	
Revenue	**£139.7m**	£145.8m	(4%)
Adjusted operating profit	**£28.3m**	£27.5m	+3%
Adjusted operating margin	**20.3%**	18.9%	+140bps
Free cash flow	**£22.7m**	£23.2m	(2%)
ROATCE	**21.9%**	22.0%	(10bps)

Life Sciences

Highlights

- Sector revenue declined a moderate 4% on a reported and underlying basis
- Sustained recovery in Canada, Australia and New Zealand, after Covid-19 impact
- Operating margins improved by 140bps to 20.3%
- Resilient Environmental performance with modest decline of 2%

Potential for growth

- Ageing population
- Incremental growth in Healthcare investment into diagnostics and non-invasive surgical procedures
- Product pipeline: continue to bring new suppliers and products to market
- Increase share of specialised segments of Healthcare markets in Canada, Australia and UK/Ireland
- Leverage Healthcare businesses' product portfolio across existing businesses and extend into other medical disciplines
- Pursue further Healthcare acquisition opportunities in Northern Europe, particularly Nordics
- Continue to develop product portfolio and geographic reach of Environmental businesses

Our **Healthcare** Sector operates in three principal geographies – Canada, Australasia and Europe. In Canada, we supply clinical diagnostics instrumentation and surgical medical devices, with related consumables and services, to ca. 600 public hospitals, private clinics and pathology laboratories.

In Australia and New Zealand, we are a leading supplier of instrumentation and consumables to the Pathology (IVD), Scientific Research and Medical Simulation segments of both public and private markets. We also supply the specialty surgical markets with specialised equipment and consumables used in hospital operating rooms. The Canadian and Australian businesses share certain leading market suppliers across their territories.

In Europe, we are an established distributor of leading-edge technologies to the Biotechnology and Healthcare markets in Ireland and the UK. Focusing on specialised laboratory diagnostics (IVD) and specialty medical device segments, again leveraging several common suppliers within the Group's Canadian and Australian Healthcare businesses.

Our **Environmental** businesses are located in Europe and supply to environmental testing laboratories and Health & Safety engineers. We supply specialist containment solutions and analysers for chemical, petrochemical and environmental research, and pharmaceutical technology. We also supply a range of gas detection and personal protection devices; and equipment, bespoke engineering, installation and service support for Continuous Emissions Monitoring Systems.

Market drivers

Our **Healthcare** business in Canada supplies into the predominantly public sector funded element of the hospital market, which accounts for approximately 70% of Healthcare expenditure. Its principal market driver, therefore, is the sustainable level of Healthcare spending funded by the Canadian Government.

The Canada Health Act ("the Act") guarantees universal coverage for all medically necessary services provided by Healthcare providers. The Act guarantees relative stability and consistency of funding throughout the economic cycle. Current expenditure of 10.8% of gross domestic product ("GDP") places Canada amongst the largest Healthcare spenders as a percentage of GDP in the OECD countries.

Another key demand driver in Canada, as well as our other geographic markets, is the growing ageing population and the expectation for longer, healthier lifestyles and the corresponding need for new technology and improved service delivery.

The Healthcare market in Australia shares many of the same attractive characteristics for specialised distribution as Canada. While privately funded Healthcare is more prevalent in areas such as surgery and laboratory testing, public sector Healthcare funding is still significant and supported by a stable, resource-based economy.

In 2019, ca. 70% of Healthcare spending was public. As with Canada, Australia has a large land mass, low population density, and purchasing processes that vary by State. These characteristics necessarily demand a significant investment by manufacturers in commercial, technical and service resources, which makes the specialised local distribution model a very attractive mechanism for manufacturers to serve the local markets.

In recent years, the Canadian and Australian economies have come under pressure from lower oil prices and reduced demand for the countries' natural resources. This tougher economic environment increased pressure on Healthcare budgets in both countries.

Targeted controls on the number of laboratory tests and surgical procedures, regional consolidation of testing and service provision, and Group Procurement Organisations ("GPOs") have been created to oversee expenditure on capital equipment and consumable supplies. Even with such pressures, however, Healthcare funding has shown growth in total Healthcare expenditure.

We operate in categories of health care with high growth rates in allocation of public and private spending. Although overall healthcare spend is increasing in line with GDP, spending in specialty surgery and diagnostics increases by more than GDP. This provides us with a base level of business growth for the future.

Our European Healthcare business supplies into the UK and Irish Healthcare markets, which is ca. 80% publicly funded.

Our **Environmental** business supplies to customers in Germany, France, Benelux and the UK. The market demand is largely driven by Environmental and Health & Safety regulations which ensure a steady demand for essential capital and consumable products and services, though customers may defer capital expenditure during significant downturns in the economy.

Sector performance

Reported revenues of the Life Sciences Sector businesses performed strongly in the circumstances and only decreased by a modest 4% to £139.7m (2019: £145.8m), with underlying revenues down 4%. Acquisitions contributed 2% but this was offset by an equivalent currency headwind.

Adjusted operating margins increased by 140bps to 20.3% (2019: 18.9%) primarily as a result of a mix effect towards higher margin diagnostics supplies in Canada and tight cost management.

Gross margins were in line with prior year with no meaningful impact from exchange rate fluctuations, resulting in adjusted operating profit increasing by 0.8 to £28.3m (2019: £27.5m).

The **Healthcare** business accounts for 85% of the Life Sciences Sector and is exposed to Canada (57%), Australia (31%), and Europe (12%). Reported and underlying revenues for the full year decreased by 4%.

Healthcare had a good first half performance with revenues 2% up on prior year on an underlying basis. However, at the start of the second half the Healthcare business experienced a sharp fall in activity with lockdowns temporarily restricting access to hospitals. Naturally, healthcare systems focused their attention on combating the pandemic and thus almost all elective surgery and diagnostics were delayed. However, the easing of lockdown restrictions allowed the business to begin to recover relatively quickly during the final quarter, limiting the overall decrease in underlying revenues to 4%.

The speed and sustained nature of Healthcare's recovery was a result of an agile business response to the Covid-19 impact, namely effective implementation of Covid-19-secure working practices in the businesses, as well as in our relationships and dealings with clients and suppliers. Consequently, the impact of subsequent localised lockdowns can now be more easily mitigated or circumnavigated by drawing on now-established, alternative operating procedures.

The recovery in the fourth quarter has been sustained into the new financial year with pent-up demand in elective surgery and non-critical outpatient and diagnostics procedures providing strong demand levels, which will be caught up in the medium term in line with available capacity for increased surgical and diagnostics throughput.

Our **Environmental** businesses are based in Europe, and account for 15% of Life Sciences revenues. 2020 saw a slight decrease of 2% in underlying and reported revenues over last year which was mainly attributable to international business being impacted by travel restrictions.

Total current Healthcare expenditure as a percentage of GDP

	2015	2016	2017	2018	2019
Canada	10.7%	11.0%	10.8%	10.8%	**10.8%**
Australia	9.3%	9.2%	9.2%	9.3%	**9.3%**
Ireland	7.3%	7.4%	7.2%	6.9%	**6.8%**
UK	9.9%	9.9%	9.8%	10.0%	**10.3%**

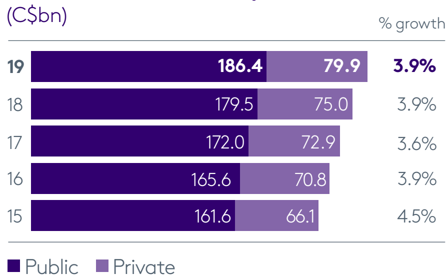
Source: OECD, forecast data 2019

Total current Healthcare expenditure per capita

	2015	2016	2017	2018	2019
Canada (C$000)	6.5	6.7	6.9	7.2	**7.5**
Australia (A$000)	6.0	6.2	6.3	6.5	**6.6**
Ireland (€000)	4.1	4.2	4.4	4.6	**4.8**
UK (£000)	2.9	3.0	3.1	3.2	**3.4**

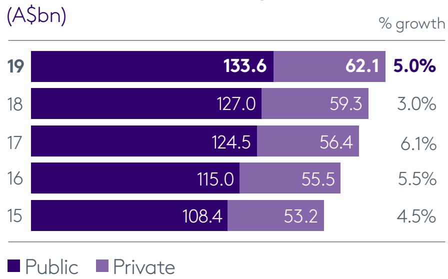
Source: OECD, forecast data 2019

Canadian Healthcare expenditure
(C$bn)



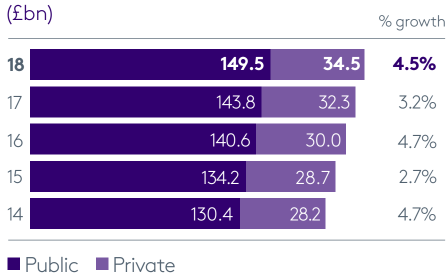
Source: Canadian Institute for Health Information
Includes capital expenditure, forecast data 2018 and 2019

Australian Healthcare expenditure
(A$bn)



Source: Australian Institute of Health & Welfare
Includes capital expenditure

UK Healthcare expenditure
(£bn)



Source: UK Health Accounts (2019 data not available)
Excludes capital expenditure

Finance Review

Maintaining financial discipline

Barbara Gibbes
Chief Financial Officer

Impact of Covid-19 on our business

> "Exceptionally strong free cash flow of £72.5m."

ROATCE
19.1%

Free cash flow
£72.5m

Adjusted operating margin
16.2%

Reported and underlying results in 2020

Reported revenues decreased by 1% to £538.4m (2019: £544.7m) and adjusted operating profit decreased by 10% to £87.1m (2019: £97.2m). The results reflect a 7% contribution from acquisitions, a currency headwind of 1% and lower adjusted operating margins. Acquisitions completed this year and last year incrementally contributed £42.7m and £7.8m to revenue and adjusted operating profit, respectively.

The underlying results present the performance of the Group on a like-for-like basis by adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired in the previous year) and for the currency impact on the translation of the results of the overseas businesses. Underlying revenues and underlying adjusted operating profits decreased by 7% and 16%, respectively.

Adjusted operating margin

The Group's adjusted operating margin decreased by 160bps this year to 16.2% (2019: 17.8%) reflecting the operating leverage impact of the revenue reduction as a result of Covid-19 as well as a £3.9m restructuring charge, which was incurred in order to align resource and the cost base to the anticipated revenue growth profile going forward.

In Seals, adjusted operating margins were affected by Covid-19 and some non-recurring costs related to restructuring and set-up costs for Louisville. This was mitigated by tight cost control measures to preserve profitability.

The Controls Sector was the most severely impacted by Covid-19. Although strict cost control measures were put in place, operating margins decreased as a result of the negative operational leverage. The cost base was reviewed and aligned with the revenue profile going forward, resulting in non-recurring restructuring charges which are included in the adjusted operating margin. In Life Sciences, adjusted operating margins benefited from the mix effect inherent in the revenue reduction and tight cost control measures.

Adjusted and statutory profit before tax

Adjusted profit before tax decreased by 13% to £84.4m (2019: £96.5m). The interest expense this year increased to £2.7m (2019: £0.7m), including £0.9m on increased borrowings to finance acquisitions, fees in connection with the increase in the revolving credit facility, and £1.4m relating to the IFRS 16 interest charge.

Statutory profit before tax was £66.7m (2019: £83.5m) and is after charging acquisition related costs of £17.3m (2019: £13.1m), comprising the amortisation of acquisition related intangible assets and acquisition costs and a net £0.4m charge (2019: £0.1m credit) on the fair value remeasurement of financial liabilities and the unwind of discounts.

Tax charge, earnings per share and dividends

The Group's effective tax charge on adjusted profit remained unchanged at 24.0%, compared with 24.0% last year.

Adjusted earnings per share ("EPS") decreased by 12% to 56.4p, compared with 64.3p last year and statutory EPS decreased by 20% to 43.5p (2019: 54.7p).

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. two times 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 27 to 32 that could adversely impact the performance of the Group.

The 2020 final dividend additionally takes into account the fact that no 2020 interim dividend was paid during the Covid-19 crisis. The Board considered all stakeholders, including the repayment of all UK Government funds and other support, a one-off contribution to the Group defined benefit pension scheme of £5.1m following the year end, as well as the strong cash flow performance and liquidity position of the Group in making a decision on the 2020 final dividend.

For 2020, the Board has recommended a final dividend of 30.0p per share (2019: 20.5p) making the proposed full year dividend 30.0p (2019: 29.0p). This represents a 3% increase in the proposed full year dividend with dividend cover at ca. 1.9 times adjusted EPS.

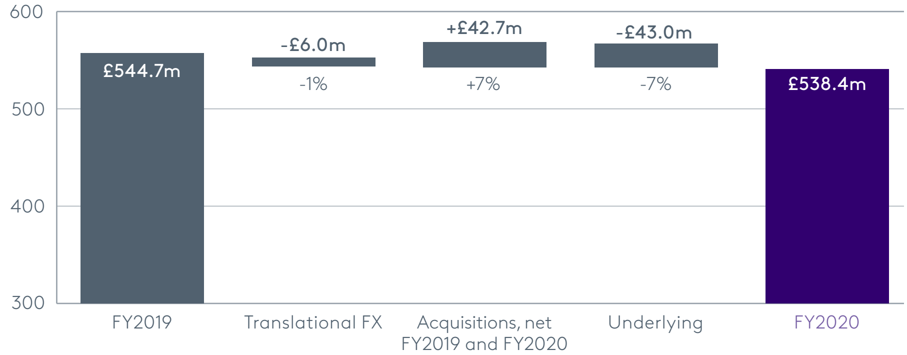
Free cash flow

Free cash flow represents cash available to invest in acquisitions or return to shareholders. The Group generated exceptionally strong free cash flow this year of £72.5m compared with £56.5m last year and benefited from ca. £5.8m (2019: nil) received on asset sale proceeds.

The improvement in free cash flow conversion to 113% (2019: 78%) of adjusted earnings reflects a large cash inflow from working capital. This was the result of strong credit collection boosted by stock reductions from operational improvements in the US OEM business where there were elevated stock balances last year, following the cut over from a new ERP system in the previous year.

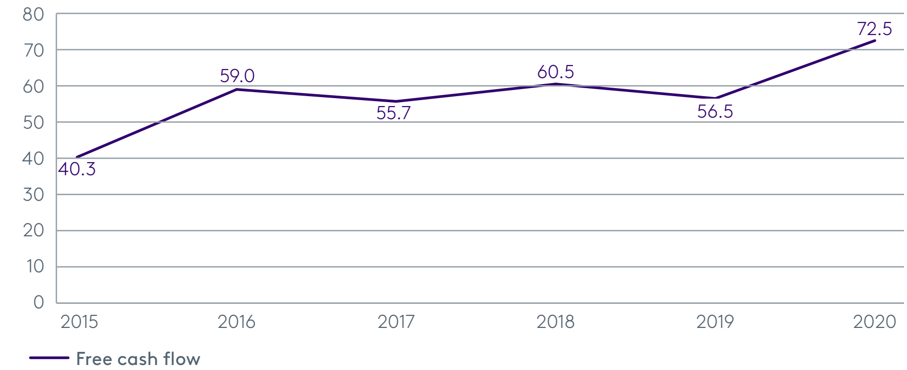
The Group's key performance indicator metric of working capital to revenue at 30 September 2020 decreased to 16.0% (2019: 16.5%).

Revenue bridge – FY2020 (£m)



GBP vs G10 currency basket

Free cash flow (£m)



Group tax payments decreased by £0.4m to £21.5m (2019: £21.9m). On an underlying basis, cash tax payments represented ca. 25% (2019: ca. 22%) of adjusted profit before tax which is up on prior year due to two additional quarterly UK tax payments following a change in the UK tax payments regime. Underlying tax payments are before currency effects from translation and exclude payments for pre-acquisition tax liabilities in acquired businesses.

The Group's tax strategy is to comply with tax laws in the countries in which it operates and to balance its responsibilities for managing tax with its responsibility to pay tax where it does business. The Group's tax strategy and policy was approved by the Board last year and tax risks are regularly reviewed by the Audit Committee.

The Group's capital expenditure was slightly lower this year at £9.4m (2019: £10.9m) but higher than historic levels and largely reflected investment in expanding the Group's facilities, particularly the North American Aftermarket facility in Louisville (£3.1m), as well as ongoing investment in both new field equipment in the Healthcare businesses (£2.5m) and investment in technology across the Group to replace legacy IT systems and build a platform for growth.

The Group spent £14.9m (2019: £78.3m) of free cash flow on acquisitions as described below and £23.4m (2019: £30.1m) on paying dividends to both Company and minority shareholders.

Finance Review continued

The Group raised a net £189.2m (including unpaid fees of £0.6m) in equity proceeds from shareholders in a 10% placing announced on 22 September 2020. These funds are included in cash at 30 September 2020 and have been applied, along with the arranged debt facilities, to the $450m initial consideration for the acquisition of Windy City Wire ("WCW"), which completed on 16 October 2020.

Acquisitions completed during the year

The Group invested £13.8m on acquiring new businesses this year and paid a further £1.1m of deferred consideration. These bolt-on businesses comprised CR Systems, for an initial consideration of £9.1m and PumpNSeal, for consideration of £4.7m (including £0.5m of deferred consideration). These businesses are excellent examples of Diploma bolt-on acquisitions that offer the relevant Sectors an opportunity to extend into new strategically related markets by broadening the existing product offering, leading to increased value to shareholders.

Goodwill at 30 September 2020 was £159.0m (2019: £155.0m). Goodwill is not amortised but is assessed each year at a Sector level 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.

Acquisitions completed after year end

On 16 October 2020, the Group completed the acquisition of WCW, a low voltage wire and cable business with a strong service component in the US, for initial consideration of $450m. WCW has an impressive value-add customer proposition and is a perfect fit with our business model. Furthermore, it accelerates our strategy of focusing our growth in our key markets in a product area we know well, providing a scalable platform for our Controls sector in the US. The business has an excellent performance track record and is positioned well in high structural growth end segments to deliver growth in the future.

Liabilities to shareholders of acquired businesses

The Group's liability to shareholders of acquired businesses at 30 September 2020 increased by £0.2m to £11.5m (2019: £11.3m) 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 2020 relates to a 10% interest held in both M Seals and Kentek. These options are now fully exercisable and are valued at £4.2m (2019: £4.3m), 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 2020 was £7.3m (2019: £7.0m). This liability represents the Directors' best estimate of the amount likely to be paid to the vendors of businesses purchased during the current and prior year, based on the expected performance of these businesses during the measurement period. During the year, £1.1m of deferred consideration was paid to the vendors of DMR Seals (£0.6m) and PumpNSeal (£0.5m).

Return on adjusted trading capital employed and capital management

A key metric used to measure the overall profitability of the Group and its success in creating value for shareholders is the return on adjusted trading capital employed ("ROATCE"). At a Group level, this 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. At 30 September 2020, the Group ROATCE of 19.1% (2019: 22.9%) was lower as a result of Covid-19-related impact on revenue and profitability. Adjusted trading capital employed is defined in notes 2 and 3 to the consolidated financial statements.

The Group continues to maintain a robust balance sheet with cash funds of £206.8m at 30 September 2020 compared with net debt of £15.1m last year. Surplus cash funds generated in the businesses are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group generated enough cash organically to be in a position to repay its term loan before the end of the year and following the equity raise which provided net cash funds of £189.2m (includes unpaid fees of £0.6m). The Group refinanced its revolving credit facility prior to completion of the acquisition of WCW on 16 October 2020. The Group now has a $170.0m term loan and a £135.0m fully revolving multi-currency credit facility ("RCF") to 31 December 2023 with two 12-month extension options to 31 December 2025. The facility also has an accordion option to increase the committed facility by a further £50.0m. The term loan and RCF have been fully and partly drawn to fund the acquisition of WCW.

The financing package will allow the Group to continue with its strategy of pursuing bolt-on acquisitions. More detail on finance terms are provided in note 31 to the consolidated financial statements.

As at year end, the Group had £206.8m of cash and £60.0m of undrawn facilities.

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 2020 of £4.3m (2019: £3.8m).

The Group maintains a small legacy closed defined benefit pension scheme in the UK. A formal triennial funding valuation of this scheme was carried out as at 30 September 2019 and reported a funding deficit of £9.9m with a 76% funding level. The Group is currently funding this deficit with cash contributions of £0.5m (2019: £0.5m) which increases annually on 1 October by 2%. In addition, a one-off contribution of £5.1m has been agreed with the Trustees of the scheme as part of the triennial review and was paid in October 2020.

In Switzerland, local law requires 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 £0.4m (2019: £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 2020, the aggregate accounting pension deficit in these two schemes increased slightly by £0.5m to £18.3m reflecting the impact from a small fall in bond yields. The gross aggregate pension liability in respect of these two schemes at 30 September 2020 decreased by £1.5m to £55.8m, which is funded by £37.5m of assets. Further information on these schemes is included in note 27 to the consolidated financial statements.

New reporting standards

IFRS 16 (leases) was adopted by the Group in the year using the modified retrospective approach. The amounts for the year ended 30 September 2019 have not been restated. On implementation of IFRS 16, the Group recognised leases – right-of-use assets and corresponding lease liabilities of £33.5m and £33.7m, respectively. There was no impact on the Group's opening shareholders' funds. The right-of-use asset and lease liability were £31.6m and £33.7m respectively as at 30 September 2020. Further information as to the impact of adoption is included in note 24 to the consolidated financial statements.

Impact of Brexit

At an operational level, the impact on the Group's businesses from the UK's exit from the European Union is not expected to be significant in terms of the Group's overall profitability. UK-based revenues account for less than a quarter of the Group's overall revenues and the UK businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with limited cross border sales activity.

A prolonged disruption at the UK's borders as a result of Brexit has the potential to impact the supply chain of the Group's UK businesses. Our businesses have developed mitigating strategies around inventory levels and goods flow to minimise any potential impact. The Board will continue to monitor this closely.

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 is the responsibility of the Board and is integral to the ability of the Group to deliver on its strategy. We have continued to make good progress in improving our risk management processes in 2020 and this will continue into 2021. 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 adequately reviewed by senior management and are reported to the Board on a timely basis, who evaluate 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.

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 above, 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. Two new principal risks have been identified from the review process carried out by the Board this year: unsuccessful acquisition (strategic risk) and Health & Safety (operational 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.

Internal Control and Risk Management continued

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 2023, 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 triennial review of the Group's strategy at which the prospects of each business are discussed; 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 below, 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 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 97. 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 2023. 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.

Risk	Risk description and assessment	Mitigation	Change
Strategic risk Downturn/instability in major markets **Change** ↗ Impact of Covid-19 on our business	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. A number of characteristics of the Group's businesses moderate the impact of economic and business cycles: • The Group's businesses operate in three different Sectors with different cyclical characteristics and across a number of geographic markets. • The businesses offer specialised products and services, which are often specific to their application, increasing customers' switching costs. • A high proportion of the Group's revenue comprises consumable products, which are purchased as part of the customer's operating budget, rather than through capital budgets. • In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacturer.	• The businesses identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand. • Changes to cost levels and inventories can then be made in a measured way to mitigate the effects. • Significant global events are closely monitored to determine any potential impact on key markets. • The diversified nature of the business model in terms of geographies customers and end segments provided resilience against the impact of Covid-19. • The decentralised management structure allowed for an agile response to the crisis.	Covid-19 has changed the macro environment in which our businesses operate and we had to respond quickly and effectively to the change in the markets we face.

