DIRECTORS' REPORT

This section contains 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 36 and 37.

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 113,239,555 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 and an indication of future developments is set out on pages 4 to 35; the Strategic Report on pages 1 to 35 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, 16 January 2019 in the Brewers Hall, Aldermanbury Square, London EC2V 7HR. 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 16 November 2018, the Company had been notified of the following interests amounting to 3% or more of the voting rights in its ordinary share capital:

	Percentage of ordinary share capital
Standard Life Aberdeen plc	8.01
Mondrian Investment Partners Ltd	7.26
Mawer Investment Management Ltd	6.49
Royal London Group	5.44
Blackrock, Inc	3.30
Fidelity Management & Research Co	3.16
Norges Bank Investment Management	3.03

As far as the Directors are aware, there were no other interests above 3% of the issued ordinary share capital.

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, copies of which can be obtained from the Group Company Secretary and are available on the Company's website.

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. The Company's Articles of Association may be amended by special resolution of the Company's shareholders.

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) to be transferred and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; (iii) in favour of a person who is not a minor, infant, bankrupt or a person of unsound mind; or (iv) in favour of not more than four persons jointly.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertified share in accordance with the regulations governing the operation of CREST.

Participants in the Company's Performance Share Plan ("the PSP"), who have yet to meet shareholding guidelines, have vested PSP shares held in trust until the earlier occurrence of them meeting their required shareholder guideline or for a period of two years, during which period these shares cannot be transferred to them. There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certified shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

Shares held by the Diploma PLC Employee Benefit Trust

While ordinary shares are held within the Diploma PLC Employee Benefit Trust, the voting rights in respect of those shares are exercisable by the Trustees in accordance with their fiduciary duties. The Trustees of the Diploma PLC Employee Benefit Trust also waive dividends on all shares held for the purposes of the Company's long term incentive arrangements.

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro-rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 17 January 2018. In the year ended 30 September 2018, the Company has not allotted any shares. These powers will expire at the conclusion of the 2019 AGM and resolutions to renew the Directors' powers are therefore included within the Notice of the AGM in 2019.

Authority to make market purchases of own shares

An authority to make market purchases of shares was given to the Directors by a special resolution at the AGM of the Company held on 17 January 2018. In the year to 30 September 2018 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2019 AGM and a resolution to renew the authority is therefore included within the Notice of the AGM in 2019.

Disclosures required under Listing Rule 9.8.4R

There is no information to be disclosed by the Company in respect of Listing Rule 9.8.4R, except for:

- Long Term Incentive Plan (details of the LTIP awarded to Richard Ingram on 15 May 2018 in connection with his appointment as Chief Executive Officer is set out on page 56 of the Remuneration Committee Report. This award lapsed on 28 August 2018 when Richard Ingram stood down as Chief Executive Officer and left the Company; and
- The Employee Benefit Trust has waived dividends on all shares held.

FINANCIAL

Results and dividends

The profit for the financial year attributable to shareholders was £53.8m (2017: £47.5m). The Directors recommend a final dividend of 17.8p per ordinary share (2017: 16.0p), to be paid, if approved, on 23 January 2019. This, together with the interim dividend of 7.7p (2017: 7.0p) per ordinary share paid on 13 June 2018 amounts to 25.5p for the year (2017: 23.0p).

The results are shown more fully in the consolidated financial statements on pages 66 to 93 and summarised in the Finance Review on pages 26 to 29.

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 re-appoint PwC will be proposed at the Annual General Meeting to be held on 16 January 2019.

Directors' assessment of going concern

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 35. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 26 to 29. In addition, pages 79 to 81 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group 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 30 to 33.

The Group also has a committed multi-currency revolving bank facility of £30.0m with an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m. This facility expires on 31 May 2020, with an option to extend the facility to 31 May 2022. At 30 September 2018, the Group had cash funds of £36.0m and had no borrowings.

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

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 FRS101 ("Reduced Disclosures Framework").

The Group financial statements are required by law and IFRS as adopted by the EU, to present fairly the financial position and the performance of the Group; the Act provides in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view, are references to their achieving a fair presentation.

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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Act. 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 maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the Group's consolidated financial statements, prepared in accordance with IFRS as adopted by the EU and the Parent Company financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Parent Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report & Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group; 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 responsibility statement was approved by the Board of Directors on 19 November 2018 and is signed on its behalf by:

NP Lingwood
Group Finance Director

JE Nicholas
Chairman

Registered office:
12 Charterhouse Square
London
EC1M 6AX

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	2018 £m	2017 £m
Revenue	3,4	**485.1**	451.9
Cost of sales		**(312.2)**	(290.8)
Gross profit		**172.9**	161.1
Distribution costs		**(10.8)**	(10.6)
Administration costs		**(88.9)**	(82.0)
Operating profit	3	**73.2**	68.5
Financial expense, net	6	**(0.5)**	(1.7)
Profit before tax		**72.7**	66.8
Tax expense	7	**(18.3)**	(18.6)
Profit for the year		**54.4**	48.2
Attributable to:			
Shareholders of the Company		**53.8**	47.5
Minority interests	21	**0.6**	0.7
		54.4	48.2
Earnings per share			
Basic and diluted earnings	9	**47.5p**	42.0p

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)

	Note	2018 £m	2017 £m
Operating profit		**73.2**	68.5
Add: Acquisition related charges	11	**9.6**	9.7
Add: CEO transition costs	28	**2.1**	–
Adjusted operating profit	3,4	**84.9**	78.2
Deduct: Interest expense	6	**(0.1)**	(0.7)
Adjusted profit before tax		**84.8**	77.5
Adjusted earnings per share	9	**56.4p**	49.8p

The notes on pages 70 to 93 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	2018 £m	2017 £m
Profit for the year		**54.4**	48.2
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial (losses)/gains in the defined benefit pension schemes	25	**(1.0)**	7.1
Deferred tax on items that will not be reclassified	7,14	**0.2**	(1.3)
		(0.8)	5.8
Items that may be reclassified to Consolidated Income Statement			
Exchange rate gains/(losses) on foreign currency net investments		**0.1**	(0.8)
Gains/(losses) on fair value of cash flow hedges	19	**0.7**	(1.0)
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	**0.9**	(0.2)
Deferred tax on items that may be reclassified	7,14	**(0.4)**	0.3
		1.3	(1.7)
Total Comprehensive Income for the year		**54.9**	52.3
Attributable to:			
Shareholders of the Company		**54.2**	51.6
Minority interests		**0.7**	0.7
		54.9	52.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 2016		5.7	30.5	0.2	197.1	**233.5**	4.3	**237.8**
Total Comprehensive Income		–	(0.8)	(0.9)	53.3	**51.6**	0.7	**52.3**
Share-based payments	5	–	–	–	0.8	**0.8**	–	**0.8**
Tax on items recognised directly in equity	7	–	–	–	0.3	**0.3**	–	**0.3**
Notional purchase of own shares		–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Dividends	8,21	–	–	–	(23.5)	**(23.5)**	(0.2)	**(23.7)**
At 30 September 2017		5.7	29.7	(0.7)	227.3	**262.0**	4.8	**266.8**
Total Comprehensive Income		–	0.1	1.2	52.9	**54.2**	0.7	**54.9**
Share-based payments	5	–	–	–	1.0	**1.0**	–	**1.0**
Minority interests acquired	21	–	–	–	2.5	**2.5**	(2.5)	**–**
Minority interest contribution	21	–	–	–	–	**–**	0.3	**0.3**
Tax on items recognised directly in equity	7	–	–	–	0.5	**0.5**	–	**0.5**
Notional purchase of own shares		–	–	–	(2.2)	**(2.2)**	–	**(2.2)**
Dividends	8,21	–	–	–	(26.8)	**(26.8)**	(0.2)	**(27.0)**
At 30 September 2018		**5.7**	**29.8**	**0.5**	**255.2**	**291.2**	**3.1**	**294.3**

The notes on pages 70 to 93 form part of these consolidated financial statements.

