

DIPLOMA HOLDINGS PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019



DIPLOMA HOLDINGS PLC

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DIPLOMA HOLDINGS PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

Principal activities and future developments

The principal activities of the Company is that of an intermediate investment holding company which also provides management services to a group of companies which supplies specialised technical products and services. The Directors anticipate the Company will continue to pursue this operation for the foreseeable future.

Business review, key performance indicators, and principal risks and uncertainties

The Company is managed as part of an overall group of companies ("the Group") whose ultimate parent company is Diploma PLC.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

On 2 September 2019, the Company acquired 100% of DMR Seals (Holdings) Limited and 100% of DMR Gaskets Limited (together 'DMR Seals') based in Sheffield, England, as explained in note 15 to the financial statements.

The principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of the Group and are not managed separately.

The continued success of the Company is the ability to identify and manage effectively the risks to the business. Accordingly, in common with the Group generally, the Company has well-defined, rigorous policies and processes designed to identify, mitigate and control risk. The primary risks that have the potential to adversely impact on the business over the next twelve months are considered to be as follows:

- Downturn/instability in major markets: A significant adverse change in all the major markets in which the businesses held by the Company operate can have an impact on performance. The businesses owned by the Company identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers.

The Company's Directors believe that analysis using key performance indicators for the Company is not appropriate for the understanding of the development, performance, or position of the Company, as the Company is managed as part of the Group. The Group manages its funding and liquidity risks on a consolidated basis, as referred to in the accounting policies. Full disclosure of the Group's financial risk management policies are set out in the consolidated financial statements of Diploma PLC, which are prepared under International Financial Reporting Standards.

The matters required to be discussed in the Business Review, which include the Group's key performance indicators, financial risk management and policies, principal risks and uncertainties and viability statement, are set out in the Annual Report & Accounts of Diploma PLC on pages 24 to 31 of that report. A copy of this is available on the website at www.diplomaplcl.com or can be obtained from Diploma PLC, 12 Charterhouse Square, London, EC1M 6AX.

In addition to the principal risks and uncertainties disclosed in the Annual Report of Diploma PLC and those noted above specific to this entity, the Group has recently considered the risks on the Group's liquidity and viability in connection with the Coronavirus pandemic (COVID-19), including those that may be relevant to the Company. The Group has a resilient and proven business model, as well as an accountable, commercial and agile culture which is responding admirably to this challenge. The Group enters this uncertain period in a robust financial position, with a strong balance sheet and liquidity position as well as covenant headroom and is acting to conserve cash so that the Group remains well positioned for long term success. Although the full extent of the potential impact on our business, operations and the global economy as a whole is not yet clear, Group executive management continue to work closely with all the Group's businesses to manage their response to the COVID-19 pandemic as effectively as possible. The COVID-19 pandemic has not materially impacted the

DIPLOMA HOLDINGS PLC

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

Company's financial position or its performance at the date of these financial statements.

Financial key performance indicators

The performance of the Group is measured on a Group-wide basis as part of the overall overhead structure of the Group and key performance indicators are not used at the Company level to monitor business performance.

Going concern

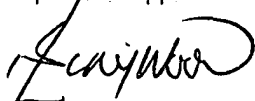
At 30 September 2019 the Company had net assets of £143,656,000 (2018: £146,584,000). The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The going concern position of the Company is linked to that of the wider Group due to the cross guarantees on financing given by a number of Group companies as well as the Group's provision of a letter of financial support in respect of the Company's going concern status. The Group's balance sheet is strong and working capital is well controlled. On a pre IFRS 16 basis, net debt at 31 March 2020 is forecast to be ca. £35m representing ca. 0.3x EBITDA, against a covenant of 2x EBITDA. The Group's cash resources are forecast to be ca. £55m, comprising current cash balances of ca. £15m and unused bank facilities of £40m, which includes an accordion option on £30m. The Group is acting to conserve cash and all discretionary revenue and capital expenditure has been restricted. The Group's businesses are also reviewing options to manage our employees effectively through this period, including utilising appropriate government assistance programmes.