Risk	Risk description and assessment	Mitigation	Change
Strategic risk Supplier concentration/ loss of key suppliers **Change** Impact of Covid-19 on our business	For manufacturer-branded products, there are risks of cancellation of existing distribution agreements and vertical integration of suppliers, losing access to key distribution channels. There is also the risk of a supplier taking away exclusivity and either setting up direct operations or appointing another distributor. Currently no single supplier represents more than 8% of Group revenue and only four suppliers represent more than 2% each of Group revenue. Relationships with suppliers have been built up over many years and a strong degree of interdependence has been established. This generally ensures continuity of supply when there is a shortage of product. The average length of principal supplier relationships is over ten years. 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.	Long term, multi-year, exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition. Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings. Regular review of inventory levels. Bundling and kitting of products and provision of value-added services. Periodic research of alternative suppliers as part of contingency planning and attending industry exhibitions to keep abreast of the latest technology and market trends. Meeting with key customers on a regular basis to gain insight into their product requirements and market developments.	This risk has remained at a similar level to last year and is addressed continuously in our businesses risk management process.
Strategic risk Customer concentration/loss of key customer(s) **Change** Impact of Covid-19 on our business	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 and no single customer represents more than 3.5% of Sector revenue or more than 1.5% of Group revenue.	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. In addition to providing high levels of customer service and value-added activities, close integration is established where possible with customers' systems and processes.	This risk has remained at a similar level to last year and is addressed continuously in our businesses risk management process.
Strategic risk Unsuccessful acquisition **Change** Impact of Covid-19 on our business	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 core products. The risks of an unsuccessful acquisition can be analysed as: • The acquired business may underperform post-acquisition. • Loss of key customers or suppliers post-integration. • Potential lack of cultural fit as businesses that are relatively small in size are faced with the new requirement of a listed Group. The above may be the result of inadequate due diligence, poor integration, or unrealistic assumptions used in the investment case.	A clearly defined acquisition strategy is in place, with a disciplined approach, including financial return hurdles, to bringing high-quality, value-enhancing businesses into the Group. An experienced Corporate Development team is responsible for seeking and evaluating new acquisition opportunities with the Corporate Development Director reporting to the Chief Executive Officer ("CEO"). A formal due diligence process is followed for all acquisitions, with close supervision by the CEO and relevant Group senior management. A formal governance process is in place up to Board level. A disciplined integration process covers operational, financial, governance and reporting matters.	The acquisition pipeline remains healthy and although acquisition processes remain competitive, the Group will retain its disciplined approach to bringing high-quality, value enhancing businesses into the Group.

Internal Control and Risk Management continued

Risk	Risk description and assessment	Mitigation	Change
Operational risk Health & Safety **Change** Impact of Covid-19 on our business	Covid-19 has placed a much greater focus on Health & Safety and preventive measures to limit the spread of coronavirus. An increased number of measures are now required to be taken by businesses across the world to ensure a safe work environment for all employees. As Health & Safety regulation related to Covid-19 is subject to rapid change, there is a risk of non-compliance with the latest government guidelines. Local government measures on lockdown as a result to Covid-19 could result in business interruption, where employees cannot fully perform their duties for a limited time period. Additionally, there is a risk in potential working time lost as a result of an increase in sick days or prevention measures employees may have to undergo across the Group.	The Group undertook a risk assessment in each of its businesses in line with government guidelines on working safely during Covid-19. The risk assessments were approved by the Managing Directors of each business and are reviewed regularly or in the case of a change in circumstance. Additionally, management promote mental health and wellbeing awareness, offer support to their colleagues, and access to an employee assistance programme. Short lines of communication to the businesses ensured focused and timely actions were taken. There is regular involvement of the Board, ensuring adequate oversight.	There has been a significant increase in Health & Safety risk as a result of the Covid-19 pandemic. Additional Health & Safety measures were introduced across all businesses, including social distancing and personal protective equipment to comply with local government regulations and keep our colleagues safe. The businesses' responses to the implications of Covid-19 have been timely and agile, with remote working practices being effectively introduced when needed. There were no reported issues from the businesses, testament to the strong governance in place, which focused on structured communications with the businesses. Business disruptions have been minimal across the Group, all the businesses remained open and operational during 2020.
Operational risk Cybersecurity/ information technology/business interruption **Change** Impact of Covid-19 on our business	Group and operating business management depend critically on timely and reliable information from their IT systems to run their businesses. The Group seeks to ensure continuous availability, security and operation of those information systems. Any disruption or denial of service may delay or impact decision-making if reliable data is unavailable. Poor information handling or interruption of business may also lead to reduced service to customers. Unintended actions of employees caused by a cyber attack may also lead to disruption, including fraud.	There is good support and back-up built into local IT systems and the spread of businesses with their own stand-alone IT systems also offers good protection from individual events. The majority of businesses back-up online data at least once a day to an offsite data storage centre. All businesses in the Group have a robust cybersecurity programme and there are regular reports to the Board on the status of cybersecurity across the Group. Education/awareness of cyber threats continues to ensure colleagues protect themselves and Group assets. Business continuity plans exist for each business with ongoing testing.	Cyber threats to the businesses' information systems have this year reduced, following action taken to strengthen the IT infrastructure environment across the Group's businesses. 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. At 30 September 2020, 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 2021.

Risk	Risk description and assessment	Mitigation	Change
Operational risk Loss of key personnel **Change** Impact of Covid-19 on our business	The success of the Group is built on strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have an impact on performance for a limited time period. The average length of service of the ca. 100 senior managers in the Group is ten years and for all personnel in the Group is consistently ca. seven years.	Contractual terms, such as notice periods and non-compete clauses, can mitigate the risk in the short term. The Group places very high importance on planning the development, motivation and reward for key managers in the operating businesses including: • Ensuring a challenging working environment where managers feel they have control over, and responsibility for, their businesses. • Implementing a structured talent review process for the development, retention and succession of key personnel. • Offering balanced and competitive compensation packages with a combination of salary, annual bonus and long-term cash or share incentive plans. • Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.	The Group and the businesses have managed to retain key employees despite the significant economic challenges resulting from Covid-19. Flexible working practices have been introduced, where needed, to both retain staff and manage operating costs effectively.
Operational risk Product liability **Change**	There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. The Group's businesses may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. Product liability insurance can be limited in terms of its scope of insurable events, such as product recall. 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. Additionally, it may also be liable for the associated costs of a subsequent customer recall arising directly from failure of an own-branded product.	Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake product risk assessments and comprehensive supplier quality assurance assessments. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £30m across all Sectors. The businesses, in their terms and conditions of sale with customers, will typically mirror the terms and conditions of purchase from the suppliers. In this way the liability can be limited and subrogated to the supplier.	This risk has remained at a similar level to last year and is addressed continuously in our business risk management process.

Internal Control and Risk Management continued

Risk	Risk description and assessment	Mitigation	Change
Financial risk Foreign currency **Change**	The Group is exposed to two types of financial risk caused by currency volatility: translational exposure, being the effect that currency movements have on the Group's financial statements on translating the results of overseas subsidiaries into UK sterling; and transactional exposure, being the effect that currency movements have on the results of operating businesses (due to their revenues or product costs being denominated in a currency other than their local currency). Translational foreign exchange risk arises from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro. A strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £7.6m (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 £17.0m (3%). Transactional foreign exchange risk arises principally with respect to US dollars and Euros. The majority of the Group's Canadian and Australian businesses' purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.	The Group operates across a number of diverse geographies but does not hedge translational exposure of operating profit and net assets. The Group's businesses may hedge up to 80% of forecast (for a maximum of 18 months) foreign currency transactional exposures using forward foreign exchange contracts. The Group finance department monitors rolling monthly forecasts of currency exposures. 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 30 to the consolidated financial statements.	This risk has remained at a similar level to last year and is addressed continuously in our businesses risk management process.
Accounting risk Inventory obsolescence **Change** Impact of Covid-19 on our business	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.	Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover both excess inventory and potential obsolescence.	The charge against operating profit in respect of aged or surplus inventory in the year was £2.2m, but inventories are generally not subject to technological obsolescence. Inventories were reviewed carefully, taking into account reduced sales volumes as a result of Covid-19 to ensure all surplus stock was appropriately identified and dealt with.

Corporate Responsibility – Delivering Value Responsibly

Our purpose is to consistently deliver value and reward our stakeholders by making a difference to our colleagues, our customers, our suppliers and our communities. Our approach is to deliver value responsibly through our strong business model and execution of strategy by considering what "Makes a Difference".

Whilst challenging, Covid-19 has prompted us to accelerate our approach and focus on what matters most.

Colleagues

Culture

Our business model is decentralised, and whilst each business has its own culture, there are common themes that are the foundations of the Group's success; continuous improvement, accountability and respect.

Continuous improvement is demonstrated by our customer focus, pursuing growth through perseverance and resilience, taking agile and responsive action and advantage of opportunities that pass others by. Accountability is demonstrated by being experts in our fields, taking responsibility to deliver the highest standards of service and performance.

We show respect to our colleagues, customers and suppliers in everything that we do, fostering a safe and inclusive culture that respects and values our differences. Through collaboration we deliver our proposition of Essential Products, Essential Services and Essential Values.

Key employee statistics

	2020	2019	2018
Average number of employees in year	**2,068**	1,896	1,765
Females as percentage of total	**37%**	35%	35%
Length of service (years)	**7.2**	6.7	6.8
Average staff turnover	**19.3%**	19.8%	19.7%

Set out below is an analysis of the number of employees by gender at the year end:

	2020			2019		
	Male	**Female**	**Total**	Male	Female	Total
Directors	**4**	**3**	**7**	5	1	6
Senior managers	**80**	**21**	**101**	89	22	111
Employees	**1,197**	**702**	**1,899**	1,244	707	1,951
Total	**1,281**	**726**	**2,007**	1,338	730	2,068

Diversity and inclusion

Both employment policy and practice in the Group are based on non-discrimination and equal opportunities. We want to be an inclusive organisation with a diverse workforce that reflects the global communities in which our colleagues live and work. We recognise that it is important that we value difference and encourage, support and celebrate diversity. Going forward we will review how we can continue to evolve our diversity and inclusion agenda.

Communication

The Group greatly values the commitment of its employees and recognises the importance of communication in fostering good working relationships. This year shone a light on how important it was to communicate with colleagues, they needed to be reassured of their safety, supported given their physical isolation from other colleagues, and kept positive and confident in the customer service that their business would continue to provide.

We developed our approach to internal communications during the year, sharing more frequent updates not only from the Group but also sharing great stories and best practice between businesses. Methods of communication include videos, management briefings, internal announcements, the Group's website and the distribution of Preliminary and Interim Announcements and press releases. Copies of the Annual Review and Annual Report & Accounts are also made available in the operating businesses and provide employees an understanding of the Group's business objectives and their roles in achieving them.

Succession

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 mitigate the loss of key personnel. The average tenure remains high at ca. seven years, reflecting the loyalty of our colleagues.

Training and development

Our colleagues are vital to our success. Managers are responsible for supporting colleagues' learning and development by setting goals, giving clear and regular feedback, and offering opportunities to learn new skills. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all colleagues. We provide and encourage appropriate training and development for each of their roles.

The Group provides sponsorship for high potential employees for higher education courses, where appropriate, and employees are actively encouraged to undertake Continuing Professional Development ("CPD"). Some of the Group's operating companies have structured apprenticeship schemes of which 18 (2019: nine) were undertaken in the UK this year.

Wellbeing

The Group encourages good physical and mental health, and we have put a lot of emphasis on colleague wellbeing this year, including making sure Employee Assistance Programmes are in place.

Health & Safety

Prioritising colleague safety has been even more important this year. Each of our businesses has undertaken a risk assessment, in line with local government guidelines on working safely during Covid-19, to identify potential risks and measures taken to mitigate them. The risk assessments are undertaken in collaboration with colleagues and are regularly reviewed.

The Group is fully committed to ensuring clean, safe and healthy working conditions and actively promotes a strong safety culture and a collective responsibility for ensuring Health & Safety standards are continually improved.

The Chief Executive Officer, assisted by the Chief Executive Officer of each Sector, has overall responsibility for Health & Safety policies and procedures across the Group. However, in line with the Group's decentralised management approach, accountability for Health & Safety is with local management to ensure compliance with local regulatory requirements, cultural and specific business needs. The Group requires that each operating business conducts Health & Safety reviews against its specific operational risk profile and local regulatory requirements.

Corporate Responsibility – Delivering Value Responsibly continued

Health & Safety forms part of the induction process for new employees and, where relevant, more specialist training is provided for specific functions. The Group has good coverage of employees who have formal Health & Safety training and/or qualifications, and this has continued to increase during the year.

The Group uses a near miss reporting system to ensure that Health & Safety hazards are proactively identified and appropriate mitigation is put in place to ensure they do not result in Health & Safety incidents. The number of near misses has increased as the Group increases in scale and is seen as an indication of diligent reporting practices. There are still inconsistencies in near miss reporting across the Group and this continues to be an area of focus.

	2020	2019	2018
Near misses	111	88	73
Minor injuries	68	101	63
Reportable lost time incidents[1]	6	9	1
Minor injuries per 1,000 employees	41.1	62.8	40.2
Reportable lost time incidents[1] per 1,000 employees	2.9	4.7	0.6

1 Three or more days' absence from workplace.

The absolute levels of minor injuries has reduced this year and the number of reportable lost time incidents has also reduced.
All incidents are fully investigated, and corrective actions and preventative measures are put in place to ensure that the incident does not recur, and future risks are mitigated.

AMT Surgical and Vantage Endoscopy made a real difference to the safety of frontline workers by donating a total of 10,000 much-needed N95 masks to local healthcare providers.

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Human rights

The Group's activities are substantially carried out in developed countries that have strong legislation governing human rights. The Group complies with appropriate legislation in the countries in which it operates to ensure the rights of every employee are respected and all stakeholders are treated with dignity and respect. Staff are provided with a safe, secure and healthy environment in which to work. Employees have access to an independent hotline to report any issues relating to human rights violations.

Group businesses continuously monitor and carry out due diligence of suppliers through questionnaires, audits and visits which include monitoring human rights within our supply chain.

Modern slavery

The Group adopts 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.

Environment

The Group comprises sales and marketing focused businesses that essentially receive products from suppliers and despatch them to customers. The Group's businesses do not operate delivery fleets; they use third-party carriers to deliver their products to customers and to provide much of their packaging requirements. The Group's ability to control the environmental impact of its logistics partners is therefore limited. The primary impact on the environment, which is entirely in the Group's control, is consumption of the normal business energy sources such as heating and power, which the Group aims to minimise through compliance with relevant environmental legislation.

The Group is committed to identifying and assessing environmental risks, such as packaging waste, arising from its operations. Waste management initiatives are encouraged and supported by the Group and materials are recycled where practical. The Group's use of water is minimal and relates to cleaning, bathrooms and staff refreshments.

Local management are committed to good environmental management 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 their responsibilities.

Each facility participates in recycling paper, plastic, cardboard and wood from pallets and continues to focus on minimising energy consumption through the efficient use of heating and lighting. In addition, the majority of the businesses now use fully recycled and biodegradable filler materials for packaging.

The Group is conscious of environmental impact and we are considering how to develop our environmental response in the coming years. In addition, to the areas set out above, we are also considering how we can develop our revenue streams into sustainable initiatives. A good example of this is the M Seals group, which provides seals for use in wind power generation.

Greenhouse gas emissions

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 has considered the six main GHGs and report emissions in tonnes of CO_2 equivalent ("CO_2e") 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.

As a distributor with no owned logistics or freight, the Group's primary direct energy usage and related CO_2 emissions arise from the Group's facilities. Where possible the Group has reported billed data which represents ca. 80% of the Group's global emissions. For the remaining entities the Group has used an estimation using sales data and local conversion factors. Our emissions from owned transport have been reducing as we have sold vehicles and are replacing them with lease vehicles.

An intensity ratio of CO_2e per £1m revenue has been selected, which will allow a comparison of performance over time and with other similar types of business. The 2020 increase in tonnes of CO_2e compared to 2019 is mainly due to the full year inclusion of VSP Technologies ("VSP"), which was acquired in 2019. Excluding VSP there would have been a reduction from 7.4 tonnes to 7.2 tonnes. Tonnes CO_2e per £1m revenue are expected to increase as we transition from our Hercules Aftermarket warehouse in Tampa to the new site in Louisville (there is an 18-month period where both sites will be operating).

	Tonnes of CO_2e	
Source of emissions	**2020**	2019
Direct emissions (Scope 1)		
Natural gas	**715**	634
Owned transport	**58**	95
Indirect emissions (Scope 2)		
Electricity	**3,568**	3,281
Gross emissions	**4,341**	4,010
Tonnes CO_2e per £1m revenue	**8.1**	7.4

Our global energy consumption in 2020 was 7,762,448kWh (27% UK, 73% non-UK). This was a reduction of ca. 5% compared to prior year (excluding the addition of VSP), which is not surprising given the reduced operations in our locations due to Covid-19. Energy efficiency is managed locally by our businesses and we plan on developing a Group-wide perspective on energy management.

Our Specialty Fasteners business supported their customers working on Project Pitlane. Project Pitlane is the collaborative effort of F1 teams to design and manufacture continuous positive airway pressure ("CPAP") devices in an effort to meet the challenge of the ventilator crisis. Over 10,000 CPAP devices have been manufactured and we are proud to have supported our customers in this.

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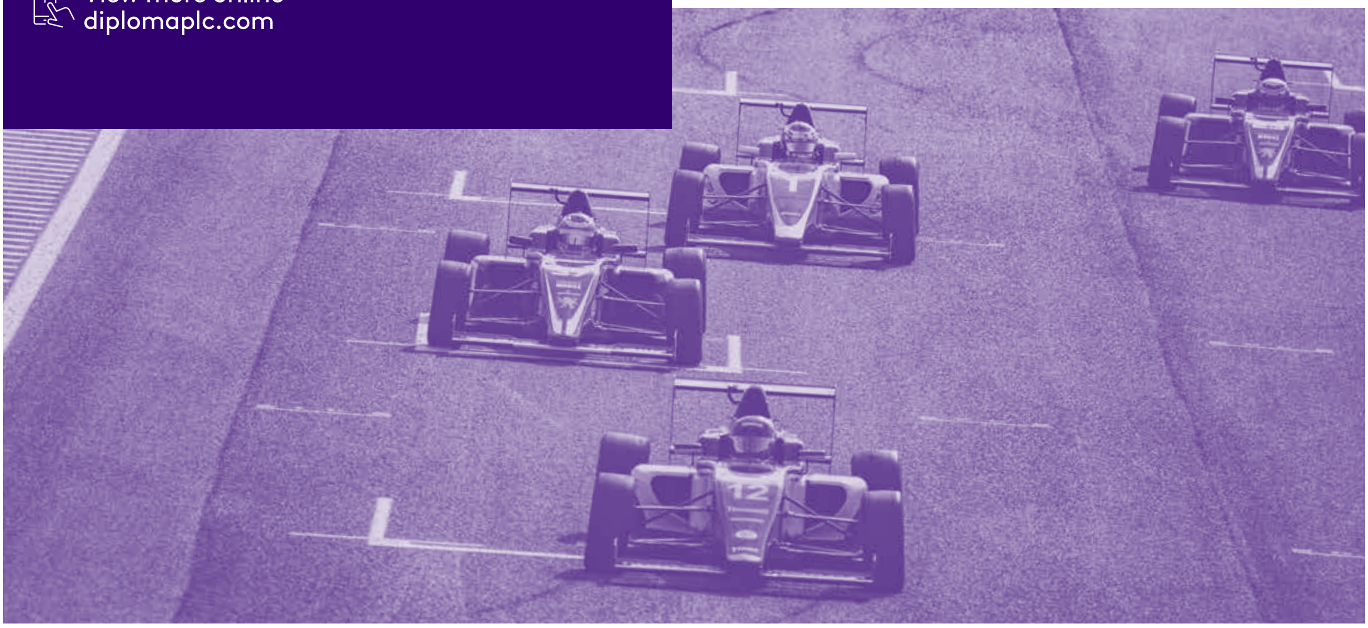

Corporate Responsibility – Delivering Value Responsibly continued

Climate change

As part of the Group's annual risk management process the Group's businesses consider climate-related risk and where significant, reports these to the Board for review and monitoring. This is consistent with the Task Force on Climate-related Financial Disclosures Standards. The broad geographic and industrial sector spread of the Group's businesses provide a high degree of resilience to climate-related risks.

The Board has identified that in the shorter term the principal risk from climate change on the Group's businesses arises from extreme weather events that may significantly impact our facilities. We have seen an example during the year, caused by a hurricane that hit Lake Charles in the US and impacted VSP. Additionally, locations in California and Seattle were affected by poor air quality resulting from nearby fires.

We were fortunate to recover quickly from these events without significant operational or financial impact, but it is a risk that may increase in the coming years. Hurricane impact risk is being reduced by the relocation during the year of the North American Seals Aftermarket business from Tampa, Florida, which is exposed to higher risk of hurricanes, to Louisville, Kentucky which has less exposure.

A significant increase in energy costs caused by carbon taxation, regulation or limited resource would lead to higher costs from external freight and handling costs of delivering product to or from our facilities.

Business ethics, corruption and bribery

The Group recognises its obligations towards the parties with whom the Group has business dealings including customers, shareholders, employers, suppliers and advisors.

In general, the interactions with these parties are managed at a local level by senior management and the Group expects a high standard of expertise and business principles to be maintained in such dealings.

The Group's policy towards suppliers is that each operating business is responsible for negotiating the terms and conditions under which they trade with their 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.

Our communities

The Group believes that good community relations are important to the long-term development and sustainability of the operating businesses. This became even more evident in light of Covid-19 and each of our businesses implemented various initiatives to support the communities close to them.

For example, AMT Surgical and Vantage Endoscopy made a real difference to the safety of frontline workers by donating a total of 10,000 much-needed N95 masks to local healthcare providers. Colleagues at sister companies FPE Seals & DMR Seals donated personal protective equipment ("PPE") to frontline workers in their local communities. Both companies worked together to support the Covid-19 ward at a local hospital and care homes by donating safety glasses and other personal PPE to protect health workers.

The Group also contributes to local worthwhile causes and charities and in 2020 the Group made donations to charitable organisations of £53,715 (2019: £46,441). For example, a donation was made to the Australian Red Cross to support the fight against forest fires during January 2020.

No political donations were made.

Our North American Aftermarket business, Hercules, was awarded the 2020 MEMIC Award for Safety Excellence.

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Section 172(1) Statement

Board engagement with our stakeholders

In accordance with section 172 of the Companies Act 2006 each Director acts in the way that he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. The Board has regard, amongst other matters, to the:

a. likely consequences of any decisions in the long term;
b. interests of our colleagues;
c. need to foster the company's business relationships with suppliers, customers and other key stakeholders;
d. impact of the Company's operations on communities and the environment;
e. desirability of the Company maintaining a reputation for high standards of business conduct; and
f. need to act fairly as between members of the Company.

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.

The Board will sometimes engage directly with stakeholders on certain issues where appropriate to do so, but the nature and diversification of our business 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 policies.

The Board receives reports from executive 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 section 172 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, see pages 38 to 69.

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

Employees

The Board recognises that the engagement and culture of our growing workforce are essential to achieving the Group's success. In addition to the Board receiving regular updates from senior management on various metrics and feedback tools in relation to employees, members of the Board traditionally engage with the Group's employees in a variety of ways. This normally would include site visits, but the Covid-19 pandemic prevented the scheduled 2020 travel. The Board is keen to recommence these visits as soon as practicable in order to engage with employees and gain a view of their aspirations and concerns as well as a health check on the Group's culture.