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	10	**128.5**	122.8
Acquisition intangible assets	11	**53.6**	54.0
Other intangible assets	11	**1.8**	0.7
Investment	12	**0.7**	0.7
Property, plant and equipment	13	**23.0**	22.6
Deferred tax assets	14	**0.3**	0.2
		207.9	201.0
Current assets			
Inventories	15	**82.9**	73.2
Trade and other receivables	16	**77.6**	68.9
Cash and cash equivalents	18	**36.0**	22.3
		196.5	164.4
Current liabilities			
Trade and other payables	17	**(80.5)**	(69.7)
Current tax liabilities	7	**(4.8)**	(4.0)
Other liabilities	20	**(5.6)**	(2.5)
		(90.9)	(76.2)
Net current assets		**105.6**	88.2
Total assets less current liabilities		**313.5**	289.2
Non-current liabilities			
Retirement benefit obligations	25	**(10.5)**	(9.9)
Other liabilities	20	**–**	(4.1)
Deferred tax liabilities	14	**(8.7)**	(8.4)
Net assets		**294.3**	266.8
Equity			
Share capital		**5.7**	5.7
Translation reserve		**29.8**	29.7
Hedging reserve		**0.5**	(0.7)
Retained earnings		**255.2**	227.3
Total shareholders' equity		**291.2**	262.0
Minority interests	21	**3.1**	4.8
Total equity		**294.3**	266.8

The consolidated financial statements were approved by the Board of Directors on 19 November 2018 and signed on its behalf by:

NP Lingwood
Group Finance Director

JE Nicholas
Chairman

The notes on pages 70 to 93 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	2018 £m	2017 £m
Operating profit		**73.2**	68.5
Acquisition related charges	23	**9.6**	9.7
CEO transition costs, unpaid	23,28	**1.3**	–
Non-cash items	23	**5.3**	5.1
Increase in working capital	23	**(5.1)**	(4.0)
Cash flow from operating activities	23	**84.3**	79.3
Interest paid, net		**–**	(0.4)
Tax paid		**(19.0)**	(19.3)
Net cash from operating activities		**65.3**	59.6
Cash flow from investing activities			
Acquisition of businesses (including expenses, net of cash acquired)	22	**(18.1)**	(19.5)
Deferred consideration paid	20	**(0.3)**	(0.6)
Proceeds from sale of business (net of expenses)	22	**4.0**	–
Purchase of property, plant and equipment	13	**(5.3)**	(3.1)
Purchase of other intangible assets	11	**(1.3)**	(0.2)
Proceeds from sale of property, plant and equipment		**–**	0.1
Net cash used in investing activities		**(21.0)**	(23.3)
Cash flow from financing activities			
Acquisition of minority interests	20	**(2.0)**	–
Dividends paid to shareholders	8	**(26.8)**	(23.5)
Dividends paid to minority interests	21	**(0.2)**	(0.2)
Purchase of own shares by Employee Benefit Trust		**(1.2)**	–
Notional purchase of own shares on exercise of share options		**(1.0)**	(0.7)
Repayment of borrowings, net	24	**–**	(10.0)
Net cash used in financing activities		**(31.2)**	(34.4)
Net increase in cash and cash equivalents		**13.1**	1.9
Cash and cash equivalents at beginning of year		**22.3**	20.6
Effect of exchange rates on cash and cash equivalents		**0.6**	(0.2)
Cash and cash equivalents at end of year	18	**36.0**	22.3

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)

	Note	2018 £m	2017 £m
Net increase in cash and cash equivalents		**13.1**	1.9
Add: Dividends paid to shareholders	8	**26.8**	23.5
Dividends paid to minority interests	21	**0.2**	0.2
Acquisition of businesses (including expenses, net of cash acquired)	22	**18.1**	19.5
Acquisition of minority interests	20	**2.0**	–
Deferred consideration paid	20	**0.3**	0.6
Repayment of borrowings, net	24	**–**	10.0
Free cash flow		**60.5**	55.7
Cash funds	24	**36.0**	22.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

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 19 November 2018. 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 ("IFRSs"), 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 FRS101 "Reduced Disclosure Framework" and are set out in a separate section of the Annual Report & Accounts on pages 94 and 95.

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 in order to assess the operational performance of the Group on a comparable basis, and 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, adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of a material restructuring (including the incremental cost related directly to the change of the Chief Executive Officer in 2018) or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the operational performance of the Group.

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 under IAS39 in respect of future purchases of minority interests) 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 earning 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 fixed assets and including proceeds received from business disposals, but before expenditure on business combinations/investments 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 and after adding back: borrowings; 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 major 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 IFRS8 is the Chief Executive Officer (or interim Executive Chairman). The financial performance of the 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 form the basis of the primary reporting format disclosures below. The principal activities of each of these Sectors is described in the Strategic Report on pages 1 to 25 (unaudited). 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, 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	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Revenue – existing	134.7	125.9	208.0	195.3	137.3	130.7	480.0	451.9
Revenue – acquisitions	–		–		5.1		5.1	
Revenue	134.7	125.9	208.0	195.3	142.4	130.7	485.1	451.9
Adjusted operating profit – existing	23.9	23.3	36.0	31.9	24.6	23.0	84.5	78.2
Adjusted operating profit – acquisitions	–		–		0.4		0.4	
Adjusted operating profit	23.9	23.3	36.0	31.9	25.0	23.0	84.9	78.2
Acquisition related charges	(2.4)	(3.2)	(5.0)	(5.5)	(2.2)	(1.0)	(9.6)	(9.7)
CEO transition costs							(2.1)	–
Operating profit	21.5	20.1	31.0	26.4	22.8	22.0	73.2	68.5

	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Operating assets	43.5	42.2	80.1	74.6	59.3	48.1	182.9	164.9
Investment	–	–	0.7	0.7	–	–	0.7	0.7
Goodwill	59.0	59.5	40.3	39.9	29.2	23.4	128.5	122.8
Acquisition intangible assets	12.9	15.4	21.8	27.0	18.9	11.6	53.6	54.0
	115.4	117.1	142.9	142.2	107.4	83.1	365.7	342.4
Unallocated assets:								
– Deferred tax assets							0.3	0.2
– Cash and cash equivalents							36.0	22.3
– Corporate assets							2.4	0.5
Total assets	115.4	117.1	142.9	142.2	107.4	83.1	404.4	365.4
Operating liabilities	(21.6)	(21.3)	(32.2)	(26.6)	(25.5)	(21.1)	(79.3)	(69.0)
Unallocated liabilities:								
– Deferred tax liabilities							(8.7)	(8.4)
– Retirement benefit obligations							(10.5)	(9.9)
– Acquisition liabilities							(5.6)	(6.6)
– Corporate liabilities							(6.0)	(4.7)
Total liabilities	(21.6)	(21.3)	(32.2)	(26.6)	(25.5)	(21.1)	(110.1)	(98.6)
Net assets	93.8	95.8	110.7	115.6	81.9	62.0	294.3	266.8

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)

	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Net assets	93.8	95.8	110.7	115.6	81.9	62.0	294.3	266.8
Add/(deduct):								
– Deferred tax, net							8.4	8.2
– Retirement benefit obligations							10.5	9.9
– Acquisition liabilities							5.6	6.6
– Cash and cash equivalents							(36.0)	(22.3)
Reported trading capital employed							282.8	269.2
– Historic goodwill and acquisition related charges, net of deferred tax	31.4	28.8	33.0	28.1	10.2	9.4	74.6	66.3
Adjusted trading capital employed	125.2	124.6	143.7	143.7	92.1	71.4	357.4	335.5
Pro-forma adjusted operating profit[1]	23.9	24.6	36.3	32.8	27.4	23.0	87.6	80.4
ROATCE	19.1%	19.7%	25.3%	22.8%	29.8%	32.2%	24.5%	24.0%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

3. BUSINESS SECTOR ANALYSIS CONTINUED

Other Sector information

	Life Sciences		Seals		Controls		Group	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Capital expenditure	**3.5**	2.0	**2.0**	1.1	**1.1**	0.2	**6.6**	3.3
Depreciation and amortisation	**2.4**	2.2	**1.8**	1.9	**0.6**	0.6	**4.8**	4.7

4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
United Kingdom	**130.2**	118.4	**23.5**	20.6	**54.1**	42.3	**79.2**	60.1	**0.6**	0.3
Rest of Europe	**115.2**	112.8	**17.6**	17.2	**57.0**	58.6	**76.9**	76.9	**1.5**	0.6
North America	**202.3**	188.3	**39.5**	36.3	**70.5**	70.9	**97.1**	99.9	**4.0**	1.9
Rest of World	**37.4**	32.4	**4.3**	4.1	**25.3**	28.3	**29.6**	32.3	**0.5**	0.5
	485.1	451.9	**84.9**	78.2	**206.9**	200.1	**282.8**	269.2	**6.6**	3.3

1 Non-current assets exclude investments and deferred tax assets.

5. GROUP EMPLOYEE COSTS

Average number of employees

	2018	2017
Life Sciences	**420**	382
Seals	**857**	830
Controls	**471**	430
Corporate	**17**	16
Number of employees – average	**1,765**	1,658
Number of employees – year end	**1,803**	1,728

Group employee costs, including key management

	2018 £m	2017 £m
Wages and salaries	**81.2**	75.7
Social security costs	**7.4**	7.1
Pension costs	**3.1**	2.8
Share-based payments	**1.0**	0.8
	92.7	86.4

Key management short term remuneration, including Directors

	2018 £m	2017 £m
Salaries and short term employee benefits	**3.6**	3.2
Pension costs	**0.3**	0.3
Share-based payments	**1.0**	0.8
	4.9	4.3

The Group considers key management personnel as defined in IAS24 "Related Party Disclosures" to be the Directors of the Company and the members of the Executive Management Committee ("EMC") as set out on pages 36 and 37.

The Executive Directors' remuneration and their interests in shares of the Company are given on pages 56 to 62 in the Remuneration Committee Report. The EMC's interests in the Group's LTIP is set out on page 63. The charge for share-based payments of £1.0m (2017: £0.8m) relates to the Group's LTIP, described in the Remuneration Committee Report.