The Directors have assessed the relevant factors surrounding going concern, and in particular the risks on the Group's business model by the COVID-19 pandemic. Although the full extent of the potential impact on our business, operations, and the global economy as a whole is not yet clear, the Group has carried out an assessment of its projected trading for the eighteen month period through to the year ending 30 September 2021. This assessment incorporated substantial downside scenarios which demonstrated that the Group has sufficient liquidity, resources and covenant headroom to continue in operation for at least the next eighteen months.

Diploma PLC, the ultimate parent company of the Company has provided a letter of support to the Company for a period of at least twelve months from the date of these financial statements confirming that it will provide adequate financial support to the Company to allow the Company to meet its financial obligations as they fall due. The Directors of the Company are satisfied that there are no material events or uncertainties that they are aware of which will impact the ability of the Company to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

This report was approved by the Board on 31 March 2020 and signed on its behalf.



N P Lingwood
Director

DIPLOMA HOLDINGS PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2019

The Directors present their report and the audited financial statements for the year ended 30 September 2019.

An indication of activities, future developments, going concern assessment and financial risk management policies of the Company are included in the Strategic Report on page 1. The Company is a wholly owned subsidiary of Diploma PLC.

Results and dividends

The profit for the year, after taxation, amounted to £17,331,000 (2018: £33,592,000)

The Directors paid a dividend of £15,000,000 (2018: £15,000,000) during the year.

The Directors do not recommend a final dividend (2018: £nil).

Directors

The Directors who served during the year and up to the date of signing the financial statements were:

NP Lingwood

JE Nicholas (resigned 16 May 2019)

JD Thomson (appointed 16 May 2019)

Qualifying third party indemnity provisions

In line with market practice, each Director is covered by appropriate Directors' and Officers' Liability insurance, at the Company's expense. The Company also indemnifies its Directors and Officers to the extent permitted by law.

Disclosure of information to auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are 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.

Post balance sheet events

As at 30 September 2019, the Company held a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"). The Group had no involvement in the day-to-day operations or management of JRPP.

In January 2020, the Company sold its stake in JRPP. Further detail is provided in note 15.

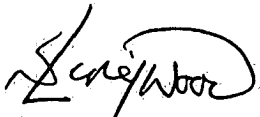
Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

DIPLOMA HOLDINGS PLC

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2019

This report was approved by the Board on 31 March 2020 and signed on its behalf.



N P Lingwood
Director

DIPLOMA HOLDINGS PLC

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIPLOMA HOLDINGS PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA HOLDINGS PLC

Report on the audit of the financial statements

Opinion

In our opinion, Diploma Holdings PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 30 September 2019; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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 on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

DIPLOMA HOLDINGS PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA HOLDINGS PLC

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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 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 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.

DIPLOMA HOLDINGS PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIPLOMA HOLDINGS PLC

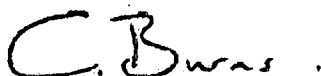
Other required reporting

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 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



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

31 March 2020

DIPLOMA HOLDINGS PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 £000	2018 £000
Management fees	4	2,443	2,294
Gross profit		<u>2,443</u>	<u>2,294</u>
Administrative expenses		(14,833)	(10,175)
Operating loss	5	<u>(12,390)</u>	<u>(7,881)</u>
Income from shares in group undertakings	9	29,670	40,821
Interest receivable and similar income	10	906	836
Interest payable and similar expenses	11	(2,650)	(1,716)
Profit before tax		<u>15,536</u>	<u>32,060</u>
Tax credit on profit	12	1,795	1,532
Profit for the financial year		<u><u>17,331</u></u>	<u><u>33,592</u></u>

The notes on pages 14 to 38 form part of these financial statements.

All amounts relate to continuing operations.

DIPLOMA HOLDINGS PLC

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Note	2019 £000	2018 £000
Profit for the financial year		17,331	33,592
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit schemes	23	(5,400)	(1,800)
Movement of deferred tax relating to pension deficit	19	935	306
		<u>(4,465)</u>	<u>(1,494)</u>
Total comprehensive income for the year		<u><u>12,866</u></u>	<u><u>32,098</u></u>

The notes on pages 14 to 38 form part of these financial statements.