The engagement of colleagues across the Group has been of paramount importance and focus throughout the Covid-19 pandemic and the Board has obtained further regular briefings and presentations. Our Chief Executive Officer has connected with colleagues via regular video messages and virtual conferences. In addition to providing clarity on policy, the engagement activity has concentrated strongly on supporting colleagues' wellbeing.

Investors

The Board regularly receives updates on feedback from investors and the Executive Directors undertake investor roadshows, one-on-one meetings, results webcasts and presentations. In addition, various members of the Board, meet with institutional investors to discuss and provide updates about – and seek feedback on – the business, strategy, long-term financial performance, Directors' Remuneration Policy, forward-looking Directors' Remuneration Policy and dividend policy to the extent appropriate. Directors provide information to investors and shareholders through the Annual Report, RNS announcements and the website. Members of the Board also met shareholders at the 2020 AGM, as well as receiving briefings from the Company Secretary on shareholders.

The Chairman of the Remuneration Committee, alongside the Chairman, consulted directly with investors on our proposed Remuneration Policy. Further information can be found on pages 52 and 53.

Key strategic decisions

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 relationship 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 42.

One of the major areas of focus by the Group during the year was in respect of the Covid-19 pandemic and full details of the wide range of initiatives to support our colleagues, customers and communities can be found on pages 33 - 36. Set out below are examples of key decisions made by the Board, stakeholders views considered, and the conclusions made in the context of these competing priorities. The Board oversight increased substantially during the start of the crisis and the Board carefully evaluated the responses proposed by management to ensure they were appropriate having considered the requirements of all stakeholders.

Remuneration

Our Remuneration Committee Report on pages 52 - 69 explains how the interests of our stakeholders were taken into consideration for remuneration.

Government assistance

The Board took the decision to assess eligibility and apply for cash facilities under HM Treasury's Covid Corporate Financing Facility. While the Board did not intend to utilise this facility and has not used this facility, it considered it important to have the flexibility if revenues were substantially impacted by an extended lockdown caused by the Covid-19 pandemic. The Group repaid any UK Government funding that had been used in respect of the furlough scheme.

Payment of dividend

Given the considerable uncertainty in May 2020, when the Board was reviewing the payment of an interim dividend, Directors took the decision to suspend payment of the 2020 interim dividend. Directors recognised that dividend income was important to investors but balanced this interest against the unprecedented challenges and uncertainty Covid-19 presented for businesses and the unknown eventual impact on the Company. As the Group was profitable and cash generative during the remainder of the year, the resilience of the Group's performance allowed the Board to recommend a final dividend of 30.0p per share for approval by shareholders.

Corporate Governance

"

The Board recognises the value of good corporate governance to deliver long-term, sustainable success for all stakeholders."

John Nicholas
Chairman

Dear Shareholder

The Board continues to believe that strong corporate governance is critical to delivering our strategy. The Board is responsible for the leadership of the Group, ensuring our actions are in keeping with the values that shape our culture and in delivering long-term, sustainable value for all our stakeholders. This Corporate Governance Report for the year ended 30 September 2020 includes an insight into how governance supports our business and the decisions we made whilst considering the interests of all our stakeholders.

Of course, as I write this we are still managing the impact of the Covid-19 pandemic. When we last met with shareholders in January 2020, we could not have predicted the changes that would have arisen over the following months. Details of how the Group has managed its response to the pandemic are contained throughout this report. While still covering all the matters that needed to be covered as part of the Company's annual governance cycle, the Board meetings at the start of 2020 also had substantial additional focus on these responses, the priorities and goals for our businesses, and the extensive actions being taken in respect of our stakeholders. Since then the Board has continued to receive detailed updates on the pandemic as the backdrop to meetings, while ensuring that the Board continues its regular oversight and leadership functions.

UK Corporate Governance Code

We welcome the new UK Corporate Governance Code (the "Code") and, as highlighted in last year's Annual Report, consider that many of the updated Code principles or provisions are already being adhered to or considered in some way. However, cognisant of the importance that the Board places on governance, we have continued to review and enhance our existing governance processes to ensure they are suitable for our evolving Group and align with investor expectations.

Purpose, strategy and values

Central to the long-term delivery of our strategy is the Group's culture, underpinned by the values and behaviours expected of our colleagues. Therefore, we continually consider how our culture is aligned with our purpose, values and strategic objectives.

Board succession

Board succession planning continued to be a key priority in 2019/20. Through the Nomination Committee, we focused both on Board succession as well as the succession for the wider Group to ensure we have the right balance of skills, independence, experience and diversity in line with the needs of the Group. Further details can be found within the Nomination Committee Report on pages 50 and 51.

Stakeholders

Strengthening the voice of our stakeholders at Board level has been a focus this year. We recognise the importance of our wider stakeholders in delivering our strategy and business sustainability. We are conscious about our responsibilities and duties to our stakeholders under section 172 of the Companies Act 2006 and have detailed our stakeholders, their importance to our business and the Board's engagement with them on page 37.

The Board feels well informed about broader employee concerns and has always been able to proactively consider employees as context for decisions. Given the Group's size and complexity, and its geographical spread, the Board proposes to continue with a multi-faceted approach to workforce engagement that is not led by any one Director or group of Directors. The Board considers that this approach is appropriate, but will continue to keep engagement mechanisms under review to ensure they remain effective.

This year the Board undertook an internal effectiveness evaluation of the Board and its Committees. Further information can be found within the Nomination Committee Report on page 50 and 51.

I would like to thank the Board and the Executive team for their ongoing support, particularly during the Covid-19 crisis.

I hope that as shareholders in the Company you will be able to attend our Annual General Meeting on Wednesday, 20 January 2021 to meet the Board of Directors and challenge them on any matters you feel are important to the future development of the Group.

John Nicholas
16 November 2020

Corporate Governance

Key matters considered by the Board include:
- the Company's strategy and long-term strategic objectives;
- risk appetite and determination of principal risks;
- overall corporate governance arrangements, systems of internal control and risk management;
- annual budget;
- significant changes in capital structure;
- all M&A transactions;
- framework for succession planning for Group employees;
- half year and full year results statements, Annual Report & Accounts and other statutory announcements; and
- oversight of the Company's response to major crises and other significant challenges.

Board
Our Board is responsible collectively for the effective oversight of the Company and its businesses. It determines the Company's strategic direction and objectives, business plan, dividend policy, viability and governance structure to help achieve long-term success and deliver sustainable shareholder value. The Board also plays a major role in setting and leading the Company's culture and wider sustainability goals.

It considers key stakeholders in its decision-making and, in doing so, ensures that Directors comply with their duty under section 172 of the Companies Act 2006.

To operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to its Board Committees. Each Committee Chair reports to the Board on their Committee's activities after each meeting.

Attendance

	Board	Audit Committee	Nomination Committee	Remuneration Committee
John Nicholas	11/11	–	5/5	9/9
Johnny Thomson	10/11[3]	–	–	–
Charles Packshaw	11/11	6/6	5/5	9/9
Barbara Gibbes[1]	4/4	–	–	–
Andy Smith	11/11	6/6	5/5	9/9
Geraldine Huse[2]	9/9	4/4	3/3	6/6
Anne Thorburn	11/11	6/6	5/5	9/9

1 Barbara Gibbes was appointed to the Board on 22 June 2020.
2 Geraldine Huse was appointed to the Board and its Committees on 20 January 2020.
3 Johnny Thomson was unable to attend a Board meeting called at short notice in respect of the appointment of Geraldine Huse.

Governance structure
The Board
The Board as a whole is collectively responsible for the success of the Group and for supervising its affairs. It sets the Group's strategy, ensures that the necessary financial and human resources are in place to enable the Group to meet its objectives and reviews management performance. It also defines the Group's culture and sets the Company's values and standards to ensure that its obligations to its shareholders and other stakeholders are understood and met. It aims to provide leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and appropriately managed.

To assist its operation, the Board has adopted a Schedule of Authorities which sets out those matters which it specifically reserves for its own decision and those which are delegated to Board Committees and to Executive Directors.

Board Committees support the Board in its work with specific areas of review and oversight.

Board Committees
The Board has delegated certain specific areas of responsibility to the following standing committees – the Nomination Committee, the Audit Committee, and the Remuneration Committee. Further details of the work of each of these Committees and their membership during the year are set out on pages 46 to 69.

Culture
This year the Board has sought to supplement its understanding of the Group's culture with a dedicated briefing from the Chief Executive Officer ("CEO") and Group Human Resources Director to explore the subject and how it will develop. The Board monitors culture through various mechanisms including the following:

The Board	The CEO's report, circulated before every scheduled Board meeting and discussed in significant detail, contains a specific culture and employee engagement update. The Board considers the results of employee surveys.
Board members	Visiting Group business locations enables the Board to spend time with employees of varying seniority and assess culture in a local context.
Audit Committee	Interactions with internal audit can give an indication of culture, in particular negative elements that may be out of alignment with the Group's culture. Twice a year, the Committee reviews calls made to the Whistleblowing Helpline and monitors that staff feel they can report issues directly to their line management.
Remuneration Committee	Receives regular updates from the Group Human Resources Director designed to provide an overview of pay structures at Diploma and their alignment with our purpose, values and strategy. This allows the Committee to ensure that relevant policies and practices are consistent with Diploma's values.

Board of Directors

01

02

03

04


01

John Nicholas Ⓡ Ⓝ

Chairman

Appointed: Joined the Board on 1 June 2013 and appointed Chairman on 21 January 2015.

Skills and experience: A Chartered Certified Accountant with a Masters degree in Business Administration from Kingston University, London. John has a wealth of business and commercial experience and spent much of his early career in technology-focused international manufacturing and service companies involved in analytical instruments, fire protection and food processing.

He has been Group Finance Director of Kidde plc (on its demerger from Williams Holdings) and of Tate & Lyle PLC.

External appointments: John is non-Executive Chairman of Porvair plc.

02

Johnny Thomson

Chief Executive Officer

Appointed: Joined the Board on 25 February 2019 as Chief Executive Officer.

Skills and experience: Johnny worked with Compass Group PLC for nine years to the end of 2018, with the last three years as Group Finance Director and a member of the Board of Compass Group PLC. He has also been Regional Managing Director of both Latin America and CAMEA (Central Asia, Middle East & Africa).

Johnny began his career at PricewaterhouseCoopers LLP after which he joined Hilton Hotels in a senior executive role. Johnny has lived and worked in Europe, North America, Asia and across Latin America.

External appointments: None.

03

Charles Packshaw Ⓡ Ⓐ Ⓝ

Senior Independent Non-Executive Director

Appointed: Joined the Board on 1 June 2013 and appointed Senior Independent Director on 27 February 2015.

Skills and experience: Charles has over 30 years of City experience, including 15 years at HSBC where he was Head of UK Advisory and Managing Director in HSBC's global banking business. Prior to that, he was Head of Corporate Finance at Lazard in London. Charles has been a non-Executive Director of two listed companies and he is also a Chartered Engineer.

External appointments: Charles is non-Executive Chairman of BMT Group Ltd, Chair at Prostate Cancer UK, Vice-Chairman at Framlingham College and a non-Executive Director at Fram Farmers Ltd.

04

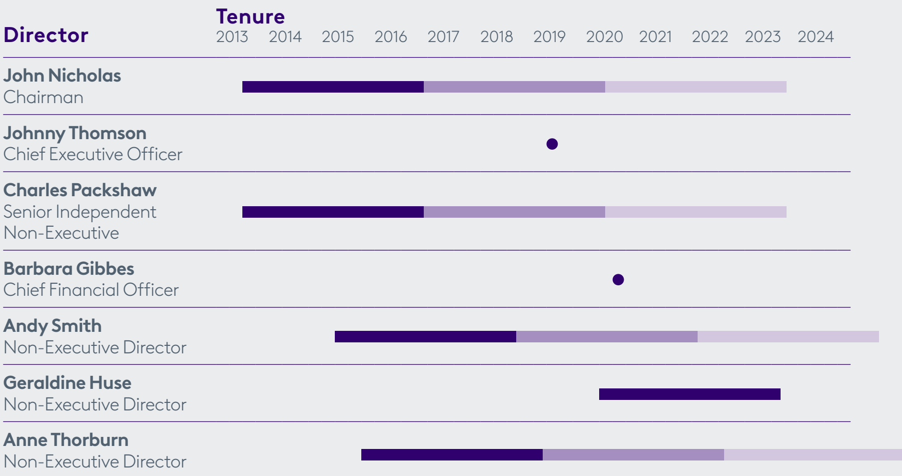
Barbara Gibbes

Chief Financial Officer

Appointed: Joined the Company in March 2020 and appointed Group Chief Financial Officer in June 2020.

Skills and experience: Prior to joining the Company, Barbara was the interim Chief Financial Officer at Intu Properties plc where she gained experience acting at Board level of a large FTSE company and on a number of large corporate transactions. Barbara started her career at Deloitte, where she was a Director, and has held a number of senior finance positions in other listed businesses.

External appointments: None.



Committee membership

- Ⓑ Board
- Ⓡ Remuneration
- Ⓐ Audit
- Ⓝ Nomination
- Ⓒ Chair

05

06

07

05

Anne Thorburn R A N

Non-Executive Director

Appointed: Joined the Board on 7 September 2015 and appointed Chair of the Audit Committee on 17 November 2015.

Skills and experience: Anne was Chief Financial Officer of Exova Group plc and has many years of experience at Board level in listed international Groups. Anne was previously Group Finance Director at British Polythene Industries PLC. Anne is a member of the Institute of Chartered Accountants in Scotland.

External appointments: Anne is a non-Executive Director and Chairman of the Audit Committee of TT Electronics plc.

06

Andy Smith R A N

Non-Executive Director

Appointed: Joined the Board and appointed Chairman of the Remuneration Committee on 9 February 2015.

Skills and Experience: Andy is Customer, Retail and Technology Director for Severn Trent plc. Andy is a Mechanical Engineering graduate and has broad operational, P&L and HR experience in a wide range of sectors. He has previously worked in the UK and overseas for global businesses including BP, Mars and Pepsi. He has many years of plc Board level experience having previously served on the Boards of The Boots Company PLC as Group HR Director and Severn Trent PLC as Water Services Director.

External Appointments: None.

07

Geraldine Huse R A N

Non-Executive Director

Appointed: Joined the Board on 20 January 2020.

Skills and experience: Geraldine has 34 years' experience with Procter & Gamble ("P&G") in a range of commercial and general management positions covering markets across Europe, North America and Asia. Geraldine is currently President of P&G Canada with responsibility for 2,000 people and retail sales of ca. $4bn. Prior to this Geraldine was Chief Executive Officer of P&G, Central Europe, leading the business across ten markets in the region and championing the use of digital capabilities to deliver step change growth and productivity.

Geraldine has served as a member and Chair of the Institute of Grocery Distribution, a research and training charity which sits at the heart of the food and consumer goods industry. Geraldine has a degree in genetics from the University of Aberdeen.

External appointments: None.

Nigel Lingwood

Group Finance Director

Appointed: Joined the Company in June 2001 and appointed Group Finance Director in July 2001.

Retired from the Board June 2020.

John Morrison

Group Company Secretary

John has responsibility for the legal, compliance and governance framework of the Group. He is an experienced FTSE Company Secretary and commercial solicitor.

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. He has expertise in regulatory and contractual law and legal risk management.

Board activities

We set out below some of the key activities, matters considered and decisions made by the Board during the year.

Strategy and operations

Chief Executive's report
The Chief Executive Officer ("CEO") provides an update at every Board meeting to give the Directors a good understanding of operational issues. He also discusses the progress against our strategic priorities, updates on material projects, our acquisitions pipeline and talent management.

Strategy and strategic priorities
Throughout the year, the Board will receive updates from the CEO and Sector Chief Executive Officers on their strategic priorities, progress on key initiatives and the plans for addressing key issues and material risks to deliver them.

Covid-19
The Board received updates in relation to Covid-19, including the work undertaken to protect the wellbeing of our colleagues; to continue to provide essential products and services to our customers; and to actively support our local communities.

Acquisitions
Considered and approved strategic transactions and opportunities including the acquisition of Windy City Wire and Cable.

Finance and Risk

Financial performance
The Chief Financial Officer ("CFO") provides an update on the Group's financial performance and outlook at every Board meeting. The Board discussed and approved the financial statements and results announcements at year end.

Budget
Approved the 2021 budget and monitored performance against the 2020 budget through regular presentations from the CFO.

Dividend policy
Having considered the various stakeholder interests, in particular the long-term interests of our shareholders, the Board concluded the prudent decision was to suspend the interim dividend for 2019/20.

Risk management
The Board reviewed and approved the Group risk register, having evaluated the principal risks and uncertainties facing the Group.

Investor relations
The Board received regular reports outlining share register movement, relative share price performance, investor relations activities and engagement with shareholders.

As part of changes to our Directors' Remuneration Policy (the "Policy"), the Remuneration Committee Chair engaged with a number of our investors (see pages 52 and 53), taking account of their feedback as part of the new Policy being put to shareholders for approval at the 2020 AGM.

Leadership and Colleagues

Culture and talent
Discussed the composition of the Board and its Committees. Approved the appointments of Barbara Gibbes and Geraldine Huse. The Board discussed the Group's culture including reviewing the Group's purpose, values, behaviours and workforce policies and how they align with our culture, aspirations and initiatives.

Stakeholder engagement
Having considered various options for the mechanism by which the Board could better engage with our colleagues, they decided to adopt an alternative approach. Further details on Board engagement can be found on page 37.

Governance

Secretary's report
At every Board meeting, the Group Company Secretary reports on key corporate governance and regulatory developments.

Annual Report & Accounts 2019
The Board reviewed and approved the Annual Report & Accounts 2019 on the recommendation of the Audit Committee, having considered that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

AGM
The Board approved the Annual General Meeting ("AGM") resolutions for recommendation to shareholders, including the revised Articles of Association for the Company.

Committee reports
The Committee Chairs reported back to the Board on matters discussed at each of their Committee meetings.
Details of their key activities can be found in each Committee's respective report.

Board, Committee and Directors' evaluations
During the year, we carried out an internal evaluation of the Board and its Committees. The details of this can be found on page 51. The Chairman held individual discussions with each Director to make sure they continue to contribute effectively and were committed to their roles.

New Board Members

Q&A

Barbara Gibbes
Chief Financial Officer

Geraldine Huse
Non-Executive Director

What is your background and what attracted you to Diploma?

Barbara Gibbes
I am a chartered accountant and have held senior finance positions at Management Consulting Group PLC and Domino's Pizza Group plc. Most recently I was interim Chief Financial Officer ("CFO") at Intu Properties plc. I was, and still am, attracted to Diploma as a business with an excellent track record of value-added customer service and strong returns.

Geraldine Huse
I am currently President of Procter & Gamble ("P&G") Canada and am responsible for the company's business and operations of one of the company's top ten focus markets. Prior to this I was in Europe and alongside leading our Central Europe business across ten markets I was also Chair of the Institute of Grocery Distribution, a research and training charity which sits at the heart of the food and consumer goods industry. I have a strong interest in supply chain dynamics and Diploma is a world leader in this space. I am excited to be supporting Johnny and the team.

What are your impressions of Diploma so far?

Barbara Gibbes
Really good impressions all round. My time at Diploma has been characterised mainly by our response to Covid-19 and I never fail to be surprised at how quick and agile the business has been to react to the new normal. The business is excellent at generating cash.

Geraldine Huse
I am really impressed with what I have seen during my first year at Diploma. The response to the pandemic has been well executed with a clear focus on keeping our people safe and continuing to serve our customers. We have managed to do this with minimal impact on the business and our people. The speed of the response reflects Diploma's winning culture.

What are your goals as CFO? What part will you play in implementing the Group's strategy?

Barbara Gibbes
I was fortunate to inherit a fantastic team from Nigel. Obviously having only been at Diploma during the pandemic I am keen to get out and build strong relationships with the teams across the different regions we operate in. Johnny and I work together as a team, so I am involved in all the strategic decisions for the Group from the acquisition of Windy City Wire to everyday management. My goal as CFO is to help drive the strategy and maintain our fantastic track record of value creation for shareholders.

What does Covid-19 mean for the Group's strategic priorities and is the Group well positioned to weather a period of continued uncertainty?

Barbara Gibbes
Our strategy remains the same – consistently delivering value for our customers, colleagues and communities. Diploma is well diversified by sector and geography, and plays in resilient end markets across the globe. The Group's stable and resilient revenue growth is achieved through our focus on essential products and services, funded by customers' operating models rather than capital budgets and supplied across a range of specialised industry segments.

What does the decentralised nature of the business mean for the role you play as CFO of the Group?

Barbara Gibbes
You need to have strong controls and a team you can trust. Decentralised businesses mean the heads of our companies across all sectors are focused on managing cash flow and profitability. This means we are all pushing in the same direction.

How does the Board help inform strategy and evaluate risks?

Geraldine Huse
The Board has a crucial role to play in supporting management as they set the strategy for the next few years. We aim to provide scrutiny and oversight as well as new insights and to reinforce the key elements of the Group's culture and identify best practices that are transferable across the Group. 2020 has been an important year for the Board as we have supported the leadership team through a change of CFO and also in its preparation for the additional corporate governance compliance requirements that came into effect during the course of the financial year.

How do you think the role of the Board will evolve over the next five years?

Geraldine Huse
The next few years are likely to see a significant amount of change as we face increased volatility, uncertainty and risk. The Board has a responsibility to help the management team navigate these challenges. Boards will need to take a longer-term view and strengthen our oversight of risk.

You have been a vocal advocate for gender diversity throughout your career. How can diversity benefit corporations and what steps will the Board be taking to address diversity within the Group and what is the Board's view on this?

Geraldine Huse
Our Board is supportive of gender diversity and indeed diversity in all aspects as we know this gives us diversity of thoughts and ultimately better business decisions and results. On top of this we know we need to drive full inclusion. We strive for every employee at Diploma to be fully included and have equal opportunities to develop and progress. We are committed to creating a culture that delivers on this. Our Board is a good example of this where we are approaching a 50:50 gender split of non-Executive Directors. Our senior management is also modelling this approach, consistently growing gender representation at senior levels – reaching 21% today. The Board will continue to work with Johnny, Barbara and the rest of the team to make diversity and inclusion a priority.

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.

The Board considers that the Group has complied in all material respects with the principles and provisions of the Code during 2020 except that we recognise that we have not 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 52 and 53.

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 have been described on page 42 and the progress of embedding the right culture across the Group as described in the Chief Executive Officer's ("CEO") Review on pages 8 and 9.

There is a framework of prudent and effective controls that enable risk to be assessed and managed, which is described further on page 27.

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 39.

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 Chief Financial Officer ("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 27 to 32.

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 37. 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 is 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 37. As the Board has not selected one of the methods in the Code, page 38 explains why the Board arrangements are effective and appropriate for the Group. The Board will continue to review that they are effective.

E. Workforce policies and practice

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 49.

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 seven Directors. Two current members are Executive Directors and five, including the Chairman, 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. Charles Packshaw will not stand for re-election at the 2021 Annual General Meeting ("AGM").

The Nomination Committee Report considers appointments, succession planning and the mix of skills and experience of the Board on pages 50 and 51. 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.

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 Charles Packshaw 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 2020 Board attendance at Board and Committee meetings are set out on page 39.

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 Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. The 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.