Directors' short term remuneration

	2018 £m	2017 £m
Non-executive Directors	**0.3**	0.3
Executive Directors	**2.0**	1.9
	2.3	2.2

6. FINANCIAL EXPENSE, NET

	2018 £m	2017 £m
Interest (expense)/income and similar charges		
– bank facility and commitment fees	**(0.1)**	(0.3)
– interest income on bank deposits	**0.1**	–
– interest expense on bank borrowings	**–**	(0.1)
– notional interest expense on the defined benefit pension scheme (note 25b)	**(0.1)**	(0.3)
Net interest expense and similar charges	**(0.1)**	(0.7)
– fair value remeasurement of put options (note 20)	**(0.4)**	(1.0)
Financial expense, net	**(0.5)**	(1.7)

The fair value remeasurement of £0.4m (2017: £1.0m) comprises £0.2m (2017: £0.5m) that relates to the unwinding of the discount on the liability for future purchases of minority interests and a movement in the fair value of the put options of £0.2m debit (2017: £0.5m debit).

7. TAX EXPENSE

	2018 £m	2017 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**3.9**	3.7
Overseas tax	**16.1**	17.2
	20.0	20.9
Adjustments in respect of prior year:		
UK corporation tax	**–**	(0.5)
Overseas tax	**(0.1)**	0.2
Total current tax	**19.9**	20.6
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(0.4)**	(1.9)
Overseas	**(1.2)**	(0.1)
Total deferred tax	**(1.6)**	(2.0)
Total tax on profit for the year	**18.3**	18.6

In addition to the above credit for deferred tax included in the Consolidated Income Statement, a net deferred tax debit relating to the retirement benefit scheme and cash flow hedges of £0.2m was debited (2017: £1.0m debit) directly to the Consolidated Statement of Comprehensive Income. A further £0.5m of current tax (2017: £0.3m) was credited 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 £72.7m and the amount set out above is as follows:

	2018 £m	2017 £m
Profit before tax	**72.7**	66.8
Tax on profit at UK effective corporation tax rate of 19.0% (2017: 19.5%)	**13.8**	13.0
Effects of:		
– higher tax rates on overseas earnings	**4.0**	5.3
– adjustments to current tax charge in respect of previous years	**(0.1)**	(0.3)
– other permanent differences	**0.6**	0.6
Total tax on profit for the year	**18.3**	18.6

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 20.0% to 19.0% on 1 April 2017. As the Group prepares its consolidated financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2018 was 19.0% (2017: 19.5%) and this rate has been used for tax on profit in the above reconciliation.

The reduction in the effective rate of taxation reflects the impact from the reduction in the US Federal corporate income tax rate to 21% from 35%, effective from 1 January 2018. There was no material impact from the revaluation of US deferred tax balances at the reduced tax rate. The Group's US businesses account for ca. 26% of Group revenues and adjusted operating profit before tax.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

7. TAX EXPENSE CONTINUED

The UK deferred tax assets and liabilities at 30 September 2018 have been calculated based on the future UK corporation tax rate of 17.0%, as substantively enacted at 30 September 2018.

At 30 September 2018, the Group had outstanding tax liabilities of £4.8m (2017: £4.0m) of which £2.1m related to UK tax liabilities and £2.7m related to overseas tax liabilities. These amounts are expected to be paid within the next financial year.

8. DIVIDENDS

	2018 pence per share	2017 pence per share	**2018 £m**	2017 £m
Interim dividend, paid in June	**7.7**	7.0	**8.7**	7.9
Final dividend of the prior year, paid in January	**16.0**	13.8	**18.1**	15.6
	23.7	20.8	**26.8**	23.5

The Directors have proposed a final dividend in respect of the current year of 17.8p per share (2017: 16.0p), which will be paid on 23 January 2019, subject to approval of shareholders at the Annual General Meeting on 16 January 2019. The total dividend for the current year, subject to approval of the final dividend, will be 25.5p per share (2017: 23.0p).

The Diploma PLC Employee Benefit Trust holds 100,368 (2017: 92,898) 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 113,140,435 (2017: 113,133,341) and the profit for the year attributable to shareholders of £53.8m (2017: £47.5m). There are no potentially dilutive shares. Further description of the Company's share capital is set out in note e to the Parent Company Financial Statements on page 95.

Adjusted earnings per share

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

	2018 pence per share	2017 pence per share	**2018 £m**	2017 £m
Profit before tax			**72.7**	66.8
Tax expense			**(18.3)**	(18.6)
Minority interests			**(0.6)**	(0.7)
Earnings for the year attributable to shareholders of the Company	**47.5**	42.0	**53.8**	47.5
Acquisition related charges	**8.4**	8.6	**9.6**	9.7
Fair value remeasurement of put options	**0.4**	0.9	**0.4**	1.0
CEO transition costs	**1.8**	–	**2.1**	–
Tax effects on above adjustments	**(1.7)**	(1.7)	**(2.0)**	(1.9)
Adjusted earnings	**56.4**	49.8	**63.9**	56.3

10. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	**Total £m**
At 1 October 2016	52.8	39.1	23.3	115.2
Acquisitions	6.1	1.4	–	7.5
Exchange adjustments	0.6	(0.6)	0.1	0.1
At 30 September 2017	59.5	39.9	23.4	122.8
Acquisitions (note 22)	–	–	5.7	5.7
Exchange adjustments	(0.5)	0.4	0.1	–
At 30 September 2018	**59.0**	**40.3**	**29.2**	**128.5**

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 operating Sectors. This reflects 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 2018 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

10. GOODWILL CONTINUED

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca. 11% (2017: 12%). 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 more 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 2016	78.6	21.8	2.9	103.3	5.6
Additions	–	–	–	–	0.2
Acquisitions	2.3	7.8	–	10.1	–
Disposals	–	–	–	–	(0.1)
Exchange adjustments	(0.7)	–	(0.1)	(0.8)	(0.1)
At 30 September 2017	80.2	29.6	2.8	112.6	5.6
Additions	–	–	–	–	1.3
Acquisitions (note 22)	9.1	–	–	9.1	–
Disposals	–	–	–	–	(0.2)
Exchange adjustments	0.3	(0.1)	–	0.2	0.1
At 30 September 2018	**89.6**	**29.5**	**2.8**	**121.9**	**6.8**
Amortisation					
At 1 October 2016	33.3	12.9	2.5	48.7	4.6
Charge for the year	7.8	2.3	0.2	10.3	0.4
Disposals	–	–	–	–	(0.1)
Exchange adjustments	(0.4)	0.1	(0.1)	(0.4)	–
At 30 September 2017	40.7	15.3	2.6	58.6	4.9
Charge for the year	7.1	2.0	0.2	9.3	0.3
Disposals	–	–	–	–	(0.2)
Exchange adjustments	0.4	–	–	0.4	–
At 30 September 2018	**48.2**	**17.3**	**2.8**	**68.3**	**5.0**
Net book value					
At 30 September 2018	**41.4**	**12.2**	**–**	**53.6**	**1.8**
At 30 September 2017	39.5	14.3	0.2	54.0	0.7

Acquisition related charges are £9.6m (2017: £9.7m) and comprise £9.3m (2017: £10.3m) of amortisation of acquisition intangible assets, £0.5m of acquisition expenses (2017: £0.4m) and a credit of £0.2m relating to adjustments to deferred consideration (2017: £1.0m credit).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

12. INVESTMENT

	2018 £m	2017 £m
Investment	**0.7**	0.7

The Group holds a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal. The Group has no involvement in the day-to-day operations or management of JRPP. At 30 September 2018, there was no material difference between the book value of this investment and its fair value.

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 2016	15.0	3.6	19.3	9.4	47.3
Additions	0.2	0.1	1.2	1.6	3.1
Acquisitions of businesses	–	–	0.2	0.8	1.0
Disposals	(0.5)	–	(0.8)	(0.5)	(1.8)
Exchange adjustments	(0.2)	0.1	1.2	0.2	1.3
At 30 September 2017	14.5	3.8	21.1	11.5	50.9
Additions	1.0	0.8	1.2	2.3	5.3
Acquisitions of businesses (note 22)	–	–	–	–	–
Disposals[1]	–	(0.3)	(2.3)	(0.7)	(3.3)
Exchange adjustments	0.4	(0.2)	0.4	(0.2)	0.4
At 30 September 2018	**15.9**	**4.1**	**20.4**	**12.9**	**53.3**
Depreciation					
At 1 October 2016	3.9	1.5	12.7	5.5	23.6
Charge for the year	0.5	0.4	1.8	1.6	4.3
Disposals	–	–	(0.8)	(0.4)	(1.2)
Exchange adjustments	–	0.1	1.3	0.2	1.6
At 30 September 2017	4.4	2.0	15.0	6.9	28.3
Charge for the year	0.5	0.4	1.8	1.8	4.5
Disposals[1]	–	(0.2)	(2.2)	(0.4)	(2.8)
Exchange adjustments	0.3	(0.2)	0.3	(0.1)	0.3
At 30 September 2018	**5.2**	**2.0**	**14.9**	**8.2**	**30.3**
Net book value					
At 30 September 2018	**10.7**	**2.1**	**5.5**	**4.7**	**23.0**
At 30 September 2017	10.1	1.8	6.1	4.6	22.6

1 Includes £0.3m at net book value relating to the disposal of Bulldog (note 22).

Land included within freehold properties above, but which is not depreciated, is £3.4m (2017: £3.4m). Capital commitments contracted, but not provided, were £0.7m (2017: £1.1m) relating to the extension of the facility at IS-Sommer.