DIPLOMA HOLDINGS PLC
REGISTERED NUMBER: 00256111

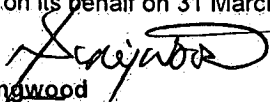
BALANCE SHEET
AS AT 30 SEPTEMBER 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	14	756	804
Investments	15	174,228	163,693
		<u>174,984</u>	<u>164,497</u>
Current assets			
Assets held for sale	15	630	-
Debtors: amounts falling due after more than one year	16	2,143	11,939
Debtors: amounts falling due within one year	16	89,907	15,974
Cash at bank and in hand		34	16,110
		<u>92,714</u>	<u>44,023</u>
Creditors: amounts falling due within one year	17	(68,237)	(55,136)
Net current assets/(liabilities)		<u>24,477</u>	<u>(11,113)</u>
Total assets less current liabilities		<u>199,461</u>	<u>153,384</u>
Creditors: amounts falling due after more than one year	18	(43,805)	-
		<u>155,656</u>	<u>153,384</u>
Defined benefit pension scheme liability (net)	23	(12,000)	(6,800)
Net assets		<u>143,656</u>	<u>146,584</u>
Capital and reserves			
Called up share capital	20	2,516	2,516
Share premium account	22	12,626	12,626
Capital redemption reserve	22	372	372
Profit and loss account	22	128,142	131,070
		<u>143,656</u>	<u>146,584</u>

DIPLOMA HOLDINGS PLC
REGISTERED NUMBER: 00256111

BALANCE SHEET (CONTINUED)
AS AT 30 SEPTEMBER 2019

The financial statements on pages 9 to 38 were approved and authorised for issue by the Board and were signed on its behalf on 31 March 2020.


N P Lingwood
Director

The notes on pages 14 to 38 form part of these financial statements.

DIPLOMA HOLDINGS PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total Shareholder's funds £000
At 1 October 2017	2,516	12,626	372	114,073	129,587
Comprehensive income for the year					
Profit for the financial year	-	-	-	33,592	33,592
Actuarial losses on pension scheme (net of deferred tax)	-	-	-	(1,494)	(1,494)
Other comprehensive expense for the year	-	-	-	(1,494)	(1,494)
Total comprehensive income for the year	-	-	-	32,098	32,098
Dividends (note 13)	-	-	-	(15,000)	(15,000)
Share based payments (note 21)	-	-	-	1,554	1,554
EBT funding	-	-	-	(1,655)	(1,655)
At 30 September 2018	2,516	12,626	372	131,070	146,584
Comprehensive income for the year					
Profit for the financial year	-	-	-	17,331	17,331
Actuarial losses on pension scheme (net of deferred tax)	-	-	-	(4,465)	(4,465)
Other comprehensive expense for the year	-	-	-	(4,465)	(4,465)
Total comprehensive income for the year	-	-	-	12,866	12,866
Dividends (note 13)	-	-	-	(15,000)	(15,000)
Share based payments (note 21)	-	-	-	(794)	(794)
At 30 September 2019	2,516	12,626	372	128,142	143,656

The notes on pages 14 to 38 form part of these financial statements.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

1. General information

The Company is a private company, limited by shares, incorporated in the United Kingdom under Companies Act 2006 and registered in England and Wales. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The Company's functional and presentational currency is UK Sterling. All values are rounded to the nearest thousand pounds, except where otherwise noted.

The financial statements contain information about Diploma Holdings PLC as an individual company and do not include consolidated financial information as the parent company of a group of companies. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent undertaking, Diploma PLC, a company registered in England and Wales.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

As the consolidated financial statements of Diploma PLC include the equivalent disclosures, the Company has taken advantage of certain disclosure exemptions available under FRS 101 as explained in 2.2 below:

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. There were no new standards, amendments or interpretations to existing standards which have been published or endorsed by the EU and which have a significant impact on the results or financial position for the year ended 30 September 2019.