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 at www.diplomaplc.com/governance/board-committees. During the year, one non-Executive Director was appointed to the Board, Geraldine Huse. In addition, Barbara Gibbes was appointed CFO designate and elected to the Board on 22 June 2020. For more details on the appointment process refer to the Nomination Committee Report on page 51. One non-Executive Director, Charles Packshaw, will be retiring at the AGM in 2021, following which the Board will be composed of six Directors. The Board has confirmed that all of the non-Executive Directors standing for election and re-election at the 2021 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 40 and 41. 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 51 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 40 and 41.

L. Board evaluation
Full details of the Board evaluation can be found in the Nomination Committee Report on page 51.

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 46 to 49 for details of the work of the Audit Committee during the year. Details of the Group's internal audit function are included on page 49.

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 as well as in all publicly available financial information. See page 71 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 27 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 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 52 to 69 for details of the work of the Committee during 2020.

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 52 to 69.

R. Exercising independent judgement
The Remuneration Committee is composed of five non-Executive Directors who meet both with and without management present and seek where appropriate, independent advice from Alvarez & Marsal Taxand UK LLP, Stephenson Harwood LLP, Simmons and Simmons LLP and external lawyers. The Remuneration Committee determines remuneration outcomes by assessing executive performance against performance criteria which are set out in the Remuneration Committee Report on pages 52 to 69.

Audit Committee Report

"The Audit Committee provides oversight of the financial reporting and disclosure process, to enable stakeholders to have confidence in the integrity of our financial results, the quality of our audit process and the efficacy of our system of internal controls."

Anne Thorburn
Chair of the
Audit Committee

Dear Shareholder

The Audit Committee fulfils an important oversight role on behalf of the Board, monitoring the integrity of the Group's financial reporting and the effectiveness of both the Group's systems of internal control and its risk management framework. During 2020, within the Covid-19 environment, the Committee continued to apply rigorous scrutiny and challenge to the Group's internal audit function which has responsibility for internal audit and risk management and I believe that this, together with the Board's efforts in promoting a strong risk-focused culture, play an essential role in safeguarding the interests of stakeholders and assuring the long-term viability of the Group.

Given the current business and market conditions amid the Covid-19 pandemic, it is vital that the critical oversight role of the Committee continues and that the practical and judgement-based challenges arising are addressed so that our stakeholders can have confidence in the integrity of our results. This is a rapidly evolving environment and the Committee will continue to adapt and adjust in its response.

As Chair of the Committee, I continue to meet regularly with members of the internal audit team and with Chris Burns from PricewaterhouseCoopers ("PwC") to discuss their reports and gain a closer insight into the finance functions and processes across the Group. This provides me with greater insight of the culture of the internal control environment in the Group and provides assurance that controls are both in place and are tested, which is particularly important given the Group's decentralised operating model.

PwC have now completed their third full annual cycle, and we value the rigour and challenge of their approach. I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. The Group continues to maintain a culture of robust and effective systems of internal control, overseen by strong and experienced finance departments.

I look forward to meeting shareholders at the AGM on 20 January 2021 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
16 November 2020

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 the Group Internal Audit Director also attended Committee meetings to present the internal audit plan for the following year and to report on progress against that plan. 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 2020 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 2020. 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 impact of Covid-19 on the financial statements, including the impact on provisions for excess and slow moving inventory and any credit loss provisions for trade receivables, as well as any impact on the Going Concern assumption and the impairment of goodwill.

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 and confirm existence of 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 potential impact of the Covid-19 pandemic.

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 rate, 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 their review which also included consideration of the external audit findings, the Committee concurred with the conclusion that no impairment of goodwill is required.

Other audit matters

The external auditor also reported to the Committee on other less material matters including the recoverability of trade receivables which considered any impact of Covid-19, accounting for tax, the valuation of the Group's defined benefit pension schemes and the impact of the adoption of IFRS 16 (leases) on the Group (further information is included in note 24 to the consolidated financial statements).

Key duties and focus in 2020

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 Terms of Reference are available at www.diplomaplc.com/governance/board-committees/.

The Committee's key responsibilities and focus during the year ended 30 September 2020 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 2019 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 at meetings held in January, March and August.
- 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 2021.
- Approved Going Concern and Viability Statements, including Covid-19 impact assessment.
- Reviewed the whistleblowing arrangements and the use of a dedicated external independent and confidential telephone hotline service for all employees to raise concerns.
- Continued to monitor developments in audit reform and changing best practice in light of Covid-19.

Audit Committee Report continued

Going Concern and Viability

The Going Concern and Viability assessment was undertaken against the 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 the estimated 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 28. Further detail on Going Concern can be found on page 97.

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 any instances where management may be able to override 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.

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 Chris Burns, Audit Partner. In their third 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.

During the year, the Committee carried out an assessment of the effectiveness of the external audit process for the previous year ended 30 September 2019. 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 audit staff, the planning and execution of the audit and the role of management in the audit process. The Committee is satisfied with the effectiveness of the auditor and that PwC had addressed the matters that required improvement, principally caused by their unfamiliarity with the Group's businesses and the Group's year end close process in the prior year.

The Committee concluded that the external audit process remained effective and that it provides an appropriate independent challenge of the Group's senior management.

The Committee was satisfied that the PwC audit of the Company and Group had provided a robust and effective audit and 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. During the year, Deloitte LLP was appointed by the Group to carry out financial due diligence on the acquisition of Windy City Wire prior to the business being acquired by the Group on 16 October 2020.

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. With the exception of this work, PwC has not provided any non-audit services to the Group or its subsidiaries and has confirmed its independence to the Audit Committee. The fees for carrying out this work comprises the total non-audit fees of £15,500 set out in note 29 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 and Treasury 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 27 to 32.

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. This assessment additionally included the impact of Covid-19 on financial controls. These assessments are critically reviewed by the Group Internal Audit Director and 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 2019 to the date of this Report. Taking into account the matters set out on pages 27 to 32 relating to principal risks and uncertainties and the reports from the Director of internal audit, 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 2020, the Group Internal Audit Director presented his audit plan for the year to the Committee for their approval. Despite the significant travel restrictions as a result of the Covid-19 pandemic in place in the second half of the financial year, internal audit continued to carry out a significant number of audits, in line with the plan. The department was able to quickly and effectively implement 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 controls and risk management procedures operating within each business, including regulatory and compliance reviews 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. 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 inventory management and procurement. The work of the internal audit department also included a review of the cybersecurity related controls, which remain strong across the Group.

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 senior management of the Group, in conjunction with local management of Kentek's Russian operations, to ensure ongoing compliance with all applicable sanctions. The Committee receives reports from the Group Internal Audit Director on compliance with these sanctions and 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 business. 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. Reports to the hotline are investigated and reported to the Committee, together with details of corrective action taken. The Group received one such whistleblowing report during the year, which on further investigation was found to be a personal grievance matter.

Nomination Committee Report

"The Nomination Committee remains focused on succession planning and ensuring our Board and senior management talent align with our strategy."

John Nicholas
Chairman of the Nomination Committee

Dear Shareholder

Over the last year there have been a number of changes to the Board. As noted in our 2019 report, the Committee was undertaking the search for an additional non-Executive Director and the Board formally appointed Geraldine Huse with effect from 20 January 2020. During the year, the Committee also oversaw the rigorous appointment process for Barbara Gibbes, initially appointed as Chief Financial Officer ("CFO") designate from 2 March 2020 and subsequently CFO and a Director from 22 June 2020 to succeed Nigel Lingwood who stepped down from the Board on 22 June 2020.

After nearly eight years on the Board, Charles Packshaw will retire as the Senior Independent non-Executive Director at the conclusion of the AGM in January 2021. On behalf of the Board I would like to thank him for his excellent contribution and wise counsel. The Committee has commenced a search process for a new non-Executive Director. A further announcement will be made in due course regarding Charles' successor as Senior Independent Director.

A key 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 reviews these regularly. In September 2020, the Committee reviewed in detail the structure, size and composition of the Board and its Committees, to ensure critical skills and experience were appropriate. Specifically, the Committee reviewed recent Board changes, any skills gaps and the current Board composition (and Board members' expertise, diversity and tenure) to determine the necessary succession planning.

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. An update was provided at the January 2020 Committee meeting together with a detailed culture overview from the Group Chief Executive Officer ("CEO"). The Committee confirmed that there was good continued progress and has requested that the Board is provided a detailed briefing on senior management talent and succession planning during 2021.

John Nicholas
16 November 2020

Nomination Committee

The Nomination Committee is chaired by John Nicholas, Chairman of the Company. The Committee is chaired by the Senior Independent Director on any matters concerning the Chairman of the Company. 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 CFO succession, recruitment of an additional non-Executive Director, leadership development and succession planning. At the year end the Committee's focus is on recruiting an additional non-Executive Director and continuing to develop 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 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. The Terms of Reference are available at www.diplomaplc.com/governance/board-committees/.

Process for Board appointments

Step 1	Step 2	Step 3	Step 4	Step 5
Committee reviews and approves an outline brief and role specification and appoints a search agent to facilitate the search	A member of the Committee discusses the specification with the search agent, who prepares an initial longlist of candidates	The Committee then defines a shortlist of candidates and we hold interviews	The Committee makes a recommendation to the Board for its consideration	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. As disclosed in last year's Annual Report & Accounts, Inzito Partnership was retained as the search consultancy to lead the process for the appointment of Barbara Gibbes. During the year we also engaged Odgers Berndtson in connection with the recruitment of Geraldine Huse and Korn Ferry in connection with the recruitment of a non-Executive Director. None of these search consultancies had any other connection to the Group, other than providing executive search services.

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. This has been a year of significant change in the Group as we continue to transition a number of key appointments within senior management. The CEO manages the development of succession plans for senior management, and these are overseen by the Committee. 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.

As part of the review of the composition of the Board and the succession planning process set out above, both the Board and the Committee recognise the importance of pursuing opportunities for both gender and ethnic diversity throughout the Group. Further information on our diversity, including the gender balance of senior management is set out on page 33.

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
Charles Packshaw	1 Jun 13	1 Jun 22
Andy Smith	9 Feb 15	9 Feb 21
Anne Thorburn	7 Sep 15	7 Sep 21
Geraldine Huse	20 Jan 20	20 Jan 23

Board evaluation

During 2020 we carried out an internal evaluation of the Board and its Committees led by the Chairman of the Board and the Group Company Secretary. Directors completed questionnaires, covering topics such as composition, requirements of stakeholders, the monitoring of culture, the quality of support provided to the Board and succession planning. The output of the evaluation was discussed and debated by the Board and the key outcomes are summarised below.

There was positive feedback on the relationships between Board members and between the Board and management, highlighting shared understanding, good challenge and high levels of trust and discussion. I am also pleased that our new Group Company Secretary is settling in well to his role. The Board is considered to be well balanced with reference to all forms of diversity including gender, skills and experience.

Key duties and focus in 2020

The Committee's key focus areas during the year have been the CFO succession, recruitment of an additional non-Executive Director, leadership development and succession planning. At the year end the Committee's focus is on recruiting an additional non-Executive Director and continuing to develop succession planning.

Key Areas for Development in 2021

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

Area for development	Action
Employee and stakeholder engagement	Continue with and enhance the effectiveness of employee engagement mechanisms to ensure a clearer alignment between these and discussions/decisions made by the Board and its Committees. Additional opportunities for the Board to visit businesses to be added in 2021.
Succession planning	Additional Nomination Committee solely devoted to Board succession.
Strategy	Devote more time to the discussion of strategic matters at Board meetings.

Progress on Key Areas for development during 2020

The progress against the agreed key actions in relation to the Boards 2019 internal evaluation (disclosed in last year's Annual Report & Accounts) are set out below:

Action	Progress
Review Board paper content	Materially completed. Financial papers to be further reviewed to provide additional analytical insight.
Increase employee communications, develop people plan and survey all employees	Impacted by Covid-19, will recommence in 2021. Initial results of the survey were good.

Remuneration Committee Report

"

Resilient performance, agile management response."

Andy Smith
Chairman of the
Remuneration Committee

Members of Committee	Attendance
Andy Smith (Chairman)	9/9
Anne Thorburn	9/9
John Nicholas	9/9
Charles Packshaw	9/9
Geraldine Huse	6/6[1]

1 Geraldine Huse was appointed to the Committee on 20 January 2020.

Dear Shareholder

The Group has delivered a resilient set of financial results and made some excellent strategic progress this year. It is testament to the strength of our businesses and management teams, that despite the well-documented challenges from the pandemic, Total Shareholder Return ("TSR") has grown 34% in the year and free cash flow was 13% higher than target. The Group fell short of its operating profit targets but, given the circumstances, it is a strong performance overall for shareholders.

We continue to demonstrate a clear link between pay and performance: a principle that has always been, and will always be, the basis for Diploma's Remuneration Policy.

The annual bonus plan produced a payout of 25% of maximum bonus with the free cash flow exceeding the maximum target level. The Performance Share Plan ("PSP") awards granted in 2017 have vested at 50% based on the relative TSR performance of the Group. The Remuneration Committee ("the Committee") has used the pre-IFRS 16 adjusted earnings per share ("EPS") figure and intends to adopt the same approach for the next two years until the change in the accounting standard reaches its three-year anniversary. Full details are set out in note 24 to the consolidated financial statements as to the adoption of IFRS 16 (leases).

The Group responded superbly to the challenges of Covid-19. The decentralised business model and the strong, agile culture enabled the businesses to adapt quickly and decisively. Colleagues have been protected, high standards of customer service maintained and the team has delivered some great community initiatives (more detail on the Group's response to Covid-19 can be found in the Chief Executive Officer's ("CEO") Review on page 8 and 9 and the Corporate Responsibility Report on pages 33-36).

We reviewed remuneration constantly throughout the year in the context of Covid-19, always considering a broad range of stakeholder interests. The Board and the Executive team volunteered a 20% reduction in salary and fees for a three-month period. We flexed working practices in our businesses to manage cash, cost and workload; this initially included participating in the UK Job Retention Scheme. However, once we understood the impact of the crisis on the Group relative to the impact on the UK economy, the Board decided to return colleagues to work by July and to repay all the money which had been claimed from the UK Government.

Whilst we tried to preserve jobs, regrettably a small number of redundancies were necessary in businesses which were more adversely affected by changes in their markets. To ease the impact of the challenging external conditions on those colleagues who left us we gave them an additional payment of a month's salary.

In line with our principles, we have not altered the structures of incentive plans this year and variable pay is much reduced across the Group. Given the tremendous efforts of colleagues during the year, we wanted to say 'thank you' and gave all colleagues a recognition gift to the value of around £150.

With regards to the Group's pay review, there were many different factors to consider. Colleagues in more junior roles received a general increase of 2% whilst those in more senior roles did not receive a general increase, and only received an increase by exception. In total, this amounted to a 1% increase for the senior management cadre. Base salaries for Executive Directors (2019: 3.0%) and fees for the non-Executive Directors (2019: 3.0%) have not been increased.

At the AGM in January 2020 the Remuneration Policy ("the Policy") was approved with 79.98% of votes and the 2019 Directors' Remuneration Report ("DRR") was approved with 55.81% 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. More information of our response to the voting outcomes and shareholder feedback is on page 66 and 59 respectively.

Nigel Lingwood, Group Finance Director, retired from the Group on 30 September 2020, having stepped down from the Board in June. Nigel has played a vital role in delivering shareholder returns over the past 20 years. We are extremely grateful for his contribution throughout and, most recently, during the Chief Financial Officer ("CFO") transition to Barbara Gibbes. He has been central to the implementation of the Executive Director succession plan over the past three years and remained in his role to support the CEO transition during 2018 and 2019. Whilst he stepped down from the Board in June, he has continued to support the transition plan and hence is eligible for an annual bonus in 2020. The Committee has used its discretion to allow his outstanding PSP awards granted in 2017, 2018 and 2019 to vest on 30 September 2020 and be performance tested on this date. The awards granted in 2018 and 2019 have been prorated based on the time served.

We were delighted to welcome Barbara Gibbes to the Group in March 2020 as CFO designate and subsequently as CFO from June 2020. We communicated plans for Barbara's remuneration arrangements when we announced her appointment in February 2020. Consistent with feedback received from stakeholders on our 2019 DRR, she received a prorated PSP grant on joining, her 2020 annual bonus has been prorated and her pension contribution is in line with the majority of the UK workforce.

In line with policy and previous communications, we have agreed PSP grants for 2020 of 250% for Johnny Thomson and 175% for Barbara Gibbes. Given our share price performance, we will proceed with our PSP (2020) grant at the normal time. The 2021 annual performance bonus will work the same way as last year and will be consistent with the approach laid out in the Policy.

We have not increased the salaries of the Executive Directors this year. As Barbara gains experience over the next few years we expect award salary increases higher than typical annual review increases in line with the market rate and her increasing skill. In addition, should there be any future increases made to the pension contributions for the UK workforce we expect to raise Barbara's pension contribution to the same rate. All of the above is, of course, subject to continued performance delivery.

We are working through a transition plan to align the pension contributions of the Executive Directors with those of the UK workforce. We are well progressed with a review of the contribution levels but, due to the uncertainty created by Covid-19, we have decided not to finalise these at this time and therefore will not be making any changes to the UK workforce pension contributions during FY2021. We will continue our review during the coming financial year with the intention of making further changes from 1 October 2021 to increase alignment. In support of the transition, Johnny Thomson will take a reduction of 2.5% in the cash allowance he receives in lieu of pension contribution from 1 October 2020, reducing his overall pension contribution from 15% to 12.5% of basic salary.

We continue to engage with the wider workforce on executive remuneration matters. The Board's engagement with the workforce is detailed on page 37. In particular this year, we engaged with the executive managers regarding the reduction in basic pay and fees voluntarily agreed by the Board. The senior team were quick to volunteer a reduction for themselves. They were keen to maintain alignment throughout the business and to share in the challenges that the businesses and colleagues were facing.

Furthermore, the CEO and Group HR Director began discussions in the summer with the executive managers about how to navigate the year end compensation cycle in the context of Covid-19. Whilst it was challenging to face into a reduction in reward in light of strong Group performance in recent years, from the very beginning of these discussions the tone was positive and constructive. This was a frequent reference point as we sought to reach the right outcomes through the year end, balancing the needs of wider stakeholders with particular focus on aligning executive outcomes to those of the wider colleague base. The Committee also reviewed workforce remuneration principles to ensure they are aligned to those of the Executive Directors.

In addition to the strong operational performance this year, management have made great progress strategically by delivering two initiatives that form key building blocks in the Group's growth plans. They were the opening of the new warehouse facility in the North American Aftermarket business and the acquisition of Windy City Wire ("WCW") (covered in the Chairman's Statement and Chief Executive's Review on pages 6-7 and 8-9, respectively).

As the Group grows, the Committee is cognisant of the consequent impact on performance targets and associated remuneration targets. Increased scale means maintaining very high historic percentage EPS growth rates becomes more and more challenging. Similarly, as the Group grows, a mathematical consequence is that the return on actual trading capital employed ("ROATCE") will also reduce. The Board will remain focused on ensuring that the Group maintains ambitious targets and that the plan and financial targets reflect the optimum EPS and ROATCE combination to deliver the best returns for shareholders within the right risk appetite. The Committee will take note of this and ensure that the strategic ambitions and plans are properly reflected in remuneration targets.

When the acquisition of WCW was announced the Group communicated that ROATCE is expected to be lower in the future. The Committee has noted this and will ensure that the assessment of ROATCE, which is an underpin on the EPS element of PSP awards that vest from 2022 onwards, is in line with the Board's agreed ROATCE expectations. WCW also impacts Group EPS growth, delivering high EPS growth during FY2021 and more modest levels thereafter. Having considered these factors, the Committee has decided that the EPS performance condition for the December 2020 PSP grant will remain at current levels (detailed on page 64) but anticipates that PSP grants from 2021 are likely to have lower EPS growth targets.

In conclusion, I am pleased to report that the Policy has operated extremely well in what has been an exceptional year for all of us. It has informed remuneration decisions for our new CFO and guided us through the impacts of Covid-19 to the right overall remuneration decisions to reflect Diploma's values and culture. The outputs, as outlined throughout the report, clearly reflect the factors detailed in Provision 40 of the 2018 UK Corporate Governance Code (clarity, simplicity, risk, predictability, proportionality, alignment to culture); a summary can be found on page 61. Overall, there is a balanced and considered outcome on remuneration which maintains, as ever, a clear link between performance and reward.

I look forward to meeting shareholders at this year's AGM on 20 January 2021 and will be pleased to answer any questions on the Group's remuneration policies.

Andy Smith
16 November 2020

Remuneration Committee Report continued

Remuneration Committee

The Committee is chaired by Andy Smith and comprises independent non-Executive Directors. Geraldine Huse joined the Committee on 20 January 2020.

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

Consistent with previous years the Report has again been presented in two sections. The first section contains the Directors' Remuneration Policy, which was approved by shareholders at the AGM on 15 January 2020. This Policy will continue for a period of three years until 15 January 2023, unless replaced or amended by a new Policy.

The second section of this Report sets out the annual remuneration paid to the Directors in the year ended 30 September 2020 in accordance with the Policy. The Directors' Remuneration Report and the Chairman's Statement will continue to be subject to an advisory vote by shareholders at the 2021 AGM.

Remuneration principles and structure

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

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

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

Key duties and focus in 2020

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.

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

- Approved Remuneration Committee work programme for 2020.
- Reviewed the AGM 2020 votes on the 2019 Remuneration Committee Report and the Remuneration Policy.
- Approved the service contract for Barbara Gibbes.
- Approved retirement arrangements for Nigel Lingwood.
- Approved annual performance bonus targets and the subsequent bonus awards for 2020.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP awards made in December 2017 which crystallised in 2020.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Reviewed the fees of the Chairman and non-Executive Directors.
- Reviewed remuneration framework for executive management and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2020 Remuneration Committee Report.

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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; a copy can be found on the Diploma PLC website. No changes have been made since the Policy was approved.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required. Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for the senior management cadre more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be fair.	Pension contributions can either be paid directly into a personal pension savings scheme or taken as a separate cash allowance.	For current Executive Directors pension contributions of up to 15%[1] of salary. 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.	No performance metric.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.
Annual Performance Bonus Plan	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee. Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be deferred in shares, but will remain eligible for dividends. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply to bonus awards. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	Maximum of 125% of base salary for the Executive Directors. Performance below threshold results in zero payment. On-target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.	Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance. 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.

1 The pension contribution for Johnny Thomson has reduced to 12.5% from 1 October 2020.

Remuneration Committee Report continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan – PSP Award	Incentivise Executive Directors to achieve superior returns and long-term value growth.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a "good leaver". 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. 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. Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	The maximum opportunity as a percentage of salary is 250% for the CEO and 200% for other Executive Directors for each award made under the 2020 PSP. No more than 25% of the award will be payable at threshold performance.	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. 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.

Chairman and non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chairman and non-Executive Directors' fees	To attract and retain a Chairman and independent non-Executive Directors of the required calibre and experience.	Paid quarterly in arrears and reviewed each year. Any reasonable business related expenses (including tax thereon) if determined to be a taxable benefit can be reimbursed.	The Chairman's and non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	Annual Board evaluation.

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 from 2019 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 will also be used for FY2021.

As part of the new 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 2019, or thereafter, 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 2011 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 has 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.

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.

Remuneration Committee Report continued

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
Nigel Lingwood[1]	20 Mar 2014	Rolling	1 year	1 year
Barbara Gibbes[2]	5 Feb 2020	Rolling	1 year	1 year

1 Nigel Lingwood gave notice in accordance with the terms of his service contract of his intention to retire and he retired from the Board on 22 June 2020 and retired from the Company on 30 September 2020.
2 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 pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

Malus and clawback

Malus provisions apply to all awards made under the Company's long-term incentive and annual bonus plans which give the Committee the right to cancel or reduce unvested share awards (or in the case of the Annual Performance Bonus Plan, cash payments) in the event of material misstatement of the Company's financial results, 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 amend 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 pro-rating;
- 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 shareholder

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.