Freehold properties includes ca. 150 acres of land at Stamford ("the Stamford land") that comprises mostly farm land and former quarry land. In the Directors' opinion the current value of this land at 30 September 2018 is £1.0m (2017: £1.0m), with a book value of £Nil.

14. DEFERRED TAX

The movement on deferred tax is as follows:

	2018 £m	2017 £m
At 1 October	(8.2)	(7.4)
Credit for the year (note 7)	1.6	2.0
Acquisitions (note 22)	(1.6)	(2.0)
Accounted for in Other Comprehensive Income	(0.2)	(1.0)
Exchange adjustments	–	0.2
At 30 September	(8.4)	(8.2)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances on a net basis.

	Assets		Liabilities		Net	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Property, plant and equipment	0.6	0.5	(1.4)	(1.7)	(0.8)	(1.2)
Goodwill and intangible assets	–	–	(11.7)	(12.3)	(11.7)	(12.3)
Retirement benefit obligations	2.0	1.8	–	–	2.0	1.8
Inventories	1.5	1.8	(0.1)	(0.1)	1.4	1.7
Share-based payments	0.2	0.2	–	–	0.2	0.2
Trading losses	0.1	0.1	–	–	0.1	0.1
Other temporary differences	0.9	1.6	(0.5)	(0.1)	0.4	1.5
	5.3	6.0	(13.7)	(14.2)	(8.4)	(8.2)
Deferred tax offset	(5.0)	(5.8)	5.0	5.8	–	–
	0.3	0.2	(8.7)	(8.4)	(8.4)	(8.2)

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas withholding tax (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been recognised in respect of unremitted earnings from overseas businesses of £122.1m was £6.3m (2017: £5.5m).

15. INVENTORIES

	2018 £m	2017 £m
Finished goods	82.9	73.2

Inventories are stated net of impairment provisions of £8.7m (2017: £8.3m). During the year £1.5m (2017: £1.3m) was recognised as a charge against operating profit, comprising the write-down of inventories to net realisable value.

16. TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Trade receivables	71.5	64.2
Less: impairment provision	(0.7)	(0.8)
	70.8	63.4
Other receivables	3.5	2.3
Prepayments and accrued income	3.3	3.2
	77.6	68.9

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

	2018 £m	2017 £m
UK sterling	23.8	20.4
US dollars	16.0	13.9
Canadian dollars	10.2	10.2
Euro	12.3	10.3
Other	9.2	9.4
	71.5	64.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

16. TRADE AND OTHER RECEIVABLES CONTINUED

Trade receivables, before impairment provisions, are analysed as follows:

	2018 £m	2017 £m
Not past due	59.2	52.3
Past due, but not impaired	11.6	11.1
Past due, but impaired	0.7	0.8
	71.5	64.2

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

	2018 £m	2017 £m
Up to one month past due	9.8	9.2
Between one and two months past due	1.4	1.4
Between two and four months past due	0.4	0.5
Over four months past due	–	–
	11.6	11.1

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

	2018 £m	2017 £m
At 1 October	0.8	0.7
Charged against profit, net	(0.1)	0.1
Set up on acquisition	–	–
Utilised by write-off	–	–
At 30 September	0.7	0.8

17. TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade payables	48.3	42.5
Other payables	3.6	3.3
Other taxes and social security	4.9	4.6
Accruals and deferred income	23.7	19.3
	80.5	69.7

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

	2018 £m	2017 £m
UK sterling	11.2	10.7
US dollars	20.2	18.0
Canadian dollars	0.9	0.6
Euro	13.2	10.8
Other	2.8	2.4
	48.3	42.5

18. CASH AND CASH EQUIVALENTS

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2018 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2017 Total £m
Cash at bank	4.7	4.3	1.1	2.9	1.6	14.6	6.0	4.1	2.3	3.2	2.7	18.3
Short term deposits	16.0	4.1	1.0	–	0.3	21.4	3.0	0.2	0.5	–	0.3	4.0
	20.7	8.4	2.1	2.9	1.9	36.0	9.0	4.3	2.8	3.2	3.0	22.3

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

19. FINANCIAL INSTRUMENTS

The Group's overall management of the 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 33 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 provision for impairment 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. 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; there have been no other significant trade receivables written off in the past five years other than £0.2m written off in 2015.

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.

The Group's maximum exposure to credit risk was as follows:

	Carrying amount	
	2018 £m	2017 £m
Trade receivables	**70.8**	63.4
Other receivables	**3.5**	2.3
Cash and cash equivalents	**36.0**	22.3
	110.3	88.0

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 provision for impairment is set out in note 16. An analysis of cash and cash equivalents is set out in note 18.

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 are monitored regularly and during 2018 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, but the Group also maintains a committed revolving bank facility. This facility, which expires on 1 June 2020, is a committed three year multi-currency revolving facility for £30.0m with an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m and to extend the term up to five years. Interest on this facility is payable at between 70 and 115bps over LIBOR, depending on the ratio of net debt to EBITDA. None of the facility had been drawn down at 30 September 2018 (2017: £Nil).

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

	2018 £m	2017 £m
Expiring within one year	**–**	–
Expiring after two years	**30.0**	30.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

19. FINANCIAL INSTRUMENTS CONTINUED

The Group's financial liabilities are as follows:

	Carrying amount 2018 £m	Carrying amount 2017 £m
Trade payables	**48.3**	42.5
Other payables	**3.6**	3.3
Other liabilities (note 20)	**5.6**	6.6
	57.5	52.4
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**57.5**	48.3
One to two years	**–**	4.5
Two to five years	**–**	–
	57.5	52.8
Less: discount	**–**	(0.4)
	57.5	52.4

There is no material difference between the book value of these financial liabilities and their fair value at each reporting date.

c) Currency risk

The Group's principal currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars and Euros. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 16, 17 and 18, respectively. Net foreign exchange gains of £0.1m (2017: £0.5m) were recognised in operating profit for the year.

The Group holds forward foreign exchange contracts in 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 2018 was £39.7m (2017: £33.0m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2018 was a £0.7m asset (2017: £0.9m liability). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was a £0.9m credit (2017: £0.2m debit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was a £0.7m credit (2017: £1.0m debit).

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

	2018 £m
Decrease in adjusted operating profit (at average rates)	
US dollar: UK sterling	**2.4**
Canadian dollar: UK sterling	**1.7**
Euro: UK sterling	**1.0**
Decrease in total equity (at spot rates)	
US dollar: UK sterling	**2.2**
Canadian dollar: UK sterling	**5.4**
Euro: UK sterling	**2.3**

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 18.

19. FINANCIAL INSTRUMENTS CONTINUED

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 1 assets (in the "fair value hierarchy") and valued at year end forward rates, adjusted for the forward points to the contract's value date with gains and losses taken to equity. No contract's maturity date is greater than 18 months from the year end.

Trade and other receivables/payables
As the majority of receivables/payables have a remaining life of less than one year, the book value is deemed to reflect the fair value.

Other 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 cash funds and medium term bank borrowing facilities. The Group's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain robust capital ratios to support the development of the business and provide strong returns to shareholders.

In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or increase bank borrowings.

20. OTHER LIABILITIES

	2018 £m	2017 £m
Future purchases of minority interests	4.5	6.1
Deferred consideration	1.1	0.5
	5.6	6.6
Analysed as:		
Due within one year	5.6	2.5
Due after one year	–	4.1

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

	2018 £m	2017 £m
At 1 October	6.1	5.1
Acquisition of minority interest on exercise of options	(2.0)	–
Unwinding of discount	0.2	0.5
Fair value remeasurements	0.2	0.5
At 30 September	4.5	6.1

At 30 September 2018, the Group retained put options to acquire minority interests in Kentek and M Seals.

On 17 November 2017 and 30 March 2018, the Group completed the acquisition of the outstanding 10% minority interest in TPD for cash consideration of £2.0m (€2.3m). At 30 September 2018, the Group retained put options to acquire minority interests of 10% held in each of M Seals and Kentek which are both exercisable from November 2018.

At 30 September 2018, 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 2018. This led to a remeasurement of the fair value of these put options and the liability was increased by £0.2m (2017: £0.5m) reflecting a revised estimate of the future performance of the businesses and by a further £0.2m (2017: £0.5m) charge which arises from unwinding the discount on the liability. In aggregate £0.4m (2017: £1.0m) has been charged to the Consolidated Income Statement.