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held For Sale and Discontinued Operations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.2 Financial reporting standard 101 - reduced disclosure exemptions (continued)

- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.3 Going concern

At 30 September 2019 the Company had net assets of £143,656,000 (2018: £146,584,000). The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The going concern position of the Company is linked to that of the wider Group due to the cross guarantees on financing given by a number of Group companies as well as the Group's provision of a letter of financial support in respect of the Company's going concern status. The Group's balance sheet is strong and working capital is well controlled. On a pre IFRS 16 basis, net debt at 31 March 2020 is forecast to be ca. £35m representing ca. 0.3x EBITDA, against a covenant of 2x EBITDA. The Group's cash resources are forecast to be ca. £55m, comprising current cash balances of ca. £15m and unused bank facilities of £40m, which includes an accordion option on £30m. The Group is acting to conserve cash and all discretionary revenue and capital expenditure has been restricted. The Group's businesses are also reviewing options to manage our employees effectively through this period, including utilising appropriate government assistance programmes.

The Directors have assessed the relevant factors surrounding going concern, and in particular the risks on the Group's business model by the COVID-19 pandemic. Although the full extent of the potential impact on our business, operations, and the global economy as a whole is not yet clear, the Group has carried out an assessment of its projected trading for the eighteen month period through to the year ending 30 September 2021. This assessment incorporated substantial downside scenarios which demonstrated that the Group has sufficient liquidity, resources and covenant headroom to continue in operation for at least the next eighteen months.

Diploma PLC, the ultimate parent company of the Company has provided a letter of support to the Company for a period of at least twelve months from the date of these financial statements confirming that it will provide adequate financial support to the Company to allow the Company to meet its financial obligations as they fall due. The Directors of the Company are satisfied that there are no material events or uncertainties that they are aware of which will impact the ability of the Company to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

2.4 Impact of new international reporting standards, amendments and interpretations

IFRS 9

There has been no material impacts on the Company's financial statements as a result of adopting IFRS 9 from 1 October 2018. As explained below in 2.16, there has been a change to the method in which impairment losses on financial assets are calculated. However, this change has not had a material impact on the Company's financial statements.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.4 Impact of new international reporting standards, amendments and interpretations (continued)

IFRS 15

There has been no impact on the Company's financial statements as a result of adopting IFRS 15 from 1 October 2018.

The recognition of management fees under IFRS 15 is consistent with its recognition under IAS 18.

2.5 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is UK Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.6 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Dividends receivable are accounted for as income when there is a legal right to receive.

2.7 Investments

Investments in subsidiaries are measured at cost less accumulated impairment. The cost for subsidiaries often comprise an element of deferred consideration. Deferred consideration is fair valued based on the Directors' estimate of future performance of the acquired entity.

Other investments comprises equity shares which are not held for the purposes of equity trading and in accordance with IFRS 9 is classified as fair value through Other Comprehensive Income. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in Other Comprehensive Income. There has been no impact to the value of these investments from adopting IFRS 9.

Investments are reviewed for impairment when events or circumstances indicate the carrying value may not be recoverable. Impairment losses are recognised in the Profit and Loss Account.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.8 Operating leases

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

2.9 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. The plan is closed to future accrual and the assets of the plan are held in separate trustee administered funds. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the Balance Sheet date less the fair value of plan assets at the balance sheet date out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in UK sterling and have terms approximating to the estimated period of the future payments ("discount rate").

The fair value of plan assets is measured in accordance with the fair value hierarchy and includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'remeasurement of defined benefit plan'.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the Profit and Loss Account.