Remuneration Committee Report continued

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 57, 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.

Chairman

John Nicholas was appointed Chairman on 21 January 2015, having previously been the Senior Independent Director. His appointment is subject to annual re-election by shareholders at the AGM.

Chairman and non-Executive Directors' letters of appointment:

	Date of original appointment	Date of re-election	Expiry of term
John Nicholas	1 Jun 13	20 Jan 20	1 Jun 22
Charles Packshaw	1 Jun 13	20 Jan 20	1 Jun 22
Andy Smith	9 Feb 15	20 Jan 20	9 Feb 21
Anne Thorburn	7 Sep 15	20 Jan 20	7 Sep 21
Geraldine Huse	20 Jan 20	n/a	20 Jan 23

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 prorata 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.

Pay-for-performance: Executive Directors' potential value of 2020 remuneration packages

1 Base salary is as at 1 October 2020; benefits are as set out on page 55.
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 Stretch bar.

Provision 40 Table

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

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

Remuneration Committee Report continued

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 2020. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors (audited)
Total remuneration in 2020 and 2019

	Johnny Thomson		Nigel Lingwood[1]		Barbara Gibbes[2]		
	2020 £000	2019[4] £000	2020 £000	2019 £000	2020 £000	2020 £000	2019 £000
Salary[3]	655	402	234	333	92	981	735
Taxable benefits	24	14	13	18	5	42	32
Pension	104	60	50	67	4	158	127
Total fixed	783	476	297	418	101	1,181	894
Annual performance bonus	216	603	107	240	62	385	843
Long-term incentive plans – dividend equivalent (cash)	–	–	27	39	–	27	39
Long-term incentive plans – performance element	–	–	632	549	–	632	549
Long-term incentive plans – share appreciation element	–	–	441	366	–	441	366
Long-term share-based remuneration	–	–	1,073	915	–	1,073	915
Total variable	216	603	1,207	1,194	62	1,485	1,797
Single total figure	999	1,079	1,504	1,612	163	2,666	2,691

1 Nigel Lingwood retired from the Board on 22 June 2020. Nigel Lingwood's salary, benefits and pension are for the period from 1 October 2019 to 22 June 2020, while he served as the Group Finance Director and Executive Director of the Company. The table above includes his full value annual performance bonus and the full value of all long-term incentive awards that vested at 30 September 2020. Nigel Lingwood's salary for the period from 23 June 2020 to 30 September 2020 was £91,852.
2 Barbara Gibbes joined the Group 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 for the period from 22 June 2020 to 30 September 2020 and includes her annual performance bonus which has been time prorated for the period from 2 March 2020 to 30 September 2020.
3 Each of the Executive Directors voluntarily waived 20% of their base salary for the three-month period from April 2020 to June 2020.
4 Johnny Thomson was appointed on 25 February 2019.

The aggregate short-term remuneration paid to Executive Directors in the year ended 30 September 2020 was £1.6m (2019: £1.8m).

Waiver of base salary (audited)

During the three months from April to June 2020 the Executive Directors voluntarily waived 20% of their basic salary. The waiver letters were signed before the salary was due to be paid.

Retirement of Nigel Lingwood (audited)

Nigel Lingwood retired as Group Finance Director and stepped down as an Executive Director of the Company on 22 June 2020; he retired as an employee of the Company on 30 September 2020. Nigel Lingwood's salary for the period from 23 June 2020 to 30 September 2020 was £91,852. He received £4,909 of taxable benefits and a pension contribution of £18,682. Nigel Lingwood's 2020 annual bonus outcome is disclosed on page 63.

Nigel Lingwood was treated as a "good leaver" and his long-term incentive awards vested on his ceasing to be an employee of the company to the extent to which the applicable performance conditions were met. These awards were prorated for time served (one-third and two-thirds for awards that would, but for his retirement, have vested on 30 September 2021 and 30 September 2022, respectively). The vesting of these awards was based on testing the applicable performance criteria for the two-year and one-year period to 30 September 2020 respectively. Details of the shares vesting are contained on page 64. No further awards or payments were made to Nigel Lingwood.

Base salary (audited)

The base salary increase for Executive Directors which applied from 1 October 2019 was 3.0% (Johnny Thomson £670k to £690k, Nigel Lingwood £333k to £342.5k), compared with 5% for the Group's senior management cadre. On 10 November 2020, the Committee approved no increase in base salary for the CEO and the CFO and their base salaries will be the same as those which applied from 1 October 2019. Base salaries for the senior management cadre increased by 1% for the financial year.

Benefits (audited)

	2020				2019			
	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000
Johnny Thomson[1]	15	8	1	24	9	4	1	14
Nigel Lingwood[2]	8	4	1	13	11	6	1	18
Barbara Gibbes[3]	4	1	–	5	–	–	–	–

1 Johnny Thomson's benefits are from 25 February 2019 to 30 September 2019.
2 Nigel Lingwood's benefits are for the period from 1 October 2019 to 22 June 2020.
3 Barbara Gibbes' benefits are for the period from 22 June 2020 to 30 September 2020.

Pension (audited)

The Executive Directors receive pension contributions from the Company which they may pay into personal savings vehicles or may take as a separate cash allowance, subject to income tax. None of the Executive Directors have a right to a Company Defined Benefit pension plan.

Pension contributions were applied as follows:

	2020				2019		
	Contribution rate % of base salary	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000
Johnny Thomson[1]	15	104	–	104	60	–	60
Nigel Lingwood[2]	20	50	–	50	67	–	67
Barbara Gibbes[3]	4	4	–	4	–	–	–

1 Johnny Thomson's pension contributions for 2019 are from 25 February 2019 to 30 September 2019.
2 Nigel Lingwood's pension contributions are for the period from 1 October 2019 to 22 June 2020.
3 Barbara Gibbes' pension contributions are for the period from 22 June 2020 to 30 September 2020.

Annual performance bonus (audited)

For each performance measure threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. The Executive Directors will receive 25% of their maximum bonus based on the Group achieving more than plus 5% of the budgeted free cash flow. The other performance measures of adjusted operating profit and revenue did not meet the thresholds so no payment is due for these elements. The following table summarises the performance assessment by the Committee in respect of 2020 with regard to the Group financial objectives:

Performance measure	Targets for 2020	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis) 50% of bonus opportunity	The minimum performance target of £99.8m was equal to minus 5% of the FY2020 Budget adjusted operating profit (as defined in note 2 to the consolidated financial statements) and adjusted to FY2019 exchange rates. The on-target performance was equal to £105.0m being the FY2020 Budget (adjusted to FY2019 exchange rates). The maximum target of £110.3m was equal to 5% growth of the 2019 adjusted operating profit (adjusted to FY2019 exchange rates).	Adjusted operating profit for FY2020 was £87.2m on FY2019 exchange rates. The minimum threshold was not met and no award is payable.
Revenue (calculated on a constant currency basis) 25% of bonus opportunity	The minimum performance target of £566.1m was equal to minus 5% of the FY2020 budget revenue (adjusted to FY2019 exchange rates). The on-target performance was equal to £595.9m being the FY2020 Budget (adjusted to FY2019 exchange rates). The maximum target of £625.7m was equal to 5% growth of the FY2020 budget revenue (adjusted to FY2019 exchange rates).	Revenue for FY2020 was £544.4m on FY2019 exchange rates. The minimum threshold was not met and no award is payable.
Free cash flow (reported) 25% of bonus opportunity	The minimum performance target of £61.1m was equal to minus 5% of the FY2020 Budget free cash flow (as defined in note 2 to the consolidated financial statements). The on-target performance was equal to £64.3m being the FY2020 Budget free cash flow. The maximum target was set at £67.5m representing 5% growth above the FY2020 Budget free cash flow.	Free cash flow for the year was £72.5m. The maximum threshold was met and the maximum award is payable.

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2020 is as follows:

	Base salary	2020 actual bonus – as a percentage of 2020 base salary[3]					2020 bonus
	£000[3]	Minimum	On-target	Maximum	Financial objectives	Total bonus	£000
Johnny Thomson	690	5%	63%	125%	25%	25%	216
Nigel Lingwood[1]	342.5	5%	63%	125%	25%	25%	107
Barbara Gibbes[2]	198	5%	63%	125%	25%	25%	62

1 Nigel Lingwood's bonus is for the period from 1 October 2019 to 30 September 2020.
2 Barbara Gibbes' bonus is prorated for the period from 2 March 2020 to 30 September 2020.
3 The bonus is calculated on base salary excluding the 20% reduction agreed for the period April 2020 to June 2020.

In line with the Policy, 50% of the 2020 bonus for Johnny Thomson and Barbara Gibbes will be paid as cash and 50% will be deferred in shares until they reach the minimum shareholding requirements set out in the Policy.

In the financial year beginning 1 October 2021, the Annual Performance Bonus Plan will be based on the followings 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.

Long-term incentive awards (audited)

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2020 and the outstanding PSP awards, including those granted on 28 December 2017, 7 December 2018 and or 25 February 2019 (for Johnny Thomson, on appointment as Group CEO), 23 December 2019 and 10 March 2020 (for Barbara Gibbes in respect of her appointment as Group CFO). The Committee exercised its discretion to treat Nigel Lingwood as a good leaver and therefore allow all his PSP awards to be eligible to vest subject to time pro-rating to reflect his retirement as explained on page 53.

Remuneration Committee Report continued

ANNUAL REPORT ON REMUNERATION CONTINUED

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. The Committee has confirmed that the same performance conditions will be applied to PSP awards made in FY2021. In addition, in order for any payment to be earned under the EPS element of awards granted on or after 23 December 2019, the Committee must consider that a satisfactory level of ROATCE performance has been achieved.

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.

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 2020 (audited)

The PSP awards made on 28 December 2017, 7 December 2018 and 23 December 2019 to Nigel Lingwood, an Executive Director, were subject to the performance conditions as set out in the table above, independently assessed over a three-year period ended 30 September 2020 for the 2017 award and for the 2018 and 2019 awards, over the two and one-year period ended 30 September 2020, respectively. The outcome of each award is shown in the table below:

Adjusted earnings per share

	Base EPS	**EPS at 30 Sep 2020**[2]	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2017)	49.8p	**57.4p**	4.8%	14%	50%	0%
PSP (2018)[1]	56.4p	**57.4p**	0.9%	14%	50%	0%
PSP (2019)[1]	64.3p	**57.4p**	-10.7%	14%	50%	0%

1 Awards vesting to Nigel Lingwood following his retirement from the Board on 22 June 2020 and on the basis explained on page 53.
2 The pre-IFRS 16 adjusted EPS figure has been used for the purposes of assessing the vesting criteria of the PSP (2017), PSP (2018) and PSP (2019) awards. Further information is included in note 24 to the consolidated financial statements.

TSR growth against FTSE 250 (excluding Investment Trusts)

	TSR at 30 Sep 2020	Median	Upper quartile	Maximum award	Vested award
PSP (2017)	**22.7% p.a.**	-6.3% p.a.	5.8% p.a.	50%	50%
PSP (2018)[1]	**20.0% p.a.**	-10.3% p.a.	4.8% p.a.	50%	50%
PSP (2019)[1]	**24.7% p.a.**	-13.5% p.a.	10.6% p.a.	50%	50%

1 Awards vesting to Nigel Lingwood following his retirement from the Board on 22 June 2020 and on the basis explained on page 53.

Set out below are the shares which vested to Nigel Lingwood at 30 September 2020 in respect of these awards.

	Share price at date of grant pence	Share price at 30 Sep 2020 pence	**Proportion of award vesting**	**Shares vested number**	Performance element[1] £000	Share appreciation element[2] £000	**Total £000**
– PSP (2017)	1,221	2,202	**50%**	**23,147**	283	227	**510**
– PSP (2018)	1,209	2,202	**50%**	**20,639**	249	205	**454**
– PSP (2019)	2,018	2,202	**50%**	**4,950**	100	9	**109**

1 The performance element represents the face value of awards that vested, having met the performance conditions set out above.
2 The share appreciation element represents the additional value generated through appreciation of the share price from the date the awards were granted to the end of the three-year performance period on 30 September 2020, and additionally in the case of PSP (2018) and PSP (2019) prorated for two and one of the three years respectively. These awards vested based on the vesting performance criteria for the two-year and one-year period to 30 September 2020.

Dividend equivalent payments (audited)

Dividend equivalent payments of £26,992 (2019: £38,965) are payable to Nigel Lingwood in respect of awards which vested on 30 September 2020. This includes amounts of £9,659 and £1,015 in respect of awards which vested on 30 September 2020 relating to the PSP (2018) and PSP (2019) awards respectively. These payments are included in this year's Annual Report on Remuneration.

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

Nigel Lingwood, Johnny Thomson and Barbara Gibbes received grants of PSP awards on 23 December 2019 and 10 March 2020, respectively, in the form of nil-cost options. These awards were based on a share price of 2,018p (Nigel Lingwood and Johnny Thomson) and 1,755p (Barbara Gibbes), being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award.

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 award granted on 23 December 2019 to Nigel Lingwood vested to the extent to which applicable performance conditions were met for the year ended 30 September 2020. The award was prorated for time served, that is on the basis of one out of three years completed.

The performance conditions for these awards are set out on page 63.

Outstanding share-based performance awards (audited)

Set out below is a summary of the share-based awards outstanding at 30 September 2020, 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 below were granted based on a face value limit of 250% of base salary to Johnny Thomson, 175% of base salary to Nigel Lingwood and 100% of base salary to Barbara Gibbes (being the prorated award for time served (including as CFO designate)). In FY2019 awards (PSP 2018 award) were granted at 225% of base salary to Nigel Lingwood. No awards will vest unless the performance conditions set out on page 64 are satisfied.

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 2019	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2020
Johnny Thomson									
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
Barbara Gibbes									
PSP (2019)	1,755p	340	30 Sep 2022	30 Sep 2022	–	19,374	–	–	19,374
Nigel Lingwood[1]									
PSP (2017)	1,221p	565	30 Sep 2020	30 Sep 2020	46,294	–	23,147	23,147	–
PSP (2018)	1,209p	749	30 Sep 2020	30 Sep 2020	61,917	–	20,639	41,278	–
PSP (2019)	2,018p	600	30 Sep 2020	30 Sep 2020	–	29,700	4,950	24,750	–

1 The awards for Nigel Lingwood have been prorated for two of three years for the PSP (2018) award (61,917 shares awarded and prorated to 41,278) and prorated for one of three years for the PSP (2019) award (29,700 shares awarded and prorated to 9,900). These awards vested based on the testing of performance criteria for the two-year and one-year periods to 30 September 2020, as explained on page 62.

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.

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 2020 are set out on page 66.

Services from external advisors (unaudited)

Stephenson Harwood LLP provided legal advice to the Committee on remuneration matters. Simmons & Simmons LLP provided legal advice in respect of the employment agreement for Barbara Gibbes. The Committee also received advice and assistance from Aon and subsequently Alvarez & Marsal Taxand UK LLP on remuneration matters and in connection with the Committee's review of the Company's Remuneration Policy this year. The Committee engaged MEIS to provide relative TSR analysis. 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.

The only advisor who has another relationship with the Company is Simmons & Simmons LLP who provide other legal advisory services. None of the advisors have any relationship with any Director.

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Aon	Committee	Remuneration advice	None	15,249
Alvarez & Marsal Taxand UK LLP	Committee	Remuneration advice	None	1,153
MEIS	Committee	Data analysis	None	7,000
Stephenson Harwood LLP	Committee	Legal and remuneration advice	None	12,155
Simmons & Simmons LLP	Committee	Legal advice	Other legal	17,500

Remuneration Committee Report continued

ANNUAL REPORT ON REMUNERATION CONTINUED

Shareholder voting at previous Annual General Meeting (unaudited)

The Remuneration Committee's Annual Report ("Report") for the year ended 30 September 2019 and the Directors' Remuneration Policy were approved by shareholders at the AGM held on 15 January 2020, with the following votes being cast:

	Policy		Report	
Votes for	60,768,041	79.98%	51,335,927	55.81%
Votes against	15,209,003	20.02%	40,645,728	44.19%
Withheld	21,745,098	–	5,740,487	–

At the AGM in January 2020, the Policy was approved with 79.88% of votes and the 2019 DRR was approved with 55.88% 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, there were two main issues raised. The first related to the overall quantum of Johnny Thomson's package relative to his predecessor. The Committee was cognisant of the relative increase and judged it necessary to secure Johnny's appointment as the candidate who satisfied the detailed specification of the CEO role required to deliver Diploma's ambitions and manage its increasing scale and complexity. The second related to the payment of a full, rather than time prorated bonus. Again, this was done as part of the total remuneration package to secure the appointment. The Committee will now require bonuses to be prorated for future new joiners and this is the approach taken for the appointment of Barbara Gibbes this year.

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 2020 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2019	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2020	Exercise price	Earliest normal exercise date	Expiry date
Nigel Lingwood	2019	55,035	55,035	–	–	£1	Nov 2019	Dec 2026
	2020	–	–	48,736	48,736	£1	Nov 2020	Dec 2027

1 Nigel Lingwood exercised 55,035 options on 18 November 2019 at a market price of 1,755p per share and the total proceeds before tax were £965,864.
2 On 18 November 2019, the aggregate number of shares received by the participant was reduced by 25,866 shares as part of arrangements under which the Company settled the PAYE liability that arose as a result of the exercise in full by the Executive Director of options held over shares.
3 The closing price of an ordinary share on 30 September 2020 was 2,202p (2019: 1,663p).
4 All awards have a notional exercise price of £1 per award.

In ordinary shares

The Executive Directors' interests in ordinary shares of the Company were as follows:

	As at 30 Sep 2020[1]			As at 30 Sep 2019		
	Ordinary shares	Options vested but unexercised	Interest in shares with performance measures	Ordinary shares	Options vested but unexercised	Interest in shares with performance measures
Johnny Thomson	34,556	–	208,282	22,000	–	122,801
Nigel Lingwood[1]	100,000	–	–	100,000	55,035	108,211
Barbara Gibbes	876	–	19,374	–	–	–

1 Nigel Lingwood's interests are shown as at the date of his retirement from the Board on 22 June 2020 and are before vesting of his PSP awards.

As of 16 November 2020, there have been no changes to these interests in ordinary shares of the Company.

At 30 September 2020, the ordinary shares held by Johnny Thomson and Barbara Gibbes represented 110% and 6% of their respective full year base salaries (i.e. Johnny Thomson £690k and Barbara Gibbes £340k). As set out on page 60, the Committee has set a minimum shareholding requirement of 250% for the CEO and at least 200% for other Executive Directors.

Remuneration in context
Chief Executive pay ratio (unaudited)
The table below sets out the Chief Executive pay ratios as at 30 September 2020. This is our first year reporting under the new regulations and the report will build up over time to show a rolling ten-year period.

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 was chosen 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 2020, 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
2020	Option A	44:1	35:1	24:1

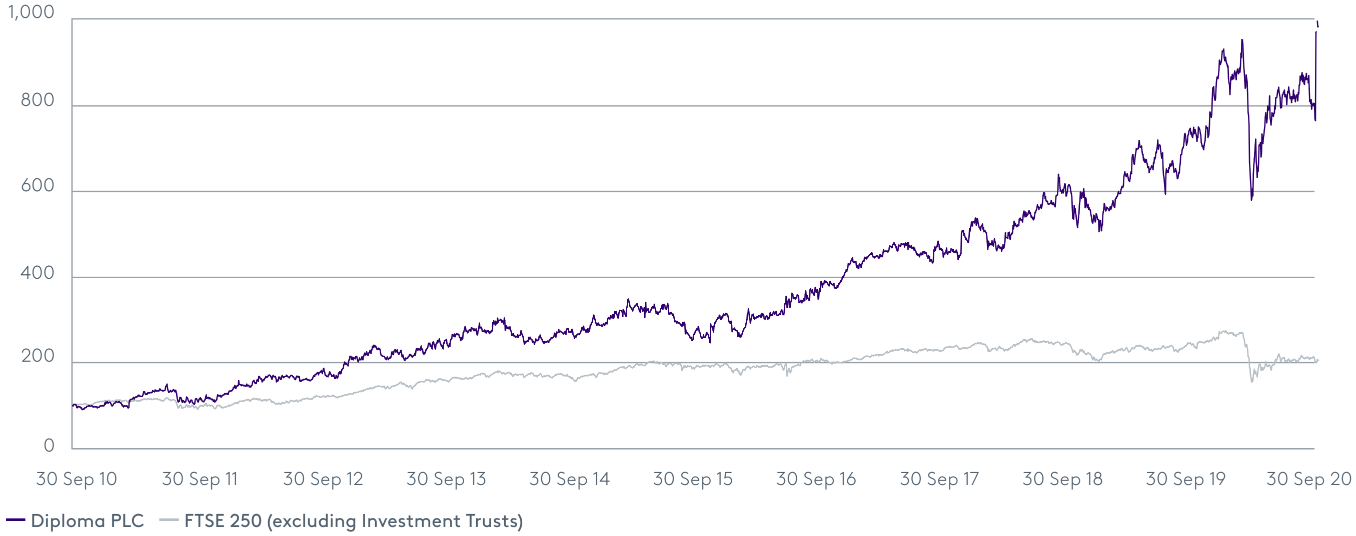
	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£655,000	n/a	£999,000[1]
25th percentile	£21,152	31	£22,641
Median	£26,590	25	£28,701
75th percentile	£37,022	18	£42,377

1 This takes account of the 20% reduction in base salary from April to June 2020.

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 Committee considers the executive remuneration approach to be appropriate in the context of this data. It is likely that the ratio will increase in coming years because the first PSP vesting for the CEO is due to take place on 30 September 2021.

Aligning pay with performance (unaudited)
The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2020 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.

Remuneration Committee Report continued

ANNUAL REPORT ON REMUNERATION CONTINUED

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

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting	Annual growth in TSR
2020	**Johnny Thomson**	**999**	**25%**	**–**	**+34%**
2019	Johnny Thomson[2]	1,079	72%	–	+20%
2019	John Nicholas[1]	62	–	–	+20%
2018	John Nicholas[1]	14	–	–	+36%
2018	Richard Ingram[2]	235	–	–	+36%
2018	Bruce Thompson[2]	3,842	100%	99%	+36%
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	-1%
2014	Bruce Thompson	1,846	65%	61%	+8%
2013	Bruce Thompson	2,401	33%	100%	+42%
2012	Bruce Thompson	1,830	95%	100%	+54%
2011	Bruce Thompson	1,701	100%	100%	+16%

1 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.
2 These amounts were prorated for the period served as CEO, with the exception of the annual bonus payable to Johnny Thomson, who joined the Company on 25 February 2019.

Relative importance of Executive Director remuneration (unaudited)

	2020 £m	2019 £m	Change £m
Total employee remuneration	**108.1**	100.7	7.4
Total dividends paid	**23.2**	29.8	-6.6

Percentage change in remuneration of Directors and employees (unaudited)

Set out below is the change over the prior financial year (2020 vs. 2019) in base salary, benefits, pension, annual performance bonus of the Board and the Group's senior management cadre. The Committee chose the senior management cadre 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.