Deferred consideration comprises the following:

	2018 £m	2017 £m
Ascome	–	0.1
Edco	–	0.4
Coast	0.1	–
FS Cables	1.0	–
At 30 September	1.1	0.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

20. OTHER LIABILITIES CONTINUED

The amounts outstanding at 30 September 2018 are expected to be paid within the next 12 months and will largely be based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £0.2m was paid to the vendors of Edco in respect of the performance of the business in the year ended 30 April 2018 and £0.1m was paid to the vendor of Ascome. A further £0.2m has been released to the Consolidated Income Statement as part of acquisition related charges in note 11.

21. MINORITY INTERESTS

	£m
At 1 October 2017	4.3
Share of profit	0.7
Dividends paid	(0.2)
At 30 September 2017	4.8
Minority interest contribution	0.3
Share of minority net assets acquired of TPD	(2.5)
Share of profit	0.6
Dividends paid	(0.2)
Exchange adjustments	0.1
At 30 September 2018	**3.1**

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

22. ACQUISITION AND DISPOSAL OF BUSINESSES

On 16 October 2017, the Group acquired the trade and net assets of Coast Fabrications Inc. ("Coast"), based in California, US, for total cash consideration of £1.2m (US$1.5m), which included £0.1m of acquisition expenses. The Company now trades as Clarendon Specialty Fasteners Inc.

On 21 August 2018, the Group acquired 100% of Caplink Limited and FSC Global Limited (collectively "FS Cables") based in St. Albans, UK, for the initial consideration of £24.3m, which included £7.3m of surplus cash and was before acquisition expenses of £0.4m. Maximum deferred consideration of £1.0m is payable based on the performance of FS Cables for the 12 months ended 31 October 2018.

Set out below is an analysis of the net book values and fair values relating to these acquisitions:

	FS Cables		Coast		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	–	8.6	–	0.5	–	9.1
Deferred tax	–	(1.6)	–	–	–	(1.6)
Property, plant and equipment	0.3	–	–	–	0.3	–
Inventories	3.8	3.3	0.5	0.5	4.3	3.8
Trade and other receivables	2.5	2.5	0.3	0.3	2.8	2.8
Trade and other payables	(0.4)	(0.8)	(0.3)	(0.3)	(0.7)	(1.1)
Net assets acquired	6.2	12.0	0.5	1.0	6.7	13.0
Goodwill	–	5.5	–	0.2	–	5.7
	6.2	**17.5**	**0.5**	**1.2**	**6.7**	**18.7**
Cash paid		24.3		1.1		25.4
Cash acquired		(7.8)		–		(7.8)
Expenses of acquisition		0.4		0.1		0.5
Net cash paid, after acquisition expenses		**16.9**		**1.2**		**18.1**
Deferred consideration payable (note 20)		1.0		0.1		1.1
Less: expenses of acquisition		(0.4)		(0.1)		(0.5)
Total consideration		**17.5**		**1.2**		**18.7**

The fair values set out above are provisional and will be finalised in the next financial year. Goodwill of £5.7m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

From the date of acquisition to 30 September 2018, the newly acquired Coast business contributed £4.0m to revenue and £0.2m to operating profit, the newly acquired FS Cables business contributed £1.1m to revenue and £0.2m to operating profit. If these businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a pro-rata basis £17.6m to revenue and £2.8m to operating profit. However these amounts should not be viewed as indicative of the results of these businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

22. ACQUISITION AND DISPOSAL OF BUSINESSES CONTINUED

On 30 June 2018, Hercules Fluid Power Group, based in the US, sold the Bulldog Hydraulics and Gaskets business and trading assets at net asset value for net cash consideration of £4.0m (US$5.4m), comprising tangible assets of £0.3m and net working capital of £3.7m. The business contributed revenues of £4.7m and an operating loss of £0.3m for the nine months ended 30 June 2018.

23. RECONCILIATION OF OPERATING PROFIT TO CASH FLOW FROM OPERATING ACTIVITIES

	2018 £m	2018 £m	2017 £m	2017 £m
Operating profit		**73.2**		68.5
Acquisition related charges (note 11)		**9.6**		9.7
CEO transition costs (note 28)		**2.1**		–
Adjusted operating profit		**84.9**		78.2
CEO transition costs paid (note 28)		**(0.8)**		–
		84.1		78.2
Depreciation or amortisation of tangible and other intangible assets	**4.8**		4.7	
Share-based payments expense (note 5)	**1.0**		0.8	
Defined benefit scheme expense (note 25)	**(0.5)**		(0.4)	
Non-cash items		**5.3**		5.1
Operating cash flow before changes in working capital		**89.4**		83.3
Increase in inventories	**(8.3)**		(5.1)	
Increase in trade and other receivables	**(5.2)**		(6.6)	
Increase in trade and other payables	**8.4**		7.7	
Increase in working capital		**(5.1)**		(4.0)
Cash flow from operating activities, before acquisition expenses		**84.3**		79.3

24. CASH FUNDS

The movement in cash during the year is as follows:

	2018 £m	2017 £m
Net increase in cash and cash equivalents	**13.1**	1.9
Decrease in borrowings	**–**	10.0
	13.1	11.9
Effect of exchange rates	**0.6**	(0.2)
Movement in net cash	**13.7**	11.7
Net cash at beginning of year	**22.3**	10.6
Cash funds at end of year	**36.0**	22.3
Comprising:		
Cash and cash equivalents	**36.0**	22.3
Borrowings	**–**	–
Cash funds at 30 September	**36.0**	22.3

The Group has a committed three year multi-currency revolving facility of £30.0m which expires on 1 June 2020 with an accordion option to increase the committed facility by a further £30.0m up to a maximum of £60.0m and a further option to extend the term up to five years. At 30 September 2018, the Group has utilised none of this facility (2017: £Nil). Interest on this facility is payable between 70 and 115bps over LIBOR, depending on the ratio of net debt to EBITDA.

25. RETIREMENT BENEFIT OBLIGATIONS

The Group maintains two pension arrangements which are accounted for under IAS19 (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 in Switzerland and provides benefits on retirement, leaving service or death for the employees of Kubo in accordance with Swiss law. Kubo was acquired by the Group on 13 March 2015. 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 IAS19 (revised).

The amount of pension deficit included in the Consolidated Statement of Financial Position in respect of these two pension arrangements is:

	2018 £m	2017 £m
Diploma Holdings PLC UK Pension Scheme	**6.8**	5.4
Kubo Pension Scheme	**3.7**	4.5
Pension scheme net deficit	**10.5**	9.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2018 £m	2017 £m
Diploma Holdings PLC UK Pension Scheme	(0.1)	(0.3)
Kubo Pension Scheme	(0.2)	(0.2)
Amounts charged to the Consolidated Income Statement	**(0.3)**	(0.5)

Defined contribution schemes operated by the Group's businesses are not included in these disclosures.

Diploma Holdings PLC UK Pension Scheme

The Scheme is subject to 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 2016 reported that the Scheme had a funding deficit of £9.2m and held assets which covered 75% of its liabilities at that date. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2019. 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

	2018 £m	2017 £m
Market value of Scheme assets:		
Equities	20.0	24.8
Buy-In policy	9.5	–
Bonds	–	6.0
Cash	–	0.1
	29.5	30.9
Present value of Scheme liabilities	(36.3)	(36.3)
Pension scheme net deficit	**(6.8)**	(5.4)

The pension scheme net deficit includes £3.5m of historic annuities and related assets on a net basis, rather than on a gross basis.

b) Amounts charged to the Consolidated Income Statement

	2018 £m	2017 £m
Charged to operating profit	–	–
Interest cost on liabilities	(1.0)	(0.9)
Interest on assets	0.9	0.6
Charged to financial expense, net (note 6)	(0.1)	(0.3)
Amounts charged to the Consolidated Income Statement	**(0.1)**	(0.3)

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

c) Amounts recognised in the Consolidated Statement of Comprehensive Income

	2018 £m	2017 £m
Investment (loss)/gain on Scheme assets in excess of interest	(1.8)	2.7
Effect of changes in financial assumptions on Scheme liabilities	0.6	3.2
Effect of changes in demographic assumptions on Scheme liabilities	(0.6)	(1.3)
Experience adjustments on Scheme liabilities	–	(0.1)
Actuarial (losses)/gains charged in the Consolidated Statement of Comprehensive Income	**(1.8)**	4.5

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Comprehensive Income, since the transition to IFRS, is £7.6m (2017: £5.8m).

d) Analysis of movement in the pension deficit

	2018 £m	2017 £m
At 1 October	5.4	10.0
Amounts charged to the Consolidated Income Statement	0.1	0.3
Contributions paid by employer	(0.5)	(0.4)
Net effect of remeasurements of Scheme assets and liabilities	1.8	(4.5)
At 30 September	**6.8**	5.4

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

	2018 £m	2017 £m
At 1 October	36.3	38.1
Interest cost on liabilities	1.0	0.9
Impact from changes in actuarial assumptions	–	(1.8)
Benefits paid	(1.0)	(0.9)
At 30 September	**36.3**	36.3

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

	2018 £m	2017 £m
At 1 October	30.9	28.1
Interest on assets	0.9	0.6
Return on Scheme assets	(1.8)	2.7
Contributions paid by employer	0.5	0.4
Benefits paid	(1.0)	(0.9)
At 30 September	**29.5**	30.9

The actual return on the Scheme assets during the year was a £0.9m loss (2017: £3.3m gain).