2.10 Interest payable

Interest, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Profit or Loss Account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.11 Interest receivable

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.12 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

2.13 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.14 Share-based payments

The Directors are also Directors of Diploma PLC and receive part of their remuneration in the form of share-based payment transactions. The Directors and certain employees of Diploma Holdings PLC are invited by the Board to participate in the Diploma PLC 2020 Performance Share Plan whereby the Directors render services to the Company in exchange for shares in Diploma PLC. Accordingly, in accordance with GAAP in these accounts, the Share-based payments are accounted for as a cash-settled scheme, as the Company grants rights over its Parent shares (Diploma PLC) to its own employees. IFRS 2 requires that these awards are treated as cash-settled and a payable is recognised for this liability. The liability is re-measured at each reporting date and is moved to reserves in the Company's accounts upon exercise of these shares. The Group's consolidated financial statements continues to treat these schemes as equity-settled. Disclosure of the share-based payment schemes including shares granted and exercised is provided in the Group Annual Report & Accounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.15 Tangible assets

Tangible fixed assets under the cost model, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Freehold property	- 40 - 50 years
Fixtures and fittings	- 2 - 8 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Land is not depreciated.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

2.16 Debtors

Short term debtors, including amounts due from group undertakings, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment. This element of the accounting policy is unchanged following the adoption of IFRS 9 in the year ended 30 September 2019.

In assessing for potential impairment under IFRS 9, the company assesses on a forward looking basis the expected credit losses associated with its debtors carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. Until 30 September 2018, The Company assessed at the end of each reporting period whether there was objective evidence that a debtor was impaired. A debtor was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the debtor (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows from the debtor that could be reliably estimated.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

2. Accounting policies (continued)

2.17 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.

2.18 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.19 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Share capital

Ordinary shares are classified as equity and details of the Company's share capital is disclosed in note 20. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates. The Directors have considered whether there are any such sources of estimation or critical accounting judgements in forming the financial statements and do not determine there to be any for the purposes of disclosure.

DIPLOMA HOLDINGS PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

4. Management fees

Management fees comprise amounts charged to fellow group undertakings for the provision of management services and is recorded exclusive of Value Added Tax.

There are no contract assets or contract liabilities as at 30 September 2019 (2018: none).

Timing of revenue recognition:

	2019 £000	2018 £000
Goods and services transferred over time	2,443	2,294
	<u>2,443</u>	<u>2,294</u>

5. Operating loss

The operating profit is stated after charging / (crediting):

	2019 £000	2018 £000
Depreciation of tangible fixed assets	71	61
Operating lease payments	196	196
Exchange differences	1,685	(137)
Staff costs	9,489	6,642
	<u>9,489</u>	<u>6,642</u>

6. Auditors' remuneration

	2019 £000	2018 £000
Fees for the audit of the Company	12	12
	<u>12</u>	<u>12</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the Group Annual Report & Accounts.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

7. Employees

Staff costs, including Directors' remuneration, were as follows:

	2019 £000	2018 £000
Wages and salaries	5,869	4,379
Social security costs	691	782
Other pension costs	578	371
Share based payments	2,351	1,110
	<u>9,489</u>	<u>6,642</u>

The emoluments of Directors and the related pension costs in respect of the services of the Directors for executive management of Diploma PLC and its group of businesses includes £nil (£2018: £507,200) in respect of payments for loss of office.

The average monthly number of employees, including the Directors, during the year was as follows:

	2019 £000	2018 £000
Finance, IT and Admin	<u>15</u>	<u>15</u>

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

8. Directors' remuneration

	JE Nicholas 2019 £000	NP Lingwood 2019 £000	JD Thomson 2019 £000	JE Nicholas 2018 £000	NP Lingwood 2018 £000	BM Thompson 2018 £000	RI Ingram 2018 £000
Salary	62	333	402	14	323	303	191
Benefits	-	18	14	-	18	15	9
Pension	-	67	60	-	65	61	35
Annual Performance Bonus	-	240	603	-	323	625	-
Director emoluments	62	658	1,079	14	729	1,004	235
LTIPs - dividend equivalent (*)	-	39	-	-	46	102	-
LTIPs - performance element (**)	-	549	-	-	534	1,677	-
LTIPs - share appreciation element (**)	-	366	-	-	501	1,059	-
Total	62	1,612	1,079	14	1,810	3,842	235

In the above table, "LTIPs" refers to long term incentive plans, (*) denotes cash, and (**) denotes non-cash.