	Base salary change	Pension charge	Taxable benefits change	Bonus change
Executive Directors				
Johnny Thomson	+3%[2]	+3%	no change	-64%
Nigel Lingwood	+3%[2]	+3%	no change	-55%
Barbara Gibbes	n/a	n/a	n/a	n/a
Non-Executive Directors				
John Nicholas	+3%	n/a	n/a	n/a
Charles Packshaw	+3%	n/a	n/a	n/a
Andy Smith	+3%	n/a	n/a	n/a
Anne Thorburn	+3%	n/a	n/a	n/a
Geraldine Huse	n/a	n/a	n/a	n/a
Employees of the Parent Company[1]	n/a	n/a	n/a	n/a
Senior management cadre	+5%	+5%	no change	-25%

1 There are no employees of the Parent Company.
2 This was the intended increase and does not take into account the voluntary pay reduction from April to June.

Chairman and non-Executive Directors' remuneration (audited)

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

	Total fees	
	2020[2] £000	2019 £000
John Nicholas	**146**	149[3]
Charles Packshaw	**60**	62
Andy Smith	**62**	64
Anne Thorburn	**62**	64
Geraldine Huse[1]	**35**	–

1 The fee for Geraldine Huse was prorated following her appointment on 20 January 2020.
2 Each of the non-Executive Directors agreed to a 20% reduction in their base fees for the three-month period from April 2020 to June 2020.
3 This excludes the period in 2019 where John Nicholas was Executive Chairman.

The non-Executive Directors received a basic annual fee of £53,000 during the year and additional fees are paid of £12,000 (2019: £12,000) for chairing a Committee of the Board or £10,000 (2019: 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. During the year each of the non-Executive Directors voluntarily agreed to a 20% reduction in their base fees for the three-month period from April 2020 to June 2020. The fees for non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. Aligned to approach to pay review for the Group and the Executive Directors there has been no increase to fees from 1 October 2020, and they will remain at the same level as the previous year. There were no taxable expenses for non-Executive Directors in 2020.

Chairman and non-Executive Directors' interests in ordinary shares (audited)

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

	Interest in ordinary shares	
	As at 30 Sep 2020	As at 30 Sep 2019
John Nicholas	**9,045**	7,000
Charles Packshaw	**3,545**	1,500
Andy Smith	**7,545**	5,500
Anne Thorburn	**5,045**	3,000
Geraldine Huse	**2,045**	–

As of 16 November 2020, there have been no changes to these interests in ordinary shares of the Company.

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 40 and 41.

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 124,563,515 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 37, 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, 20 January 2021 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 2020, 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 share capital
Mawer Investment Management Limited	11.10
Standard Life Aberdeen plc	6.36
Capital Research Global Investors	5.21
Royal London Group	4.95
The Vanguard Group, Inc.	3.42
Mondrian Investment Partners Limited	3.14

There have been no changes in the interests notified to the Company pursuant to the DTRs up to the date of this report.

Share capital

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

Shareholders

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

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

Contracts of significance and change of control

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

Restrictions on transfer of shares

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

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

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than prorata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 15 January 2020. The Company allotted 11,323,960 shares on 25 September 2020.

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 15 January 2020. In the year to 30 September 2020, the Company has not acquired any of its own shares.

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 Directors of the Company waived their entitlement to 20% of their emoluments for the period between April and June 2020	9.8.4(5)R
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 37 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 Corporate Responsibility on pages 33 to 36 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 4.
- Principal risks and how they are managed or mitigated – pages 27 to 32.
- Non-financial key performance indicators – page 11.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £49.3m (2019: £61.9m). The Directors recommend a final dividend of 30.0p per ordinary share (2019: 20.5p), to be paid, if approved, on 25 January 2021. As the Directors suspended the interim dividend this amounts to 30.0p for the year (2019: 29.0p).

The results are shown more fully in the consolidated financial statements on pages 72 to 101 and summarised in the Finance Review on pages 24 to 26.

Auditor

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 20 January 2021.

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 97.

Statement of Directors' responsibilities for preparing the financial statements

The Directors are responsible for preparing the Annual Report & Accounts, including the Group and Parent Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with IFRS as adopted by the European Union ("EU") and Article 4 of the IAS Regulations and have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Standards (UK Accounting Standards) including FRS 101 (Reduced Disclosures Framework).

Under company law, the 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 and Parent Company for that period.

In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS, as adopted by the EU;
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the financial information included on the Parent Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors confirm that to the best of their knowledge:

- the Parent Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company;
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- 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; and
- the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Directors' report was approved by the Board of Directors on 16 November 2020 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 2020

	Note	2020 £m	2019 £m
Revenue	3,4	**538.4**	544.7
Cost of sales		**(344.0)**	(347.7)
Gross profit		**194.4**	197.0
Distribution costs		**(14.0)**	(12.7)
Administration costs		**(110.6)**	(100.2)
Operating profit	3	**69.8**	84.1
Financial expense, net	6	**(3.1)**	(0.6)
Profit before tax		**66.7**	83.5
Tax expense	7	**(16.9)**	(21.1)
Profit for the year		**49.8**	62.4
Attributable to:			
Shareholders of the Company		**49.3**	61.9
Minority interests	22	**0.5**	0.5
		49.8	62.4
Earnings per share			
Basic and diluted earnings	9	**43.5p**	54.7p

Alternative Performance Measures (Note 2)

	Note	2020 £m	2019 £m
Operating profit		**69.8**	84.1
Add: Acquisition related charges	11	**17.3**	13.1
Adjusted operating profit	3,4	**87.1**	97.2
Deduct: Interest expense	6	**(2.7)**	(0.7)
Adjusted profit before tax		**84.4**	96.5
Adjusted earnings per share	9	**56.4p**	64.3p

The notes on pages 76 to 101 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Profit for the year		**49.8**	62.4
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial losses in the defined benefit pension schemes	27	**(0.4)**	(7.2)
Deferred tax on items that will not be reclassified	7,15	**0.4**	1.3
		–	(5.9)
Items that may be reclassified to Consolidated Income Statement			
Exchange rate (losses)/gains on foreign currency net investments		**(7.6)**	6.2
(Losses)/gains on fair value of cash flow hedges	20	**(0.1)**	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	20	**(0.4)**	(0.7)
Deferred tax on items that may be reclassified	7,15	**0.1**	–
		(8.0)	5.9
Total Comprehensive Income for the year		**41.8**	62.4
Attributable to:			
Shareholders of the Company		**41.2**	61.9
Minority interests		**0.6**	0.5
		41.8	62.4

Consolidated Statement of Changes in Equity

For the year ended 30 September 2020

	Note	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 2018		5.7	–	29.8	0.5	255.2	291.2	3.1	294.3
Total Comprehensive Income		–	–	6.2	(0.3)	56.0	61.9	0.5	62.4
Share-based payments	5	–	–	–	–	0.8	0.8	–	0.8
Minority interests acquired		–	–	–	–	–	–	–	–
Minority interest contribution		–	–	–	–	–	–	–	–
Tax on items recognised directly in equity	7	–	–	–	–	0.1	0.1	–	0.1
Notional purchase of own shares		–	–	–	–	(2.9)	(2.9)	–	(2.9)
Dividends	8,22	–	–	–	–	(29.8)	(29.8)	(0.3)	(30.1)
At 30 September 2019		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 shared capital		0.6	188.6	–	–	–	**189.2**	–	**189.2**
Share-based payments	5	–	–	–	–	0.8	**0.8**	–	**0.8**
Minority interests acquired		–	–	–	–	–	**–**	–	**–**
Minority interest contribution		–	–	–	–	–	**–**	–	**–**
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	8,22	–	–	–	–	(23.2)	**(23.2)**	(0.2)	**(23.4)**
At 30 September 2020		**6.3**	**188.6**	**28.3**	**(0.3)**	**304.1**	**527.0**	**3.7**	**530.7**

The notes on pages 76 to 101 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 September 2020

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	10	**159.0**	155.0
Acquisition intangible assets	11	**87.2**	96.1
Other intangible assets	11	**3.0**	2.7
Property, plant and equipment	13	**27.9**	26.7
Leases – right-of-use assets	14	**31.6**	–
Deferred tax assets	15	**0.7**	0.5
		309.4	281.0
Current assets			
Inventories	16	**100.6**	102.6
Trade and other receivables	17	**77.8**	91.1
Cash and cash equivalents	19	**206.8**	27.0
		385.2	220.7
Current liabilities			
Trade and other payables	18	**(87.1)**	(90.2)
Current tax liabilities	7	**(4.7)**	(6.9)
Other liabilities	21	**(11.5)**	(10.8)
Lease liabilities	14	**(7.2)**	–
		(110.5)	(107.9)
Net current assets		**274.7**	112.8
Total assets less current liabilities		**584.1**	393.8
Non-current liabilities			
Retirement benefit obligations	27	**(18.3)**	(17.8)
Borrowings	26	**–**	(42.1)
Lease liabilities	14	**(26.5)**	–
Other liabilities	21	**–**	(0.5)
Deferred tax liabilities	15	**(8.6)**	(8.8)
Net assets		**530.7**	324.6
Equity			
Share capital		**6.3**	5.7
Share premium		**188.6**	–
Translation reserve		**28.3**	36.0
Hedging reserve		**(0.3)**	0.2
Retained earnings		**304.1**	279.4
Total shareholders' equity		**527.0**	321.3
Minority interests	22	**3.7**	3.3
Total equity		**530.7**	324.6

The consolidated financial statements were approved by the Board of Directors on 16 November 2020 and signed on its behalf by:

JD Thomson
Chief Executive Officer

B Gibbes
Chief Financial Officer

The notes on pages 76 to 101 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Operating profit		69.8	84.1
Acquisition related charges	25	17.3	13.1
CEO transition costs paid		–	(1.3)
Non-cash items and other	25	11.8	5.8
Decrease/(increase) in working capital	25	9.5	(9.4)
Cash flow from operating activities	25	108.4	92.3
Interest paid, net		(1.5)	(0.1)
Tax paid		(21.5)	(21.9)
Net cash from operating activities		85.4	70.3
Cash flow from investing activities			
Acquisition of businesses (including expenses and net of cash acquired)	23	(13.8)	(77.2)
Deferred consideration paid	21	(1.1)	(1.1)
Proceeds from sale of business (net of expenses)		0.8	–
Purchase of property, plant and equipment	13	(8.4)	(9.7)
Purchase of other intangible assets	11	(1.0)	(1.2)
Proceeds from sale of property, plant and equipment		5.8	–
Net cash used in investing activities		(17.7)	(89.2)
Cash flow from financing activities			
Proceeds from issue of share capital (net of fees)	31	189.8	–
Dividends paid to shareholders	8	(23.2)	(29.8)
Dividends paid to minority interests	22	(0.2)	(0.3)
Purchase of own shares by Employee Benefit Trust		(1.8)	(1.2)
Notional purchase of own shares on exercise of share options		(0.7)	(1.7)
(Repayment of)/proceeds from borrowings (net)	26	(42.1)	41.1
Lease repayments		(7.6)	–
Net cash from financing activities		114.2	8.1
Net increase/(decrease) in cash and cash equivalents		181.9	(10.8)
Cash and cash equivalents at beginning of year		27.0	36.0
Effect of exchange rates on cash and cash equivalents		(2.1)	1.8
Cash and cash equivalents at end of year	19	206.8	27.0

Alternative Performance Measures (Note 2)

	Note	2020 £m	2019 £m
Net increase/(decrease) in cash and cash equivalents		181.9	(10.8)
Add: Dividends paid to shareholders	8	23.2	29.8
Dividends paid to minority interests	22	0.2	0.3
Acquisition of businesses (net of expenses and cash acquired)	23	13.8	77.2
Acquisition of minority interests	21	–	–
Proceeds from issue of share capital (net of fees)		(189.8)	–
Deferred consideration paid	21	1.1	1.1
Repayment of/(proceeds from) borrowings (net)	26	42.1	(41.1)
Free cash flow		72.5	56.5
Cash and cash equivalents		206.8	27.0
Borrowings		–	(42.1)
Cash funds/(net debt)	26	206.8	(15.1)

Notes to the Consolidated Financial Statements
For the year ended 30 September 2020

1. General information
Diploma PLC is a public limited company 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 16 November 2020. 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 Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU") and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. 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 102 and 103.

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, 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 fair value remeasurements in respect of acquisition related payments) 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 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 business disposals, but before expenditure on business combinations/investments, 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 are 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 is described in the Strategic Report on pages 1 to 37. 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		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Revenue – existing	139.7	145.8	237.0	220.6	153.0	178.3	529.7	544.7
Revenue – acquisitions	–	–	5.1	–	3.6	–	8.7	–
Revenue	139.7	145.8	242.1	220.6	156.6	178.3	538.4	544.7
Adjusted operating profit – existing	28.3	27.5	35.4	38.1	21.6	31.6	85.3	97.2
Adjusted operating profit – acquisitions	–	–	0.6	–	1.2	–	1.8	–
Adjusted operating profit	28.3	27.5	36.0	38.1	22.8	31.6	87.1	97.2
Acquisition related charges	(2.4)	(2.3)	(9.1)	(7.0)	(5.8)	(3.8)	(17.3)	(13.1)
Operating profit	25.9	25.2	26.9	31.1	17.0	27.8	69.8	84.1
Operating assets	47.3	45.6	123.1	109.6	66.7	65.6	237.1	220.8
Goodwill	62.0	64.0	60.5	59.1	36.5	31.9	159.0	155.0
Acquisition intangible assets	12.6	15.6	53.9	61.7	20.7	18.8	87.2	96.1
	121.9	125.2	237.5	230.4	123.9	116.3	483.3	471.9
Unallocated assets:								
– Deferred tax assets							0.7	0.5
– Cash and cash equivalents							206.8	27.0
– Corporate assets							3.8	2.3
Total assets	121.9	125.2	237.5	230.4	123.9	116.3	694.6	501.7
Operating liabilities	(27.6)	(25.3)	(52.5)	(37.1)	(31.8)	(27.6)	(111.9)	(90.0)
Unallocated liabilities:								
– Deferred tax liabilities							(8.6)	(8.8)
– Retirement benefit obligations							(18.3)	(17.8)
– Acquisition related liabilities							(11.5)	(11.3)
– Corporate liabilities							(13.6)	(7.1)
– Borrowings							–	(42.1)
Total liabilities	(27.6)	(25.3)	(52.5)	(37.1)	(31.8)	(27.6)	(163.9)	(177.1)
Net assets	94.3	99.9	185.0	193.3	92.1	88.7	530.7	324.6

Alternative Performance Measures (Note 2)

	Life Sciences		Seals		Controls		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Net assets	94.3	99.9	185.0	193.3	92.1	88.7	530.7	324.6
Add/(deduct):								
– Deferred tax, net							7.9	8.3
– Retirement benefit obligations							18.3	17.8
– Acquisition related liabilities							11.5	11.3
– (Cash funds)/net debt							(206.8)	15.1
Reported trading capital employed							361.6	377.1
– Historic goodwill and acquisition related charges, net of deferred tax	34.7	32.0	47.3	39.2	17.4	13.1	99.4	84.3
Adjusted trading capital employed	129.0	131.9	232.3	232.5	109.5	101.8	461.0	461.4
Pro forma adjusted operating profit[1]	28.3	29.0	36.5	44.9	23.1	31.6	87.9	105.5
ROATCE	21.9%	22.0%	15.7%	19.3%	21.1%	31.0%	19.1%	22.9%

1 After annualisation of adjusted operating profit of acquisitions and disposals.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

3. Business Sector analysis continued

Other Sector information

	Life Sciences		Seals		Controls		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Capital expenditure	2.9	3.3	5.2	5.1	1.3	2.5	9.4	10.9
Depreciation and amortisation	2.6	2.7	2.1	2.0	0.7	0.7	5.4	5.4
Revenue recognition								
– immediately on sale	124.6	131.8	239.3	219.5	156.6	178.3	520.5	529.6
– over a period of time	15.1	14.0	2.8	1.1	–	–	17.9	15.1
	139.7	145.8	242.1	220.6	156.6	178.3	538.4	544.7

Accrued income ("contract assets") at 30 September 2020 of £0.9m (2019: £1.5m) and deferred revenue ("contract liabilities") of £2.4m at 30 September 2020 (2019: £2.6m) are included in trade and other receivables (note 17) and trade and other payables (note 18), respectively.

4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
United Kingdom	134.0	154.8	19.0	27.8	64.7	59.0	71.4	84.5	1.4	2.0
Rest of Europe	126.8	128.1	17.7	18.6	73.5	58.9	85.8	80.4	0.9	1.7
North America	228.5	220.5	43.3	45.0	133.8	129.8	165.7	176.2	6.3	6.5
Rest of world	49.1	41.3	7.1	5.8	36.7	32.8	38.7	36.0	0.8	0.7
	538.4	544.7	87.1	97.2	308.7	280.5	361.6	377.1	9.4	10.9

1 Non-current assets excludes deferred tax assets.

5. Group employee costs

Average number of employees

	2020	2019
Life Sciences	432	434
Seals	1,010	861
Controls	599	584
Corporate	27	17
Number of employees – average	2,068	1,896
Number of employees – year end	2,002	2,064

Group employee costs, including key management

	2020 £m	2019 £m
Wages and salaries	94.0	87.5
Social security costs	9.0	8.6
Pension costs	4.3	3.8
Share-based payments	0.8	0.8
	108.1	100.7

Key management short-term remuneration, including Directors

	2020 £m	2019 £m
Salaries and short-term employee benefits	3.8	3.8
Pension costs	0.2	0.2
Share-based payments	0.8	0.8
	4.8	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 Management Committee ("EMC").

The Executive Directors' remuneration and their interests in shares of the Company are given on pages 62 to 66 in the Remuneration Committee Report. The charge for share-based payments of £0.8m (2019: £0.8m) relates to the Group's LTIP, described in the Remuneration Committee Report.

Directors' short-term remuneration

	2020 £m	2019 £m
Non-Executive Directors	0.3	0.3
Executive Directors	1.6	1.8
	1.9	2.1

6. Financial expense, net

	2020 £m	2019 £m
Interest (expense)/income and similar charges		
– bank facility and commitment fees	**(0.2)**	(0.2)
– interest income on bank deposits	**0.1**	0.1
– interest expense on bank borrowings	**(0.9)**	(0.4)
– notional interest expense on the defined benefit pension scheme (note 27b)	**(0.3)**	(0.2)
– interest on lease liabilities	**(1.4)**	–
Net interest expense and similar charges	**(2.7)**	(0.7)
– fair value remeasurement of financial liabilities and unwind of discount (note 21)	**(0.4)**	0.1
Financial expense, net	**(3.1)**	(0.6)

The fair value remeasurement of £0.4m debit (2019: £0.1m credit) comprises £0.5m debit (2019: £0.1m debit) that relates to the unwinding of the discount on the liability for deferred consideration and of a movement in the fair value of the put options of £0.1m credit (2019: £0.2m credit).

7. Tax expense

	2020 £m	2019 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**3.5**	4.9
Overseas tax	**15.6**	17.8
	19.1	22.7
Adjustments in respect of prior year:		
UK corporation tax	**0.1**	–
Overseas tax	**0.1**	0.5
Total current tax	**19.3**	23.2
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(1.1)**	(0.9)
Overseas	**(1.3)**	(1.2)
Total deferred tax	**(2.4)**	(2.1)
Total tax on profit for the year	**16.9**	21.1

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 £0.5m was credited (2019: £1.3m credit) directly to the Consolidated Statement of Comprehensive Income. A further £0.2m of current tax was credited (2019: £0.1m credit) to the Consolidated Statement of Changes in Equity which relates to share-based payments made during the year.

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 £66.7m and the amount set out above is as follows:

	2020 £m	2019 £m
Profit before tax	**66.7**	83.5
Tax on profit at UK effective corporation tax rate of 19.0% (2019: 19.0%)	**12.7**	15.9
Effects of:		
– higher tax rates on overseas earnings	**3.6**	3.8
– adjustments to current tax charge in respect of previous years	**0.2**	0.5
– other permanent differences	**0.4**	0.9
Total tax on profit for the year	**16.9**	21.1

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 2020 was 19.0% (2019: 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 and Australia are taxed at higher rates than the UK. The UK deferred tax assets and liabilities at 30 September 2020 have been calculated based on the future UK corporation tax rate of 19.0% (2019: 17.0%), as substantively enacted at 30 September 2020.

At 30 September 2020, the Group had outstanding tax liabilities of £4.7m (2019: £6.9m) of which £0.6m (2019: £3.0m) related to UK tax liabilities and £4.1m (2019: £3.9m) related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2020

8. Dividends

	2020 pence per share	2019 pence per share	2020 £m	2019 £m
Interim dividend, paid in June	–	8.5	–	9.6
Final dividend of the prior year, paid in January	20.5	17.8	23.2	20.2
	20.5	26.3	23.2	29.8

The Directors have proposed a final dividend in respect of the current year of 30.0p per share (2019: 20.5p), which will be paid on 25 January 2021, subject to approval of shareholders at the Annual General Meeting ("AGM") on 20 January 2021. The total dividend for the current year, subject to approval of the final dividend, will be 30.0p per share (2019: 29.0p).

The Diploma PLC Employee Benefit Trust holds 118,553 (2019: 51,867) shares, which are ineligible for dividends.

9. Earnings per share

Basic and diluted earnings per share

Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 113,397,329 (2019: 113,179,582) and the profit for the year attributable to shareholders of £49.3m (2019: £61.9m). Further description of the Company's share capital is set out in note (e) to the Parent Company Financial Statements on page 103.

Adjusted earnings per share

Adjusted EPS, which is defined in note 2, is calculated as follows:

	2020 pence per share	2019 pence per share	2020 £m	2019 £m
Profit before tax			66.7	83.5
Tax expense			(16.9)	(21.1)
Minority interests			(0.5)	(0.5)
Earnings for the year attributable to shareholders of the Company	43.5	54.7	49.3	61.9
Acquisition related charges	15.2	11.6	17.3	13.1
Fair value remeasurement of financial liabilities and unwind of discount	0.3	(0.1)	0.4	(0.1)
Tax effects on above adjustments	(2.6)	(1.9)	(3.0)	(2.1)
Adjusted earnings	56.4	64.3	64.0	72.8

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2018	59.0	40.3	29.2	128.5
Acquisitions	3.9	17.5	2.7	24.1
Exchange adjustments	1.1	1.3	–	2.4
At 30 September 2019	64.0	59.1	31.9	155.0
Acquisitions (note 23)	–	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

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. Beyond five years, cash flow projections utilise a perpetuity growth rate of 2%.

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 annual revenue growth rates used in the cash flow forecasts for the next five years represent the budgeted rates for 2021 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2019: 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 any of the Sectors 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 Sectors.

11. Acquisition and other intangible assets

	Customer relationships £m	Supplier relationships £m	Trade names and databases £m	Total acquisition intangible assets £m	Other intangible assets £m
Cost					
At 1 October 2018	89.6	29.5	2.8	121.9	6.8
Additions	–	–	–	–	1.2
Acquisitions (note 23)	53.2	–	–	53.2	–
Disposals	–	–	–	–	–
Exchange adjustments	2.1	0.2	0.2	2.5	0.3
At 30 September 2019	144.9	29.7	3.0	177.6	8.3
Additions	–	–	–	–	1.0
Acquisitions (note 23)	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**
Amortisation					
At 1 October 2018	48.2	17.3	2.8	68.3	5.0
Charge for the year	9.8	1.8	–	11.6	0.5
Disposals	–	–	–	–	–
Exchange adjustments	1.1	0.3	0.2	1.6	0.1
At 30 September 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**
Net book value					
At 30 September 2020	**78.4**	**8.8**	**–**	**87.2**	**3.0**
At 30 September 2019	85.8	10.3	–	96.1	2.7

Acquisition related charges are £17.3m (2019: £13.1m) and comprise £15.4m (2019: £11.6m) of amortisation of acquisition intangible assets, and £1.9m of acquisition expenses (2019: £1.5m).