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2018, the major categories of assets were as follows:

	2018 %	2017 %
North America equities	17	20
UK equities	17	20
European equities (non-UK)	17	20
Asia-Pacific and Emerging Markets equities	17	20
Buy-In policy	32	–
Corporate bonds	–	12
Index-linked gilts	–	8
Cash	–	–

Principal actuarial assumptions for the Scheme at balance sheet dates

		2018 %	2017 %	2016 %	2015 %
Inflation rate	– RPI	3.4	3.4	3.2	3.1
	– CPI	2.4	2.4	2.4	2.3
Expected rate of pension increases	– CPI	2.4	2.4	2.4	2.3
Discount rate		2.9	2.8	2.3	2.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Demographic assumptions

Mortality table used:	S2NxA
Year the mortality table was published:	CMI 2017
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 2018 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%	8.6	3.1
Inflation	Increase by 0.5%	3.7	1.3
Life expectancy	Increase by one year	2.7	1.0

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 broadly match assets and liabilities in respect of pensioner members, but 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.

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 2016, the Company agreed to contribute £0.5m in cash to the scheme annually. The next valuation of the Scheme will be carried out as at 30 September 2019.

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. As at 30 September 2018 the ASGA Pensionskasse had a local coverage ratio of 110.7%.

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

	2018 £m	2017 £m
Assets of the Kubo Scheme[1]	9.1	8.7
Actuarial liabilities of the Kubo Scheme	(12.8)	(13.2)
Pension scheme net deficit	**(3.7)**	(4.5)

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

b) Amounts charged to the Consolidated Income Statement

	2018 £m	2017 £m
Service cost	(0.2)	(0.2)
Amount charged to operating profit in the Consolidated Income Statement	**(0.2)**	(0.2)

c) Analysis of movement in the pension deficit

	2018 £m	2017 £m
At 1 October	4.5	7.2
Amounts charged to the Consolidated Income Statement	0.2	0.2
Contributions paid by employer	(0.2)	(0.2)
Net effect of remeasurements of Kubo Scheme assets and liabilities	(0.8)	(2.6)
Exchange adjustments	–	(0.1)
At 30 September	**3.7**	4.5

25. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

d) Amounts recognised in the Consolidated Statement of Comprehensive Income

The actuarial gain credited to the Consolidated Statement of Comprehensive Income is £0.8m (2017: £2.6m).

Principal actuarial assumptions for the Kubo Scheme at balance sheet dates

	2018	2017
Expected rate of pension increase	0%	0%
Expected rate of salary increase	1.0%	1.0%
Discount rate	1.0%	0.7%
Interest credit rate	1.0%	1.0%
Mortality	BVG2015	BVG2015

Sensitivities

The sensitivities of the 2018 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%	10.6%	1.4
Life expectancy	Increase by one year	7.0%	0.9

Effect of the Kubo Scheme on the Group's future cash flows

	£m
Best estimate of employer's contribution in 2019	0.4
Best estimate of employees' contribution in 2019	0.3

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

26. COMMITMENTS

At 30 September 2018 the Group had outstanding aggregate commitments for future lease payments (under non-cancellable operating leases) in respect of the following years:

	Land and buildings		Other		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	4.4	4.1	1.5	1.3	5.9	5.4
For years two to five	11.1	9.7	2.1	1.6	13.2	11.3
After five years	5.0	4.2	–	–	5.0	4.2
	20.5	18.0	3.6	2.9	24.1	20.9

Other commitments comprise plant and machinery, motor vehicles and office equipment. Operating lease payments made during the year in respect of land and buildings and other commitments were £4.6m (2017: £4.2m) and £1.6m (2017: £1.5m), respectively.

27. AUDITOR'S REMUNERATION

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

	2018 £m	2017 £m
Fees payable to the auditor for the audit of:		
– the Company's Annual Report & Accounts	0.1	0.1
– the Company's subsidiaries	0.5	0.5
Audit fees	0.6	0.6

Non-audit fees of £15,000 (2017: £13,000) were paid to the Group's auditor for carrying out "agreed upon procedures" on the Half Year Announcement, which is unaudited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

28. CHIEF EXECUTIVE OFFICER TRANSITION COSTS

Richard Ingram joined the Board on 23 April 2018 and was appointed Chief Executive Officer ("CEO") on 8 May 2018. Bruce Thompson retired as both CEO and Executive Director on 8 May 2018, but remained available to support an orderly transition until his retirement from the Company on 30 September 2018. Accordingly for a period of time during the year, the Company was bearing the costs of two CEO roles.

On 28 August 2018, Richard Ingram stepped down from his role as both CEO and as Executive Director and left the Company with immediate effect.

The one-off and incremental costs associated with the transition of the CEO comprise a significant restructuring cost to the Group and have been excluded in determining adjusted operating profit to present, the operational performance of the Group on a consistent basis. The costs relating to the CEO transition of £2.1m comprise:

	Charged in year £m	Paid in year £m	Outstanding at 30 September £m
Employment costs			
– as CEO	0.3	(0.3)	–
– in lieu of notice	0.5	(0.1)	0.4
Compensation on loss of office	0.4	–	0.4
Recruitment costs[1]	0.6	(0.3)	0.3
Other related costs, including advisors	0.3	(0.1)	0.2
	2.1	**(0.8)**	**1.3**

1 Includes recruitment costs relating to new recruitment search project that commenced in August 2018.

29. EXCHANGE RATES

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

	Average		Closing	
	2018	2017	**2018**	2017
US dollar (US$)	**1.35**	1.27	**1.30**	1.34
Canadian dollar (C$)	**1.73**	1.67	**1.69**	1.68
Euro (€)	**1.13**	1.15	**1.12**	1.13
Swiss franc (CHF)	**1.31**	1.26	**1.27**	1.30
Australian dollar (A$)	**1.78**	1.67	**1.80**	1.71

30. SUBSEQUENT EVENTS

On 12 October 2018, the Group completed the acquisition of Actios SAS, the parent company of the Gremtek Group ("Gremtek") of companies. Gremtek is a leading supplier of own-branded protective sleeving and cable identification products to a broad range of industrial markets, principally in France, but also in Germany and elsewhere in Europe. The initial consideration was £7.4m (€8.4m) with deferred consideration payable of up to £0.5m (€0.6m), based on performance in the year ending 31 December 2018. A review to determine fair values of the net assets acquired will be completed during the next financial year.

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 SEPTEMBER 2018

The consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EU and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies set out below have been consistently applied in 2018 and the comparative year.

There were no new standards, amendments or interpretations to existing standards which have been published and endorsed by the EU and which have a significant impact on the results, financial position or presentation of the consolidated financial statements for the year ended 30 September 2018.

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are held at fair value. The consolidated financial statements have been prepared on a going concern basis, as discussed on page 65.

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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.

1.3 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 2018 or 2017.

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. Revenue is recognised when the risk and rewards of ownership transfers to the customer, which depending on individual customer terms, is at the time of despatch, delivery or upon formal customer acceptance. Provision is made for returns where appropriate. Service revenue received in advance is deferred and recognised on a pro-rata basis over the period of the contract.

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:
      – 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 in 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 the 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 predicted future value model to determine fair value of the shares at the date of grant.

   The Group operates an Employee Benefit Trust for the granting of shares to Executives. The cost of shares in the Company purchased by the Employee Benefit Trust are shown as a deduction from equity.

GROUP ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

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 possible 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, but excluding interest. 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.

1.11 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

An impairment loss is recognised to the extent that the carrying amount of an asset or cash-generating unit ("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 cash-generating unit. 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 and weighted average cost basis) 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

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 charges are recognised in the Consolidated Income Statement.

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.

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.

GROUP ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

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 IAS39 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 (AVAILABLE FOR SALE FINANCIAL ASSETS)

The investment held by the Group comprises equity shares which are not held for the purposes of equity trading and in accordance with IAS39 is classified as available for sale. 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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. Leases include hire purchase contracts which have characteristics similar to finance or operating leases. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the Consolidated Income Statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the expected lease term.

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 possible 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. 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 the key management) that are required to be disclosed in accordance with IAS24. 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 IFRSs ("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 2018. An assessment of the impact of these new standards and interpretations is set out below:

IFRS15 Revenue from contracts with customers

IFRS15 replaces IAS18 and introduces a single, principles-based approach to recognition and measurement of revenue from sales contracts with customers. The new approach requires the identification of performance obligations in a sales contract and sets out when revenue is recognised based upon when those performance obligations have been met.

During 2018, a full analysis of the Group's significant revenue streams was undertaken with the assistance of key finance and management in each of the Group's businesses. The analysis performed enabled management to assess the impact of the new standard on the 2017 and 2018 financial statements.