Further details and supportive analyses in respect of the Directors' emoluments included in the above table are set out on pages 46 to 59 of the Group Annual Report & Accounts.

9. Income from investments

	2019 £000	2018 £000
Dividends received from group undertakings	29,670	40,821

10. Other interest receivable and similar income

	2019 £000	2018 £000
Interest receivable on loans to group undertakings	880	805
Other interest receivable	26	31
	<u>906</u>	<u>836</u>

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

11. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	369	-
Interest payable on loans from group undertakings	1,906	1,509
Bank facility and commitment fees	175	107
Notional interest on the defined benefit pension scheme (note 23)	200	100
	<u>2,650</u>	<u>1,716</u>

12. Tax on profit

	2019 £000	2018 £000
Corporation tax		
Current tax credit on profit for the year	(1,772)	(1,653)
Adjustments in respect of previous periods	(28)	-
Total current tax credit	<u>(1,800)</u>	<u>(1,653)</u>
Deferred tax		
Origination and reversal of timing differences	5	121
Total deferred tax	<u>5</u>	<u>121</u>
Tax credit on profit for the year	<u>(1,795)</u>	<u>(1,532)</u>

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

12. Tax on profit (continued)

Factors affecting tax credit for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%). The differences are explained below:

	2019 £000	2018 £000
Profit before taxation	15,536	32,060
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	2,952	6,091
Effects of:		
Expenses not deductible for tax purposes	867	139
Short term timing difference leading to an increase in taxation	(3)	(19)
Dividends from UK companies	(5,611)	(7,756)
Foreign exchange gain tax relief	-	(22)
Changes in deferred tax	-	35
Total tax credit for the year	(1,795)	(1,532)

Factors that may affect future tax charges / (credits)

Following the 2020 Budget announcement, the rate of corporation tax has been held at 19% for financial years 2020 and 2021, despite a previously enacted reduction to the rate of corporation tax to 17% (previously effective 1 April 2020). Accordingly, if the rate changes are enacted, profits earned in future periods will be taxed at 19% rather than 17% and any deferred tax assets or liabilities will be revalued reflecting the latest enacted rate. The impact of this would not be material on deferred tax assets held at 30 September 2019.

13. Dividends paid

	2019 £000	2018 £000
Ordinary		
Interim dividend	15,000	15,000

Dividends of £0.30 per ordinary share (2018: £0.30) were paid during the year.

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

14. Tangible assets

	Land and freehold property £000	Fixtures and fittings £000	Total £000
Cost			
At 1 October 2018	1,000	535	1,535
Additions	-	23	23
At 30 September 2019	1,000	558	1,558
Accumulated depreciation			
At 1 October 2018	275	456	731
Charge for the year	25	46	71
At 30 September 2019	300	502	802
Net book value			
At 30 September 2019	700	56	756
At 30 September 2018	725	79	804

Land included above, but not depreciated is £281,000 (2018: £281,000)

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

15. Investments

	Investments £000
Cost and net book value	
At 1 October 2018	163,693
Additions	11,165
Transferred to assets held for sale	(630)
At 30 September 2019	<u>174,228</u>

Investments in subsidiary undertakings

On 2 September 2019, the Company acquired 100% of DMR Seals (Holdings) Limited and 100% of DMR Gaskets Limited (together 'DMR Seals') based in Sheffield, England, for initial cash consideration of £7,274,000. Deferred consideration of £600,000 is assumed to be payable based on the operating profit achieved in the 12 months ending 30 April 2020.

On 30 September 2019, the Company increased its investment in Diploma Australia Holdings Limited for consideration of £3,291,000 (A\$5,959,000).

A full list of subsidiary undertakings is shown below.

Other investments

As at 30 September 2019, the Company held a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"). The Group had no involvement in the day-to-day operations or management of JRPP.

In January 2020, the Company sold its stake in JRPP. The investment was held for sale as at 30 September 2019 and there was no material difference between the book value of this investment of £630,000 and its fair value.