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
Databases and trade names	5–10 years

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

12. Investment

In October 2019, the Group concluded its negotiations to dispose of its 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal, for $1.0m. Accordingly, this investment was classified as an asset held for sale in the prior year.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2020

13. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	Total £m
Cost					
At 1 October 2018	15.9	4.1	20.4	12.9	53.3
Additions	2.0	0.8	4.2	2.7	9.7
Acquisitions of businesses	–	–	0.8	–	0.8
Disposals	–	(0.1)	(0.4)	(0.9)	(1.4)
Reclassification to held for sale	(3.4)	–	–	–	(3.4)
Exchange adjustments	0.5	0.1	0.7	0.6	1.9
At 30 September 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**
Depreciation					
At 1 October 2018	5.2	2.0	14.9	8.2	30.3
Charge for the year	0.6	0.5	1.8	2.0	4.9
Disposals	–	–	(0.4)	(0.5)	(0.9)
Reclassification to held for sale	(1.0)	–	–	–	(1.0)
Exchange adjustments	0.2	–	0.4	0.3	0.9
At 30 September 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**
Net book value					
At 30 September 2020	**8.5**	**2.4**	**11.5**	**5.5**	**27.9**
At 30 September 2019	10.0	2.4	9.0	5.3	26.7

Land included within freehold properties above which is not depreciated is £2.7m (2019: £2.7m). Capital commitments contracted, but not provided, were £0.6m (2019: £3.9m).

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. At 30 September 2020, Larkfleet is preparing to submit a planning application on the Stamford Land in the second half of FY2021.

In the Directors' opinion the current fair value of its land at 30 September 2020 is £1.0m (2019: £1.0m) with a book value of £nil (2019: £nil).

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

Leases – right-of-use assets

	Land and buildings £m	Plant & machinery £m	Motor vehicles £m	IT & office equipment £m	Total £m
At 1 October 2019	30.3	0.3	2.3	0.6	33.5
Additions	4.7	0.2	1.0	0.2	6.1
Disposals	(0.1)	–	–	–	(0.1)
Exchange adjustments	(0.6)	–	–	–	(0.6)
At 30 September 2020	**34.3**	**0.5**	**3.3**	**0.8**	**38.9**
Depreciation	(5.8)	(0.1)	(1.2)	(0.2)	(7.3)
At 30 September 2020	**28.5**	**0.4**	**2.1**	**0.6**	**31.6**
At 1 October 2019	30.3	0.3	2.3	0.6	33.5

Leases – 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:

	£m
At 1 October 2019	33.7
Additions	6.9
Disposals	(0.1)
Lease repayments	(7.6)
Interest on lease liabilities	1.4
Exchange movements	(0.6)
At 30 September 2020	**33.7**

Analysed as:	£m
Repayable within one year	**7.2**
Repayable after one year	**26.5**

On adoption of IFRS 16, the opening balance sheet at 1 October 2019 has not been restated. If it had been restated the opening balance of Leases – right-of-use assets and lease liabilities would have been £33.5m and £33.7m respectively.

The impact on the consolidated financial statements from the adoption of IFRS 16 is set out in note 24.

15. Deferred tax

The movement on deferred tax is as follows:

	2020 £m	2019 £m
At 1 October	**(8.3)**	(8.4)
Credit for the year (note 7)	**2.4**	2.1
Acquisitions (note 23)	**(2.2)**	(3.3)
Accounted for in Other Comprehensive Income	**0.5**	1.3
Exchange adjustments	**(0.3)**	–
At 30 September	**(7.9)**	(8.3)

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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment	**0.5**	0.6	**(2.9)**	(1.8)	**(2.4)**	(1.2)
Goodwill and intangible assets	**–**	–	**(14.0)**	(13.4)	**(14.0)**	(13.4)
Retirement benefit obligations	**3.5**	3.2	**–**	–	**3.5**	3.2
Inventories	**1.9**	1.7	**(0.1)**	(0.1)	**1.8**	1.6
Share-based payments	**0.4**	0.2	**–**	–	**0.4**	0.2
Trading losses	**–**	0.1	**–**	–	**–**	0.1
Leases	**0.6**	–	**–**	–	**0.6**	–
Other temporary differences	**2.5**	1.5	**(0.3)**	(0.3)	**2.2**	1.2
	9.4	7.3	**(17.3)**	(15.6)	**(7.9)**	(8.3)
Deferred tax offset	**(8.7)**	(6.8)	**8.7**	6.8	**–**	–
	0.7	0.5	**(8.6)**	(8.8)	**(7.9)**	(8.3)

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15. Deferred tax continued
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 £131.5m (2019: £118.9m) was £6.7m (2019: £6.1m).

16. Inventories

	2020 £m	2019 £m
Finished goods	100.6	102.6

Inventories are stated net of impairment provisions of £10.6m (2019: £9.3m). During the year £2.2m (2019: £2.1m) was recognised as a charge against cost of sales, comprising the write-down of inventories to net realisable value.

17. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	71.0	82.0
Less: loss allowance	(1.2)	(1.2)
	69.8	80.8
Other receivables	2.7	3.7
Prepayments and accrued income	5.3	3.5
Assets held for sale	–	3.1
	77.8	91.1

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

	2020 £m	2019 £m
UK sterling	19.0	25.3
US dollars	18.2	22.2
Canadian dollars	11.0	11.0
Euro	12.6	13.8
Other	10.2	9.7
	71.0	82.0

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

	2020 £m	2019 £m
Not past due	59.5	69.2
Past due	10.3	11.6
Past due, but impaired	1.2	1.2
	71.0	82.0

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

	2020 £m	2019 £m
Up to one month past due	8.6	10.0
Between one and two months past due	1.2	1.4
Between two and four months past due	0.4	–
Over four months past due	0.1	0.2
	10.3	11.6

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

	2020 £m	2019 £m
At 1 October	1.2	0.7
Charged against profit, net	0.1	0.2
Set up on acquisition	–	0.4
Utilised by write-off	(0.1)	(0.1)
At 30 September	1.2	1.2

Concentrations of credit risk with respect to trade receivables are very limited reflecting the Group's customer base being large and diverse. The Group has a history of very 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).

18. Trade and other payables

	2020 £m	2019 £m
Trade payables	45.0	54.0
Other payables	8.0	5.4
Other taxes and social security	6.1	5.6
Accruals and deferred income	28.0	25.2
	87.1	90.2

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

	2020 £m	2019 £m
UK sterling	10.6	12.1
US dollars	18.8	25.1
Canadian dollars	0.7	1.2
Euro	11.3	12.8
Other	3.6	2.8
	45.0	54.0

19. Cash and cash equivalents

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2020 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2019 Total £m
Cash at bank	32.4	3.4	1.0	9.1	3.1	49.0	6.2	4.8	0.3	6.8	3.4	21.5
Short-term deposits	–	156.2	1.3	–	0.3	157.8	–	1.7	3.5	–	0.3	5.5
	32.4	159.6	2.3	9.1	3.4	206.8	6.2	6.5	3.8	6.8	3.7	27.0

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

20. 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 page 32 within Internal Control and Risk Management, all of which have been audited.

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.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2020

20. Financial instruments continued
The Group's maximum exposure to credit risk was as follows:

	Carrying amount	
	2020 £m	2019 £m
Trade receivables	69.8	80.8
Other receivables	2.7	3.7
Cash and cash equivalents	206.8	27.0
	279.3	111.5

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 17. An analysis of cash and cash equivalents is set out in note 19.

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 72 months ended 30 September 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information about macroeconomic factors 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 debt covenants is monitored regularly and during 2020 all covenants were complied with fully.

The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on shorter term deposits. Typically, the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses. As at 30 September 2020, the Group also had a committed multi-currency revolving facility of £60.0m. The facility had an accordion option to increase the committed facility which was exercised during the second half of the year. This increased the committed facility by a further £30.0m up to the aforementioned maximum of £60.0m. At 30 September 2020, the Group had utilised £nil of this facility (2019: £6.1m).

In the prior year, the Group extended its facilities with a two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies. During the year, the Group fully repaid this loan.

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, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The term loan was fully drawn and RCF part drawn to assist with the acquisition of Windy City Wire Cable & Technology Products, LLC ("WCW") on 16 October 2020. Further information is included within note 31.

20. Financial instruments continued

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

	2020 £m	2019 £m
Expiring within one year	–	–
Expiring after one year	60.0	23.9

The Group's financial liabilities are as follows:

	Carrying amount	
	2020 £m	2019 £m
Trade payables	45.0	54.0
Other payables	8.0	5.4
Other liabilities (note 21)	11.5	11.3
	64.5	70.7
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	64.5	70.6
One to two years	–	0.7
Two to five years	–	–
	64.5	71.3
Less: discount	–	(0.6)
	64.5	70.7

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 17, 18 and 19, respectively.

The Group holds forward foreign exchange contracts for certain of the Group's businesses to hedge forecast transactional exposure to movements, primarily in the US dollar and Euro. 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 2020 was £39.3m (2019: £39.5m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2020 was a £0.1m liability (2019: £0.4m asset). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was a £0.4m charge (2019: £0.7m charge). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was a £0.1m debit (2019: £0.4m credit).

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

	2020 £m
Decrease in adjusted operating profit (at average rates)	
US dollar: UK sterling	2.7
Canadian dollar: UK sterling	2.0
Euro: UK sterling	1.2
Decrease in total equity (at spot rates)	
US dollar: UK sterling	4.6
Canadian dollar: UK sterling	8.3
Euro: UK sterling	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 not have a significant impact on the Group's profit before tax. An analysis of cash and cash equivalents at the reporting dates is set out in note 19.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

20. Financial instruments continued

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.

Other and lease liabilities

The carrying amount represents a discounted value of the expected liability which is deemed to reflect the fair value.

f) Capital management risk

The Group's capital structure comprises retained reserves (£304.1m), cash funds (£206.8m) and medium-term bank borrowing facilities (£60.0m undrawn as at 30 September 2020). 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.

21. Other liabilities

	2020 £m	2019 £m
Future purchases of minority interests	**4.2**	4.3
Deferred consideration	**7.3**	7.0
	11.5	11.3
Analysed as:		
Due within one year	**11.5**	10.8
Due after one year	**–**	0.5

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

	2020 £m	2019 £m
At 1 October	**4.3**	4.5
Acquisition of minority interest on exercise of options	**–**	–
Exchange movements	**–**	–
Fair value remeasurements	**(0.1)**	(0.2)
At 30 September	**4.2**	4.3

At 30 September 2020, the Group retained put options to acquire minority interests of 10% held in each of M Seals and Kentek which were both exercisable from November 2018. At 30 September 2020, the estimate of the financial liability to acquire the 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 2020. This led to a remeasurement of the fair value of these put options and the liability decreased by £0.1m (2019: £0.2m decrease) reflecting a revised estimate of the future performance of these businesses. In aggregate, £0.1m (2019: credit £0.2m) has been credited to the Consolidated Income Statement in respect of this remeasurement of the liability.

Deferred consideration comprises the following:

	Gross £m	Discount £m	Unwind £m	Exchange £m	2020 £m	2019 £m
VSP Technologies	5.6	(0.3)	0.3	(0.1)	**5.5**	5.3
DMR Seals	–	–	–	–	**–**	0.6
Sphere	0.9	(0.2)	0.2	(0.1)	**0.8**	1.1
CR Systems	1.1	–	–	(0.1)	**1.0**	–
At 30 September	7.6	(0.5)	0.5	(0.3)	**7.3**	7.0

The amounts outstanding at 30 September 2020 are expected to be paid within the next year and are based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £1.1m was paid to the vendors of DMR Seals (£0.6m) and PumpNSeal Australia Pty Limited (£0.5m).

22. Minority interests

	£m
At 1 October 2018	3.1
Minority interest contribution	–
Share of profit	0.5
Dividends paid	(0.3)
Exchange adjustments	–
At 30 September 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**

External shareholders, represented by management in each business hold a 10% minority interest in M Seals and Kentek.

23. Acquisition of businesses

Acquisition of CR System Components GmbH

On 10 December 2019 the Group acquired 100% of CR System Components GmbH ("CR Systems"), based near Stuttgart in Germany. The initial consideration, including acquisition expenses of £0.1m (€0.1m), was £9.1m (€10.8m) and is net of cash acquired of £0.1m (€0.1m). Deferred consideration of £1.1m (€1.2m) is assumed payable and has been held back pending any claims received.

Acquisition of PumpNSeal Australia Pty Limited

On 15 January 2020 the Group acquired 100% of PumpNSeal Australia Pty Limited ("PNS"), based in Australia, for total consideration of £4.7m (AUD 8.8m) including acquisition expenses of £0.1m (AUD 0.1m) and net of cash acquired of £0.3m (AUD 0.6m). This includes deferred consideration of £0.5m paid during the year.

Fair value adjustments

The provisional fair value of CR Systems and PNS' net assets acquired, excluding acquisition intangibles and related deferred tax, is £3.2m following fair value adjustments to reduce the book value of fixed assets by £0.1m and increase the provision held against inventory by £0.3m.

Acquisitions revenue and operating profit

From the date of acquisition to 30 September 2020, the newly acquired CR Systems and PNS businesses contributed £8.7m to revenue and £1.8m to adjusted operating profit. If the businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a prorata basis £11.7m to revenue and £2.3m to adjusted operating profit. However, these amounts should not be viewed as indicative of the results of the businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

24. Impact on adoption of IFRS 16 (leases)

The Group adopted IFRS 16 on 1 October 2019 using the modified retrospective approach. The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 1 October 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated against the lease liability. The finance cost on the leases is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments which includes the fixed payments less any lease incentives. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability. The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee 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.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months. Low-value assets comprise IT equipment and small items of office furniture and equipment. The Group has no material leases that are onerous.

On implementation of IFRS 16 on 1 October 2019, the Group recognised right-of-use assets and corresponding lease liabilities of £33.5m and £33.7m respectively. There was no impact on the Group's opening shareholders' funds as a result of adopting IFRS 16. The Group's most significant leases relates to property. The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition ranged from 1.7% – 5.7%. The Group has used a portfolio approach by grouping certain assets with reasonably similar characteristics when determining the range of discount rates.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

24. Impact on adoption of IFRS 16 (leases) continued

The impact on the consolidated financial statements is as follows:

Adjusted operating profit

	30 September 2020 £m
Adjusted operating profit – post-IFRS 16	87.1
Operating lease rentals, removed from operating costs	(7.6)
Depreciation on leases – right-of-use assets, added to operating costs	7.3
Deferred profit on sale and leaseback of properties and other movements	0.6
Adjusted operating profit – pre-IFRS 16	**87.4**

Adjusted profit before tax

	30 September 2020 £m
Adjusted profit before tax – post-IFRS 16	84.4
Operating lease rentals, removed from operating costs	(7.6)
Add back depreciation on leases – right-of-use assets added to operating costs	7.3
Deferred profit on sale and leaseback of properties and other movement	0.6
Add back interest on lease liabilities	1.4
Adjusted profit before tax – pre-IFRS 16	**86.1**

Earnings per share

The impact of adopting IFRS 16 is to reduce basic earnings per share from 44.5p to 43.5p and reduce adjusted earnings per share from 57.4p to 56.4p.

Adjusted operating margin by Sector

	Post- IFRS 16 30 September 2020 £m	Pre-IFRS 16 30 September 2020 £m	Post-IFRS 16 30 September 2020 %	Pre-IFRS 16 30 September 2020 %
By Sector				
Life Sciences	28.3	28.3	20.3	20.3
Seals	36.0	35.7	14.9	14.7
Controls	22.8	23.4	14.6	15.0
Adjusted operating margin	**87.1**	87.4	**16.2**	16.2

There is no impact of adopting IFRS 16 on free cash flow. However, in the Consolidated Cash Flow Statement, the repayments of the operating lease liabilities of £7.6m are included within financing activities, whereas the operating lease rentals were previously presented within operating activities.

Reconciliation of lease commitments to IFRS 16 lease liabilities

Total minimum lease commitments at 30 September 2019	39.3
Impact of discounting	(5.0)
Leases not qualifying under IFRS 16	(0.6)
Lease liabilities – IFRS 16 at 1 October 2019	**33.7**

The impact on the total assets and liabilities by Sector at 30 September 2020 is as follows:

	Total assets		Total liabilities	
	Post-IFRS 16 30 September 2020 £m	Pre-IFRS 16 30 September 2020 £m	Post-IFRS 16 30 September 2020 £m	Pre-IFRS 16 30 September 2020 £m
By Sector				
Life Sciences	121.9	118.8	(28.1)	(25.0)
Seals	237.5	219.5	(52.5)	(33.6)
Controls	123.9	114.3	(31.8)	(21.0)
Unallocated assets/(liabilities)	211.3	210.4	(51.5)	(50.6)
	694.6	663.0	**(163.9)**	(130.2)

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

	2020 £m	2020 £m	2019 £m	2019 £m
Operating profit		**69.8**		84.1
Acquisition related charges (note 11)		**17.3**		13.1
CEO transition costs		**–**		–
Adjusted operating profit		**87.1**		97.2
CEO transition costs paid		**–**		(1.3)
		87.1		95.9
Depreciation or amortisation of tangible, other intangible assets and leases – right-of-use assets	**12.7**		5.4	
Share-based payments expense (note 5)	**0.8**		0.8	
Defined benefit pension scheme payment in excess of interest	**(0.2)**		(0.4)	
Profit on disposal of assets	**(1.0)**		–	
Other non-cash movements	**(0.5)**		–	
Non-cash items and other		**11.8**		5.8
Operating cash flow before changes in working capital		**98.9**		101.7
Decrease/(increase) in inventories	**1.6**		(12.2)	
Decrease/(increase) in trade and other receivables	**10.3**		(1.2)	
(Decrease)/increase in trade and other payables	**(2.4)**		4.0	
Decrease/(increase) in working capital		**9.5**		(9.4)
Cash flow from operating activities, before acquisition expenses		**108.4**		92.3

26. Net cash funds/net debt

The movement in net funds during the year is as follows:

	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	–	–	**–**
Cash funds/(net debt)	(15.1)	224.0	(2.1)	–	**206.8**

	1 Oct 2018 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	30 Sep 2019 £m
Cash and cash equivalents	36.0	(10.8)	1.8	–	27.0
Borrowings	–	(41.1)	(0.7)	(0.3)	(42.1)
Cash funds/(net debt)	36.0	(51.9)	1.1	(0.3)	(15.1)

The non-cash movements in the year ended 30 September 2019 reflect accrued interest in excess of interest paid.

As at 30 September 2020, the Group had a committed multi-currency revolving facility of £60.0m expiring on 1 June 2022. The facility had an accordion option to increase the committed facility which was exercised during the second half of the year. This increased the committed facility by a further £30.0m up to the aforementioned maximum of £60.0m. At 30 September 2020, the Group had utilised £nil of this facility (2019: £6.1m). Interest on the facility was payable between 70–115bps over LIBOR, depending on the ratio of net debt to EBITDA.

In the prior year the Group extended its facilities with a two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies. At 30 September 2020, the Group had fully repaid this loan. Interest on this facility was payable between 90–135bps over LIBOR, depending on the ratio of net debt to EBITDA.

On 13 October 2020, the Group entered into a new SFA which comprises a three-year term loan for an aggregate principal amount of £136.0m ($170.0m) and a committed multi-currency RCF for an aggregate principal amount of £135.0m, which is due to expire in December 2023. There is an option to extend the SFA for a further two 12-month periods. The term loan was fully drawn and RCF partly drawn to assist with the acquisition of WCW on 16 October 2020. Interest on the facility is payable between 125–275bps above LIBOR, depending on the ratio of net debt to EBITDA. Further information is included within note 31.

Total net cash is £173.1m comprising cash funds of £206.8m and lease liabilities of £33.7m. Bank covenants are tested against net cash funds only.

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For the year ended 30 September 2020

27. 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:

	2020 £m	2019 £m
Diploma Holdings PLC UK Pension Scheme	12.7	12.0
Kubo Pension Scheme	5.6	5.8
Pension scheme net deficit	**18.3**	17.8

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

	2020 £m	2019 £m
Diploma Holdings PLC UK Pension Scheme	(0.3)	(0.3)
Kubo Pension Scheme	(0.4)	(0.4)
Amounts charged to the Consolidated Income Statement	**(0.7)**	(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

	2020 £m	2019 £m
Market value of Scheme assets:		
Equities[1]	17.5	19.3
Buy-In policy[2]	10.5	11.3
Cash	0.1	0.1
	28.1	30.7
Present value of Scheme liabilities	(40.8)	(42.7)
Pension scheme net deficit	**(12.7)**	(12.0)

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

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

27. Retirement benefit obligations continued

b) Amounts charged to the Consolidated Income Statement

	2020 £m	2019 £m
Charged to operating profit	–	(0.1)
Interest cost on liabilities	(0.8)	(1.0)
Interest on assets	0.5	0.8
Charged to financial expense, net (note 6)	(0.3)	(0.2)
Amounts charged to the Consolidated Income Statement	(0.3)	(0.3)

c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2020 £m	2019 £m
Investment (loss)/gain on Scheme assets in excess of interest	(1.2)	1.8
Effect of changes in financial assumptions on Scheme liabilities	(0.4)	(7.2)
Effect of changes in demographic assumptions on Scheme liabilities	0.6	–
Experience adjustments on Scheme liabilities	0.1	–
Actuarial losses charged in the Consolidated Statement of Comprehensive Income	(0.9)	(5.4)

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income, since the transition to IFRS, is £13.9m (2019: £13.0m).

d) Analysis of movement in the pension deficit

	2020 £m	2019 £m
At 1 October	12.0	6.8
Amounts charged to the Consolidated Income Statement	0.3	0.3
Contributions paid by employer	(0.5)	(0.5)
Net effect of remeasurements of Scheme assets and liabilities	0.9	5.4
At 30 September	12.7	12.0

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

	2020 £m	2019 £m
At 1 October	42.7	36.3
Past service cost	–	0.1
Interest cost on liabilities	0.8	1.0
Impact from changes in actuarial assumptions	(0.3)	7.2
Benefits paid	(2.4)	(1.9)
At 30 September	40.8	42.7

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

	2020 £m	2019 £m
At 1 October	30.7	29.5
Interest on assets	0.5	0.8
Return on Scheme assets	(1.2)	1.8
Contributions paid by employer	0.5	0.5
Benefits paid	(2.4)	(1.9)
At 30 September	28.1	30.7

The actual return on the Scheme assets during the year was a loss of £0.7m (2019: £2.6m gain).

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2020, the major categories of assets were as follows:

	2020 %	2019 %
North America equities	14	16
UK equities	16	16
European equities (non-UK)	16	16
Asia-Pacific and Emerging Markets equities	17	16
Buy-In policy	37	36

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2020

27. Retirement benefit obligations continued
Principal actuarial assumptions for the Scheme at balance sheet dates

		2020 %	2019 %	2018 %	2017 %
Inflation rate	– RPI	**2.9**	3.4	3.4	3.4
	– CPI	**1.9**	2.4	2.4	2.4
Expected rate of pension increases	– CPI	**1.9**	2.4	2.4	2.4
Discount rate		**1.5**	1.8	2.9	2.8

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 2020 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	8.8	3.6
Inflation	Increase by 0.5%	3.9	1.6
Life expectancy	Increase by one year	3.4	1.4

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. In addition, the Company agreed to make a one-off contribution of £5.1m which was paid in October 2020.