This analysis confirmed that the majority of Group revenue is derived from the sale of products which generally have one performance obligation. Within the Life Sciences Sector there are a small number of contracts where goods and services are delivered and there is more than one performance obligation; in the majority of instances revenue for these contracts is already being separately recognised. Where revenue has been recognised for the delivery of goods, revenue recognition will be amended to ensure the element of revenue attributable to the service is separately recognised. The financial impact on revenues is not expected to be material.

The Group will adopt IFRS15 for the year commencing on 1 October 2018. As the anticipated impact of applying IFRS15 is not expected to be material, the Group will not restate the prior year consolidated financial statements.

IFRS9 Financial Instruments

IFRS9 replaces IAS39 and concerns the classification, measurement and de-recognition of financial assets and financial liabilities, introduces an expected credit loss model for the impairment of financial assets and sets out changes to the hedge accounting relationships.

During 2018, the Group completed an assessment of the impact of IFRS9 and concluded that adoption of this standard will not have a material impact on the Consolidated statement of Financial Position, as the categories of financial instruments are already being accounted for on the same measurement and valuation techniques as set out in IFRS9. The Group also determined that all existing hedge relationships will continue to qualify for hedge accounting under IFRS9.

An initial assessment of applying the expected credit loss model for the potential impairment of financial assets indicates that there is unlikely to be a material impact on the consolidated financial statements. The Group will adopt IFRS9 for the year commencing 1 October 2018. As the anticipated impact of adopting IFRS9 is not expected to be material, the Group will not restate the prior year financial statements on adoption.

IFRS16 Leases

IFRS16 replaces IAS17 and prescribes a single lessee accounting model that requires the recognition of an asset and a corresponding liability for all leases with terms over 12 months. The liability is measured at 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.

The Group anticipates that on implementation of IFRS16, there will be a material increase in the amount of the Group's lease liabilities, along with a corresponding increase in tangible property assets. The charge for operating leases in the Income Statement is unlikely to change materially, but the classification of this charge will change reflecting the new depreciation and interest cost respectively, in place of the existing lease cost. The Group's most significant operating leases relate to property as shown in note 26 to the consolidated financial statements.

The Group expects to adopt the modified retrospective approach with a cumulative adjustment to equity as at 1 October 2019 and as such will not restate the prior year financial statements. The Group will complete a full analysis of the likely impact of the standard during 2019 and will report this impact in next years' Annual Report & Accounts.

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 ACQUISITION ACCOUNTING AND GOODWILL IMPAIRMENT

When the Group makes an acquisition it recognises the identifiable assets and liabilities, including intangible assets, at fair value with the difference between the fair value of net assets acquired and the fair value of consideration paid comprising goodwill. Acquisitions are accounted for using the acquisition method as described in note 1.3 and 1.10 of The Group Accounting Policies. The key assumptions and estimates used to determine the valuation of intangible assets acquired are the forecast cash flows, the discount rate and customer/supplier attrition. Customer and supplier relationships are valued using a discounted cash flow model. Acquisitions often comprise an element of deferred consideration and may include a minority interest, which are subject to put options. These put options are valued at fair value at the date of acquisition. Deferred consideration is fair valued based on the Directors' estimate of future performance of the acquired entity.

The Group's growth strategy is underpinned by the successful execution of acquisitions. This results in material amounts of goodwill and intangible assets (principally customer and supplier relationships) being 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 then 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

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, judgement is 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

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 2018 are set out in note 25 to the consolidated financial statements.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments	d	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(14.4)**	(17.1)
Net assets		**57.6**	54.9
Capital and reserves			
Called up share capital	e	**5.7**	5.7
Profit and loss account[1]		**51.9**	49.2
Total shareholders' equity		**57.6**	54.9

1 Includes profit for the year of £4.1m (2017: £2.8m).

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 19 November 2018 and signed on its behalf by:

NP Lingwood
Group Finance Director

JE Nicholas
Chairman

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Note	Share capital £m	Retained earnings £m	Total Shareholders' equity £m
At 1 October 2016		5.7	45.8	51.5
Total Comprehensive Income	a	–	26.2	26.2
Dividends paid		–	(23.5)	(23.5)
Settlement of LTIP awards	e	–	0.7	0.7
At 30 September 2017		5.7	49.2	54.9
Total Comprehensive Income	a	–	30.9	30.9
Dividends paid		–	(26.8)	(26.8)
Settlement of LTIP awards	e	–	(1.4)	(1.4)
At 30 September 2018		**5.7**	**51.9**	**57.6**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

A) ACCOUNTING POLICIES

a.1) Basis of accounting

The Parent Company financial statements ("Financial Statements") have been prepared in accordance with the Companies Act 2006 and FRS101 "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 following disclosures have not been provided as permitted by FRS101:

- 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 FRS101 available in respect of the requirements of paragraphs 45(b) and 46 to 52 of IFRS2 "Share-based Payment" in respect of Group settled share-based payments as the consolidated financial statements of the Company include the equivalent disclosures.

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. Total Comprehensive Income is distributable to shareholders.

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.

The capacity of the Company to make dividend payments is primarily determined by the availability of retained distributable reserves and cash resources. As at 30 September 2018 the Company had distributable reserves of £51.9m (2017: £49.2m) and the total external dividends declared in 2018 amounted to £26.8m. When required the Company can receive dividends from its subsidiaries to further increase distributable reserves.

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 IAS32, as applied by FRS101. 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 (2017: £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 49 to 63. The Company had no employees (2017: 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 movement in the Company's profit and loss account reserves include a profit for the year of £4.1m (2017: £2.8m), before settlement of LTIP awards.

D) INVESTMENTS

	£m
Shares in Group undertakings	
At 30 September 2018 and 1 October 2017	**72.0**

A full list of subsidiary and other related undertakings is set out on page 102.

E) CALLED UP SHARE CAPITAL

	2018 Number	2017 Number	**2018 £m**	2017 £m
Allotted, issued and fully paid ordinary shares of 5p each				
At 30 September	**113,239,555**	113,239,555	**5.7**	5.7

During the year 92,530 ordinary shares in the Company (2017: 79,679) 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 on pages 59 and 63 in the Remuneration Committee Report. The Trust also purchased 100,000 ordinary shares in the Company for £1.2m (2017: £Nil) during the year. At 30 September 2018, the Trust held 100,368 (2017: 92,898) ordinary shares in the Company representing 0.1% of the called up share capital. The market value of the shares at 30 September 2018 was £1.4m (2017: £1.0m).

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 2018 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 FRS101 "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 2018; 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 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.

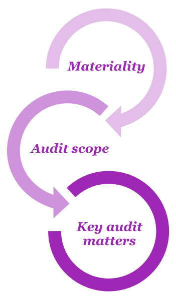
Other than those disclosed in note 27 to the financial statements, we have provided no non-audit services to the Group or the Parent Company in the period from 1 October 2017 to 30 September 2018.

OUR AUDIT APPROACH

Context

In this first year of our audit tenure, our planning procedures involved meetings with Group and local business management, and the Board, to understand the business, its challenges, opportunities and associated risks.

Overview



- Overall Group materiality: £3.6 million, based on 5% of profit before tax.
- Overall Parent Company materiality: £0.7 million, based on 1% of total assets.

- We conducted audit work over 23 reporting units across nine countries in which the Group has significant operations
- The reporting units where we performed an audit of their complete financial information accounted for 79% of Group revenue and 83% of Group profit before tax
- The Group engagement team performed the audit work on five of the reporting units and visited, in person, two component teams who were responsible for the audit of eight reporting units across two countries. The visits included attendance at audit clearance meetings and discussions on the audit approach and findings with those local teams
- For those countries not visited in person we attended their clearance meetings via conference call or video conference
- We maintained regular contact with the local teams and evaluated the outcome of their audit work

- Provisions for impairment of inventories (Group).
- Recoverability of goodwill and the impairment assessment (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. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management, review of certain component auditors' work and review of internal audit reports in so far as they related to the financial statements. 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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
Provisions for impairment of inventories Refer to page 45 (Financial reporting and significant financial judgements) and note 15 (Inventories). The Group holds significant levels of inventory with total inventory, at 30 September 2018, of £82.9m which is recorded net of a provision of £8.7m. There is a risk associated with the valuation of slow moving and excess stock for which each business within the Group provides. There are different inventory provision methodologies, specific to the individual business, across the Group. There is significant management judgement and estimation involved in assessing the accuracy of the provision based upon the ageing and expected demand for the inventory. Therefore, we have determined that there is a significant risk that the inventory provision is not appropriate and therefore that inventory is recorded above its net realisable value.	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 component varied, depending upon the component team and the nature of the businesses and the inventory provision methodology, including the following procedures: • We obtained management's inventory provision and checked 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 ageing and demand reports used. • We evaluated the appropriateness of each businesses inventory provision methodology and the key assumptions within the provision model based upon the nature of the business and its inventory and the historic accuracy of the provision compared to actual write-offs. • We compared the actual sales value of a sample of inventory items to their book value to confirm that the carrying value of inventory does not exceed its net realisable value. As the Group engagement team, we were specifically involved in reviewing and assessing the appropriateness of the audit approach for each component in this area. This satisfied us that sufficient focus was placed on the more judgemental areas and that, whilst complex, the area was well understood and sufficient focus was placed on the risk area.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS CONTINUED