DIPLOMA HOLDINGS PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

15. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Somagen Diagnostics Inc.	A	Ordinary	100%
AMT Surgical Inc.	B	Ordinary	100%
Vantage Endoscopy Inc.	B	Ordinary	100%
Big Green Surgical Company Pty Limited	C	Ordinary	100%
Diagnostic Solutions Pty Limited	C	Ordinary	100%
Diploma Healthcare Group NZ Limited	D	Ordinary	100%
Techno-Path (Distribution) Limited	E	Ordinary	100%
A1-CBISS Limited	F	Ordinary	100%
a1-envirosciences GmbH	G	Ordinary	100%
a1-envirosciences Limited*	F	Ordinary	100%
Hitek Limited*	F	Ordinary	100%
Hitek Group Limited*	F	Ordinary	100%
M Seals A/S	H	Ordinary	90%
M Seals AB	I	Ordinary	90%
M Seals UK Limited	F	Ordinary	100%
Diploma (Tianjin) Trading Co. Limited	J	Ordinary	100%
FPE Seals Limited	F	Ordinary	100%
A.B. Seals Limited*	F	Ordinary	100%
Swan Seals (Aberdeen) Limited	F	Ordinary	100%
FPE Seals BV	K	Ordinary	100%
Kentek Oy	L	Ordinary	90%
ZAO Kentek	M	Ordinary	90%
Kentek Eesti Ou	N	Ordinary	90%
SIA Kentek Latvija	O	Ordinary	90%
UAB Kentek Lietuva	P	Ordinary	90%
Kubo Tech AG	Q	Ordinary	100%
Kubo Form AG	Q	Ordinary	100%
Kubo Tech GmbH	R	Ordinary	100%
Totalseal Group Australia Pty Limited	S	Ordinary	100%
West Coast Industrial Supplies New Caledonia SAS	T	Ordinary	100%
DMR Seals (Holdings) Limited	F	Ordinary	100%
DMR Gaskets Limited	F	Ordinary	100%
DMR Seals Limited	F	Ordinary	100%
EDCO Seal and Supply Limited	F	Ordinary	100%
IS Rayfast Limited	F	Ordinary	100%
Amfast Limited*	F	Ordinary	100%
Clarendon Specialty Fasteners Limited	F	Ordinary	100%
Clarendon Engineering Supplies Limited*	F	Ordinary	100%
Cabletec Interconnect Component Systems Limited*	F	Ordinary	100%
Sommer GmbH	U	Ordinary	100%
Filcon Electronic GmbH	V	Ordinary	100%
Ascome Sarl	X	Ordinary	100%
Cablecraft Limited	F	Ordinary	100%
Birch Valley Plastics Limited	F	Ordinary	100%
Krempfast Limited	F	Ordinary	100%
Betaduct Limited*	F	Ordinary	100%
FSC Global Limited	F	Ordinary	100%
FS Cables Limited	F	Ordinary	100%
Hawco Limited	F	Ordinary	100%
Abbeychart Limited*	F	Ordinary	100%
HA Wainwright Limited*	F	Ordinary	100%
FSC UK Limited*	F	Ordinary	100%

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

15. Investments (continued)

Subsidiary undertakings (continued)

Name	Registered office	Class of shares	Holding
Hawco Refrigeration Limited*	F	Ordinary	100%
IS Group (Europe) Limited*	F	Ordinary	100%
Specialty Fasteners Limited*	F	Ordinary	100%
Specialty Fasteners & Components Limited*	F	Ordinary	100%
Caplink Limited	F	Ordinary	100%
Microtherm UK Limited*	F	Ordinary	100%
Actios SAS	Y	Ordinary	100%
Deem Electronic & Electric Material Co. Limited	Z	Ordinary	70%
Gremtek SAS	Y	Ordinary	100%
Gremco UK Limited	F	Ordinary	100%
Gremtek GmbH	W	Ordinary	100%
Sphere Surgical Pty Limited	C	Ordinary	100%
Aspire Surgical Pty Limited	C	Ordinary	100%
Pride Limited	F	Ordinary	100%
Diploma Australia Holdings Limited	F	Ordinary	100%
Diploma Canada Holdings Limited	F	Ordinary	100%
Napier Group Limited	F	Ordinary	100%
Williamson Cliff Limited	F	Ordinary	100%
Newlandglebe Limited	F	Ordinary	100%
Diploma Germany Holding GmbH	U	Ordinary	100%
Diploma Canada Healthcare Inc.	A	Ordinary	100%
Diploma Australia Healthcare Pty Limited	C	Ordinary	100%
Diploma Australia Seals Pty Limited	C	Ordinary	100%