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

	2020 £m	2019 £m
Assets of the Kubo Scheme[1]	**9.4**	8.8
Actuarial liabilities of the Kubo Scheme	**(15.0)**	(14.6)
Pension scheme net deficit	**(5.6)**	(5.8)

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

b) Amounts charged to the Consolidated Income Statement

	2020 £m	2019 £m
Service cost	**(0.4)**	(0.4)
Amount charged to operating profit in the Consolidated Income Statement	**(0.4)**	(0.4)

27. Retirement benefit obligations continued

c) Analysis of movement in the pension deficit

	2020 £m	2019 £m
At 1 October	**5.8**	3.7
Amounts charged to the Consolidated Income Statement	**0.4**	0.4
Contributions paid by employer	**(0.4)**	(0.4)
Net effect of remeasurements of Kubo Scheme assets and liabilities	**(0.5)**	1.8
Exchange adjustments	**0.3**	0.3
At 30 September	**5.6**	5.8

d) Amounts recognised in the Consolidated Statement of Comprehensive Income

The actuarial gain credited to the Consolidated Statement of Comprehensive Income is £0.5m (2019: £1.8m loss).

Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2020	2019
Expected rate of pension increase	**0%**	0%
Expected rate of salary increase	**1.0%**	1.0%
Discount rate	**0.2%**	0.0%
Interest credit rate	**0.5%**	0.5%
Mortality	**BVG2015**	BVG2015

Sensitivities

The sensitivities of the 2020 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.25%	5.0	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 2021	0.4
Best estimate of employees' contribution in 2021	0.4

The weighted average duration of the defined benefit obligation is approximately 20 years.

28. Commitments

At 30 September 2020, the Group had outstanding aggregate commitments for future lease payments as disclosed in note 24.

29. Auditor's remuneration

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

	2020 £m	2019 £m
Fees payable to the auditor for the audit of:		
– the Company's Annual Report & Accounts	**0.2**	0.1
– the Company's subsidiaries	**0.6**	0.6
Audit fees	**0.8**	0.7

Non-audit fees of £15,500 (2019: £18,000) were paid to the Group's auditor for carrying out "agreed upon procedures" on both the Half Year Announcement (which is unaudited) and on certifying financial information for a subsidiary.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2020

30. Exchange rates

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

	Average		Closing	
	2020	2019	2020	2019
US dollar (US$)	1.29	1.27	1.29	1.23
Canadian dollar (C$)	1.73	1.69	1.73	1.63
Euro (€)	1.14	1.13	1.10	1.13
Swiss franc (CHF)	1.23	1.27	1.19	1.23
Australian dollar (AUD)	1.89	1.81	1.80	1.83

31. Post balance sheet events

On 22 September 2020, the Group announced the proposed acquisition 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 for total consideration of up to ca. £357m ($465m). The conditions to achieve completion of the acquisition of WCW were satisfied, subsequently resulting in the completion taking place on 16 October 2020.

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 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. The term loan has been fully drawn and RCF partly drawn to assist with the acquisition of WCW which completed on 16 October 2020. Interest on the facility is payable between 125–275bps above LIBOR, depending on the ratio of net debt to EBITDA.

An initial accounting and fair value exercise will be completed in the first half of the year ending 30 September 2021.

Group Accounting Policies
For the year ended 30 September 2020

1.1 Basis of preparation
The consolidated financial statements have been prepared on a consistent basis to prior year except for the adoption of IFRS 16 (leases) 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 Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB") and are prepared in accordance with the Companies Act 2006.

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 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 24 to 26. In addition, pages 85 to 88 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 global economic 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 28 to 32.

Liquidity and financing position
The Group's liquidity and funding arrangements are described in notes 20 and 31 to the consolidated financial statements. As at 30 September 2020, the Group had cash funds of £206.8m and also had a committed multi-currency revolving bank facility of £60.0m which includes a committed accordion facility of £30.0m which was exercised during the year. In the prior year, the Group extended its facilities with a two-year term loan for an aggregate principal amount of £40.0m which was fully drawn to assist with the funding of the acquisition of VSP Technologies. The Group fully repaid this loan in September 2020.

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 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. The term loan and RCF have been fully and partly drawn to assist in the acquisition of Windy City Wire Cable & Technology Products, LLC which completed on 16 October 2020.

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 to ensure the business can respond to and meet the specific local government requirements in each country in which it operates. Although the duration and severity of the lockdown restrictions have varied from country to country, in general, Covid-19 impacted trading most severely in each of the three Sectors through April to June 2020. In the final quarter of the year all businesses were in recovery and focusing on future growth. Despite the challenges from the pandemic the Group still generated strong profit and free cash flows in each month. The Group generated free cash flows for the year of £72.5m which was up 28% 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
IFRS 16 (leases) was adopted by the Group with effect from 1 October 2019 using the modified retrospective approach and the comparatives for the year ended 30 September 2019 have not been restated.

IFRS 16, which replaced IAS 17, prescribes a single lessee accounting model that requires the recognition of an asset (leases – right-of-use of asset) and a corresponding liability for all operating leases with terms over 12 months. The liability is measured as the present value of future lease payments for the lease term; depreciation of the assets and interest on the corresponding lease liabilities is recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is presented in the financing section as a lease repayment.

Further detail in respect of IFRS 16 and the impact from adopting IFRS 16 is set out in note 14 and note 24 to the consolidated financial statements, respectively.

IFRIC 23 (Uncertainty over Income Tax Treatments) was adopted by the Group with effect from 1 October 2019 and clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over the income tax treatments. Adoption of this standard did not have a material impact on the Group.

Group Accounting Policies continued
For the year ended 30 September 2020

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 have been classified as discontinued businesses. There were no discontinued operations in either the current or prior year.

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

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.

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.

Group Accounting Policies continued
For the year ended 30 September 2020

1.11 Impairment of tangible and intangible assets
An impairment loss is recognised to the extent that the carrying amount of an asset or a CGU exceeds its recoverable amount.

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

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

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

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

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

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

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

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

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

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

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

e) Derivative financial instruments and hedge accounting
The Group holds derivative financial instruments in the form of forward foreign exchange contracts to hedge its foreign currency exposure. 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 investment held by the Group comprises 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 ending September 2021 will have a material effect on its financial statements.

1.21 Accounting estimates and judgements
The preparation of the Group's consolidated financial statements does not require management to make any 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.

Management however are 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:

1.21.1 Goodwill impairment (judgement)
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.

1.21.2 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.

1.21.3 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 2020 are set out in note 27 to the consolidated financial statements.

Parent Company Statement of Financial Position
As at 30 September 2020

	Note	2020 £m	2019 £m
Fixed assets			
Investments	d	**264.8**	78.8
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(19.5)**	(27.6)
Total assets less current liabilities and net asset		**245.3**	51.2
Capital and reserves			
Called up share capital	e	**6.3**	5.7
Share premium		**188.6**	–
Profit and loss account[1]		**50.4**	45.5
Total shareholders' equity		**245.3**	51.2

1 Includes profit after tax for the year of £29.5m (2019: £22.2m).

The financial statements of Diploma PLC and the notes on page 103, which form part of these financial statements, company number 3899848, were approved by the Board of Directors on 16 November 2020 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 2020

	Note	Share capital £m	Share premium £m	Retained earnings £m	Total shareholders' equity £m
At 1 October 2018		5.7	–	51.9	57.6
Total Comprehensive Income	a	–	–	22.2	22.2
Dividends paid		–	–	(29.8)	(29.8)
Settlement of LTIP awards	e	–	–	1.2	1.2
At 30 September 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		–	–	(23.2)	**(23.2)**
Settlement of LTIP awards	e	–	–	(1.4)	**(1.4)**
At 30 September 2020		**6.3**	**188.6**	**50.4**	**245.3**

Notes to the Parent Company Financial Statements

For the year ended 30 September 2020

a) Accounting policies

a.1) Basis of accounting

The Parent Company Financial Statements ("the Financial Statements") have been prepared 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 million pounds (£m) except when otherwise indicated. The parent company is limited by shares.

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) Auditor's remuneration

Fees payable to the auditor for the audit of the Company's financial statements of £3,500 (2019: £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 62 to 66. The Company had no employees (2019: 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 £29.5m (2019: profit of £22.2m), before settlement of LTIP awards.

d) Investments

	2020 £m	2019 £m
Shares in Group undertakings held at cost		
At 30 September	**264.8**	78.8

A full list of subsidiary and other related undertakings is set out on page 110. Investments in subsidiaries are reviewed annually to see if there are any indicators of impairment. There were none.

e) Called up share capital

	2020 Number	2019 Number	**2020 £m**	2019 £m
Allotted, issued and fully paid ordinary shares of 5p each				
At 30 September	**124,563,515**	113,239,555	**6.3**	5.7

The Company issued 11,323,960 ordinary shares in September 2020. The placing was executed at a share price of 1,711p. The net proceeds after fees were £189.2m.

During the year 33,314 ordinary shares in the Company (2019: 148,501) 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. The Trust also purchased 100,000 ordinary shares in the Company for £1.8m (2019: £1.2m) during the year. At 30 September 2020, the Trust held 118,553 (2019: 51,867) ordinary shares in the Company representing 0.1% of the called up share capital. The market value of the shares at 30 September 2020 was £2.6m (2019: £0.9m).

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 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 2020; the Consolidated Income Statement and 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.

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

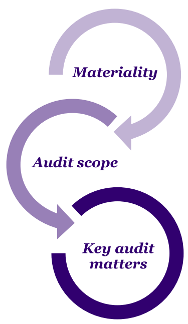
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 to the group or the parent company.

Other than those disclosed in note 29 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 October 2019 to 30 September 2020.

Our audit approach

Overview



- Overall group materiality: £3.8 million (2019: £4.2 million), based on approximately 5% of 3 year average profit before tax.
- Overall parent company materiality: £2.6 million (2019: £0.8 million), based on 1% of total assets.

- We conducted audit work over 22 reporting components across seven countries in which the group has significant operations.
- The reporting components where we performed an audit of their complete financial information accounted for 79% of group revenue and 77% of group profit before tax.
- The group engagement team performed the audit work on six of the reporting components and the audit of the parent company.
- The group engagement team attended audit clearance meetings, met with local management, and discussed the audit approach and audit findings with all reporting component teams via video conference.
- We maintained regular contact with local teams and evaluated the outcome of their work.

- Provision for impairment of inventories (group)
- Covid-19 (parent company and group)

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to corporate tax and we have 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 preparation of 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 posting inappropriate journal entries to improve the group's performance, and management bias in accounting estimates. 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:

- enquiries 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;
- challenging assumptions and judgements made by management in their critical accounting estimates, in particular relating to provisions for impairment of inventories (see related key audit matter below);
- review of selected component auditors' work; and
- identifying and testing journal entries, including those posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories (group) Refer to page 101 (Accounting estimates and judgements – Inventory provisions) and note 16 (Inventories). The group holds significant levels of inventory with total inventory, at 30 September 2020, of £100.6m (2019: £102.6m) which is recorded net of a provision of £10.6m (2019: £9.3m). There is a risk associated with the valuation of the inventory provision for slow moving and/or obsolete stock within the Controls businesses due to the sectors in which the Controls businesses operate. Determining the quantum of these provisions for impairment requires management estimation based on the level of stock, its ageing profile and its future demand. There is also a risk that management are using the inventory provision to create variability in the Consolidated Income Statement, resulting in a manipulation of the results in the financial year.	Our audit procedures included understanding and evaluating the controls and systems related to the inventory provision process, together with substantive audit procedures. The substantive audit procedures performed for each individual Controls business reporting component varied depending on the nature of the trading business and the inventory provision methodology. The audit procedures included the following: • We evaluated the appropriateness of methodologies used in the Control businesses inventory provisions. • We obtained management's inventory provision and tested the mathematical accuracy of the provision based upon the provision methodology in place for that component. • We tested, where applicable and on a sample basis, the accuracy of the inputs into the inventory provision calculations. • We tested key assumptions and considered the historical accuracy of inventory provisions. Based on the procedures, we are satisfied with the valuation of the provision for impairment of inventory in the Controls businesses.

Independent Auditors' Report to the Members of Diploma PLC continued

Key audit matter	How our audit addressed the key audit matter
Covid-19 (parent company and group) The Covid-19 pandemic has had a significant impact on economies globally with consequences to the judgements and estimates made by the group. The extent of the negative impact of the pandemic on future performance is unclear and measurement of this as it relates to the financial statements involves a degree of estimation uncertainty. In response, management has assessed the completeness of accounting considerations across the group and determined that the primary risk that arose from the Covid-19 pandemic related to the provision for impairment of inventories in the Controls businesses, which is further discussed in the above key audit matter. The other area of potential risk in the financial statements was the recoverability of accounts receivable balances. Management has considered its short-term and medium-term forecasts as part of the parent company's and group's going concern statements and the group's viability assessment, including the impact of reduced revenues and adjusted operating margins due to Covid-19. This includes applying stress tests to reflect the potential for heightened financial risk stemming from the ongoing effects of the pandemic by modelling possible downside scenarios to its base case model. Having considered these scenarios, together with an assessment of planned and possible mitigating actions, management has concluded that the group and parent company are going concerns, and that there is no material uncertainty in respect of these conclusions. Management has included its going concern statements on pages 97 and 103 and described its group viability assessment on page 28 of the Annual Report.	Our procedures in respect of the provision for impairment of inventories are set out in the key audit matter above. We evaluated management's assessment of other accounting estimates within the financial statements which could be impacted by the challenging economic environment resulting from Covid-19. This includes management's assessment of expected credit losses for accounts receivable. We satisfied ourselves that management's measurement of such estimates was acceptable. We also considered the appropriateness of management's disclosures in the Annual Report of the impact of the current environment and the increased uncertainty on its accounting estimates and found these to be adequate. With respect to management's going concern statements and viability assessment, we evaluated management's base case and downside scenarios, challenging its key assumptions together with assessing the group's available facilities. Our conclusions in respect of going concern, and our consideration of the directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group, are set out separately in this report. We considered whether changes to working practices brought about by Covid-19 had had an adverse impact on the effectiveness of management's business process and IT controls. We did not identify any evidence of significant deterioration in the control environment.

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 22 financial reporting components across seven countries for which we determined that full scope audits would need to be performed. This collectively gave us coverage of 79% of the group's revenue and 77% of the group's profit before tax. This, together with the additional procedures performed at the group level, gave 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 seven component teams. The group engagement team attended audit clearance meetings, met with local management, and discussed the audit approach and audit findings with all reporting component teams via video conference. Our attendance at the clearance meetings, review of discussion of the audit results at 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, goodwill and investment impairment review, pensions, and certain tax procedures. The group engagement team also performed the audit of the parent company and six 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
Overall materiality	£3.8 million (2019: £4.2 million).	£2.6 million (2019: £0.8 million).
How we determined it	Approximately 5% of 3 year average profit before tax (2019: 5% of profit before tax).	1% of total assets (2019: 1% of total assets).
Rationale for benchmark applied	We consider profit before tax to be an appropriate measure for a listed group and one of the key measures used by the shareholders in assessing the performance of the group. In the current year, due to the volatility caused in the results by Covid-19, a 3 year average of the profit before tax has been used as a benchmark as this provides a more normalised threshold for determining materiality.	We consider that total assets is the primary 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 £0.2 million and £2.7 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £190,000 (group audit) (2019: £210,000) and £130,000 (parent company audit) (2019: £38,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to 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, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent Auditors' Report to the Members of Diploma PLC continued

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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. (CA06)

Corporate Governance Statement
In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 27 and 38 to 45) about internal controls and risk management systems in relation to financial reporting processes in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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 this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 27 and 38 to 45) with respect to the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the parent company. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group
We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 28 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 71, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on pages 47 and 48 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- 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.

Directors' Remuneration
In our opinion, the part of the directors' Remuneration Committee Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received 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 directors' 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 3 years, covering the years ended 30 September 2018 to 30 September 2020.

Christopher Burns (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 November 2020

Subsidiaries of Diploma PLC

	Registered office address*
Seals	
HB Sealing Products Inc.	D
HKX Inc.	E
RTD Seals Corp.	C
VSP Technologies, Inc.	C
HB Sealing Products Limited	W
M Seals A/S[3]	S
M Seals AB[3]	T
M Seals UK Limited[2]	A
EDCO Seal and Supply Limited[2]	A
Diploma (Tianjin) Trading Co. Limited	AB
FPE Seals Limited	A
DMR Seals (Holdings) Limited[2]	A
DMR Gaskets Limited[2]	A
DMR Seals Limited[2]	A
A.B. Seals Limited[1]	A
Swan Seals (Aberdeen) Limited[1]	A
FPE Seals BV	P
Kentek Oy[3]	K
ZAO Kentek[3]	O
Kentek Eesti Ou[3]	L
SIA Kentek Latvija[3]	M
UAB Kentek Lietuva[3]	N
Kubo Tech AG	Q
Kubo Tech GmbH	R
PumpNSeal Australia Pty Limited	X
TotalSeal Group Australia Pty Limited	Y
TotalSeal New Caledonia SAS	AA
Controls	
IS-Rayfast Limited	A
IS-Motorsport, Inc.	C
Amfast Limited[1]	A
Clarendon Specialty Fasteners Limited	A
Clarendon Specialty Fasteners, Inc.	B
Clarendon Engineering Supplies Limited[1]	A
Cabletec Interconnect Component Systems Limited[1]	A
CR Systems Components GmbH	AE
Sommer GmbH	H
Filcon Electronic GmbH	I
Actios SAS	U
Deem Electronic & Electric Material Co. Limited[4]	AD
Gremtek SAS	U
Gremco UK Limited[2]	A
Gremtek GmbH[1]	J
Ascome SARL	U
Cablecraft Limited	A
Birch Valley Plastics Limited[1]	A
Krempfast Limited[2]	A
Betaduct Limited[1]	A
Hawco Limited	A
Abbeychart Limited[1]	A
HA Wainwright Limited[1]	A
Hawco Refrigeration Limited[1]	A
Hawco, Inc.	C
Microtherm UK Limited[1]	A
IS Group (Europe) Limited[1]	A
Specialty Fasteners Limited[1]	A
Specialty Fasteners & Components Limited[1]	A
FSC UK Limited[1]	A
FS Cables limited	A
FSC Global Limited[2]	A
Caplink Limited[1]	A
Shoal Group Limited	A

	Registered office address*
Life Sciences	
Somagen Diagnostics Inc.	F
AMT Electrosurgery Inc.	V
Vantage Endoscopy Inc.	V
Big Green Surgical Company Pty Limited	X
Diagnostic Solutions Pty Limited	X
Sphere Surgical Pty Limited	X
Aspire Surgical Pty Limited	X
Diploma Healthcare Group NZ Limited	Z
Techno-Path (Distribution) Limited	AC
Abacus dx Pty Limited	X
Abacus dx Limited	Z
A1-CBISS Limited	A
a1-envirosciences GmbH	G
a1-Envirosciences Limited[1]	A
Hitek Limited[1]	A
Hitek Group Limited[1]	A
Intermediate holding companies	
Diploma Holdings PLC	A
Diploma Holdings Inc.	C
Pride Limited	A
Diploma Australia Holdings Limited	A
Diploma Canada Holdings Limited	A
Diploma Overseas Limited	A
Napier Group Limited	A
Williamson, Cliff Limited[2]	A
Newlandglebe Limited[2]	A
Diploma Holding Germany GmbH	H
Diploma Canada Healthcare Inc.	F
Diploma Australia Healthcare Pty Limited	X
Diploma Australia Seals Pty Limited	X

1 Dormant company.
2 These subsidiaries, which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act.
3 These subsidiaries are 90% owned, all other subsidiaries are wholly owned, with the exception of Deem Electronic & Electric Material Co Ltd (see note 4 below).
4 This subsidiary is 70% owned.

All subsidiaries are owned through ordinary shares.

* Registered office address
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 Mebeljyj, 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 Industrivagen 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 N°25-15A Yao Bei Road, Yao Jia Industrial Zone, Ganjingzi District, Dalian, China.
AE Kriegackerstrasse 32, 72469 Messtetten, Germany.

Financial Calendar and Shareholder Information

Announcements (provisional dates)

First Quarter Statement released	20 January 2021
Annual General Meeting (2020)	20 January 2021
Second Quarter Statement released	24 March 2021
Half Year Results announced	17 May 2021
Third Quarter Statement released	26 August 2021
Preliminary Results announced	22 November 2021
Annual Report posted to shareholders	10 December 2021
Annual General Meeting (2021)	19 January 2022

Dividends (provisional dates)

Interim announced	17 May 2021
Paid	9 June 2021
Final announced	22 November 2021
Paid (if approved)	26 January 2022

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

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

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	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	**538.4**	544.7	485.1	451.9	382.6
Adjusted operating profit	**87.1**	97.2	84.9	78.2	65.7
Finance expense, net	**(2.7)**	(0.7)	(0.1)	(0.7)	(0.8)
Adjusted profit before tax	**84.4**	96.5	84.8	77.5	64.9
Acquisition related charges[1]	**(17.3)**	(13.1)	(9.6)	(9.7)	(10.3)
CEO transition costs	**–**	–	(2.1)	–	0.7
Fair value remeasurements	**(0.4)**	0.1	(0.4)	(1.0)	(1.3)
Profit before tax	**66.7**	83.5	72.7	66.8	54.0
Tax expense	**(16.9)**	(21.1)	(18.3)	(18.6)	(14.9)
Profit for the year	**49.8**	62.4	54.4	48.2	39.1
Capital structure					
Equity shareholders' funds	**527.0**	321.3	291.2	262.0	233.5
Minority interest	**3.7**	3.3	3.1	4.8	4.3
Add/(deduct): cash and cash equivalents	**(206.8)**	(27.0)	(36.0)	(22.3)	(20.6)
borrowings	**–**	42.1	–	–	10.0
retirement benefit obligations	**18.3**	17.8	10.5	9.9	17.2
acquisition related liabilities[2]	**11.5**	11.3	5.6	6.6	6.8
deferred tax, net	**7.9**	8.3	8.4	8.2	7.4
Reported trading capital employed	**361.6**	377.1	282.8	269.2	258.6
Add: historic goodwill and acquisition related charges, net of deferred tax	**99.4**	84.3	74.6	66.3	59.2
Adjusted trading capital employed	**461.0**	461.4	357.4	335.5	317.8
Net (decrease)/increase in net (debt)/funds	**224.0**	(51.9)	13.1	11.9	4.9
Add: dividends paid	**23.4**	30.1	27.0	23.7	21.4
acquisition of businesses (including minority interests)	**14.9**	78.3	20.4	20.1	32.7
proceeds from issue of share capital (net of fees)	**(189.8)**	–	–	–	–
Free cash flow[3]	**72.5**	56.5	60.5	55.7	59.0
Per ordinary share (p)					
Basic earnings	**43.5**	54.7	47.5	42.0	33.9
Adjusted earnings[4]	**56.4**	64.3	56.4	49.8	41.9
Free cash flow[3]	**64.0**	49.9	53.5	49.3	52.2
Dividends	**30.0**	29.0	25.5	23.0	20.0
Total shareholders' equity[5]	**423**	284	257	232	206
Dividend cover[6]	**1.9**	2.2	2.2	2.2	2.1
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")[7]	**19.1**	22.9	24.5	24.0	21.1
Working capital: revenue	**16.0**	16.5	15.1	15.0	16.6
Adjusted operating margin	**16.2**	17.8	17.5	17.3	17.2

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 financials 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.

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