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of goodwill Refer to page 45 (Financial reporting and significant financial judgements) and note 10 (Goodwill). The Group has goodwill of £128.5m as at 30 September 2018, the most significant asset on the statement of financial position, which is required to be tested for impairment on an annual basis. Management has allocated the goodwill to three individual cash-generating units ("CGUs"): Life Sciences, Seals and Controls. We focused on this area due to the size of the goodwill balance and the level of judgement and estimation around the determination of the recoverable amount, being the higher of value in use and fair value less costs of disposal. Recoverable amounts are based on management's view of the future results and prospects of the business, the appropriate discount rates to be applied and specific risk factors applied to the CGUs. The key judgements in determining the recoverable amount of these CGUs relate to the forecast cash flows, long-term growth rates and the discount factor applied. We did not consider there to be a significant risk associated with any of the individual CGUs due to the continued growth in the business in the year and the historic levels of headroom.	We evaluated the process by which management prepared its cash flow forecasts and compared them against the latest Board strategy paper. We evaluated the historical accuracy of the plans, for example by comparing the forecasts used in the prior year model to the actual performance in the current year. These procedures enabled us to determine the accuracy of the forecasting process and apply appropriate sensitivities to the cash flows. We obtained management's goodwill impairment review calculations and checked the mechanical accuracy of the model. We assessed the appropriateness of management's discount rates, future cash flows and long-term growth rates. We benchmarked assumptions against industry and peer group comparators and metrics such as country inflation rates. Based upon our assessments described above, we challenged management on the appropriateness of its calculations by applying our own sensitivity analysis to the forecast cash flows, long-term growth rates and discount rates to ascertain the extent to which reasonable changes would, either individually or in aggregate, require an impairment of the goodwill. We determined that no impairment charges were required, based on the results of our work.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the 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 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 Group financial statements are a consolidation of multiple reporting units representing the operating businesses within these three core sectors.

The reporting units vary in size and we identified 23 reporting units across nine countries in which the Group has significant operations that required an audit of their complete financial information due to their individual size. The components where we performed an audit of their complete financial information accounted for 83% of the Group's profit before tax, and 79% of the Group's revenue. Included within these 23 reporting units were five components that were audited by the Group engagement team, including four UK Controls trading businesses and the company which holds the UK pension scheme.

The reporting units, excluding those audited by the Group team, are audited by nine component teams. The Group engagement team visited two of the nine component teams, who were responsible for the audit of eight reporting units, to meet with local management, attend audit clearance meetings and discuss the audit approach and audit findings. For those components not visited we attended their clearance meetings either via conference call or video conference.

Our attendance at the clearance meetings, review and discussion of the audit results at overseas locations, together with the additional procedures performed at a Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole. Our audit procedures at the Group level included the audit of the consolidation, the goodwill impairment review and certain tax procedures.

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	£3.6 million.	£0.7 million.
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We consider PBT 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.	We believe 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 £3.2 million and £0.3 million. Certain components were audited to a local statutory audit materiality that was less than our allocated component materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £184,000 (Group audit) and £36,000 (Parent Company audit) 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 12 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).

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 2018 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)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA PLC CONTINUED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS CONTINUED

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Governance section (on page 46) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures 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 39 to 42) 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 30 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 30 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 65, 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 page 44 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 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 Directors' Responsibility Statement set out on page 65, 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 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. This is therefore our first year of uninterrupted engagement.

Christopher Burns (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 November 2018

SUBSIDIARIES OF DIPLOMA PLC

	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
Diploma Healthcare Group NZ Limited	Z
Techno-Path (Distribution) Limited	J
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
Seals	
HB Sealing Products Inc.	D
J Royal US, Inc.	C
HKX Inc.	E
All Seals Inc.	B
RTD Seals Corp.	C
HB Sealing Products Limited	W
M Seals A/S[3]	S
M Seals AB[3]	T
M Seals UK Limited[2] (formerly, M Seals NCL Limited)	A
EDCO Seal and Supply Limited[2]	A
Diploma (Tianjin) Trading Co. Limited	AB
FPE Seals Limited	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 Form AG	Q
Kubo Tech GmbH	R
West Coast Industrial Supplies Pty Limited	Y
West Coast Industrial Supplies 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
Sommer GmbH	H
Filcon Electronic GmbH	I
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
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[1]	A
FSC Global Limited[2]	A
Caplink Limited	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	A
Newlandglebe Limited	A
Diploma Germany Holding 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.

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 1201 Orange Street, Ste 600 One Commerce Center, Wilmington, DE 19899, USA.
D 17888 67th Court North, Loxahatchee, FL 33470-2525, USA.
E 4505 Pacific Highway East, Ste 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 Fort Henry Business Park, Ballina, Co. Tipperary, Ireland.
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 Lederergasse 67, AT-4020 Linz, Austria.
S Bybjergvej 13, DK 3060, Espergaerde, Denmark.
T Industrivagen 17, SE-302, 41 Halmstad, Sweden.
U 10, allee du Vivier, 72700 Allonnes, 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.

FINANCIAL CALENDAR AND SHAREHOLDER INFORMATION

Announcements (provisional dates)

First Quarter Statement released	16 January 2019
Annual General Meeting (2018)	16 January 2019
Second Quarter Statement released	27 March 2019
Half Year Results announced	13 May 2019
Third Quarter Statement released	28 August 2019
Preliminary Results announced	18 November 2019
Annual Report posted to shareholders	6 December 2019
Annual General Meeting (2019)	15 January 2020

Dividends (provisional dates)

Interim announced	13 May 2019
Paid	12 June 2019
Final announced	18 November 2019
Paid (if approved)	22 January 2020

Annual Report & Accounts
Copies can be obtained from the Group Company Secretary at the address shown above.

Share Registrar – Computershare Investor Services PLC
The Company's Registrar is 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
AJ Gallagher FCIS, 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

Investment Bankers
Lazard
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Independent Auditor
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

HSBC Bank plc
City Corporate Banking Centre
60 Queen Victoria Street
London EC4N 4TR

FIVE YEAR RECORD

Year ended 30 September	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**485.1**	451.9	382.6	333.8	305.8
Adjusted operating profit	**84.9**	78.2	65.7	60.3	56.7
Finance expense, net	**(0.1)**	(0.7)	(0.8)	(0.7)	(0.5)
Adjusted profit before tax	**84.8**	77.5	64.9	59.6	56.2
Acquisition related charges	**(9.6)**	(9.7)	(10.3)	(7.4)	(6.4)
CEO transition costs	**(2.1)**	–	–	–	–
Gain on disposal of assets	**–**	–	0.7	–	–
Fair value remeasurements	**(0.4)**	(1.0)	(1.3)	(0.4)	–
Profit before tax	**72.7**	66.8	54.0	51.8	49.8
Tax expense	**(18.3)**	(18.6)	(14.9)	(14.4)	(13.7)
Profit for the year	**54.4**	48.2	39.1	37.4	36.1
Capital structure					
Equity shareholders' funds	**291.2**	262.0	233.5	189.6	184.4
Minority interest	**3.1**	4.8	4.3	5.2	2.9
Add/(deduct): cash and cash equivalents	**(36.0)**	(22.3)	(20.6)	(23.0)	(21.3)
borrowings	**–**	–	10.0	20.0	–
retirement benefit obligations	**10.5**	9.9	17.2	9.8	4.3
acquisition liabilities	**5.6**	6.6	6.8	6.6	4.0
deferred tax, net	**8.4**	8.2	7.4	5.9	3.3
Reported trading capital employed	**282.8**	269.2	258.6	214.1	177.6
Add: historic goodwill and acquisition related charges, net of deferred tax	**74.6**	66.3	59.2	53.6	49.6
Adjusted trading capital employed	**357.4**	335.5	317.8	267.7	227.2
Net increase/(decrease) in net funds	**13.1**	11.9	4.9	(17.4)	2.9
Add: dividends paid	**27.0**	23.7	21.4	19.9	18.4
acquisition of businesses	**20.4**	20.1	32.7	37.8	16.5
Free cash flow	**60.5**	55.7	59.0	40.3	37.8
Per ordinary share (pence)					
Basic earnings	**47.5**	42.0	33.9	32.5	31.4
Adjusted earnings	**56.4**	49.8	41.9	38.2	36.1
Dividends	**25.5**	23.0	20.0	18.2	17.0
Total shareholders' equity	**257**	232	206	167	163
Dividend cover	**2.2**	2.2	2.1	2.1	2.1
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")	**24.5**	24.0	21.1	23.9	25.8
Working capital:revenue	**15.1**	15.0	16.6	17.0	17.2
Adjusted operating margin	**17.5**	17.3	17.2	18.1	18.5

1 Acquisition related charges comprise the amortisation and impairment of acquisition intangible assets, acquisitions expenses and adjustments to deferred consideration.
2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.
3 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.
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.