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

15. Investments (continued)

Subsidiary undertakings (continued)

Registered offices

- A: 3400 First Canadian Centre, 350-7th Avenue SW, Calgary, Alberta T2P 3N9, Canada.
- B: 333 Bay St., Suite 2400, Toronto, Ontario M5H 2T6, Canada.
- C: 46 Albert Street, Preston, Victoria, 3072, Australia.
- D: Office of Bendall & Cant Ltd, Southern Cross Building, 61 High Street, Auckland, New Zealand.
- E: Fort Henry Business Park, Ballina, Co. Tipperary, Ireland.
- F: 12 Charterhouse Square, London, EC1M 6AX, UK
- G: Eichsfelder Strasse 1, 40595, Düsseldorf, Germany.
- H: Bybjergvej 13, DK 3060, Espergaerde, Denmark.
- I: Industrivagen 17, SE-302, 41 Halmstad, Sweden.
- J: 18 Fuyuandao Road, Wuqing Development Area, Tianjin, China.
- K: Industrieterrein Dombosch 1, Effweg 38, 4941 VP Ramsdonksveer, the Netherlands.
- L: Nuolikuja 8, FI-01740, Vantaa, Finland.
- M: Dom 2, Liter B, Proezd Mebel'nyj, 197374, St. Petersburg, Russia.
- N: Laki tn 16, Kristiine linnaosa, Tallinn, Harju maakond, 10621, Estonia.
- O: Maskavas iela 459, Riga, LV-1063, Latvija.
- P: Vilniaus r. sav., Bukiškio k., Biciulių g. 29, Lithuania.
- Q: Im Langhag 5, 8307 Illnau-Effretikon, Switzerland.
- R: Lederergasse 67, AT-4020 Linz, Austria
- S: 72 Platinum Street, Crestmead, Queensland, 4132, Australia
- T: A 22 Avenue des Géomètres Pionniers, ZAC PANDA – 98835, Dumbéa, New Caledonia
- U: Kraichgaustrasse 5, D-73765 Neuhausen, Germany
- V: Rotwandweg 5, D-82024, Taufkirchen/München, Germany
- W: 20-24 Robert Bosch Strasse, 25451 Quickborn, Germany
- X: 10, allée du Vivier, 72700 Allonnes, France.
- Y: 58 rue du Fosse blanc, 92230 Gennevilliers, France
- Z: N°25-15A Yao Bei Road, Yao Jia Industrial Zone, Ganjingzi District, Dalian, China

DIPLOMA HOLDINGS PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

16. Debtors

	2019 £000	2018 £000
Due after more than one year		
Amounts owed by group undertakings	-	10,689
Deferred tax asset	2,143	1,250
	<u>2,143</u>	<u>11,939</u>
	<u><u>2,143</u></u>	<u><u>11,939</u></u>
Due within one year		
Amounts owed by group undertakings	88,558	14,651
Other debtors	1,349	1,323
	<u>89,907</u>	<u>15,974</u>
	<u><u>89,907</u></u>	<u><u>15,974</u></u>

The amounts due by Group undertakings comprises a loan to Diploma Germany Holding GmbH of £10,617,000 (€12,000,000) (2018: £10,689,000 (€12,000,000)) where interest payable is charged at 12 months Euribor + 3%. The loan is unsecured and repayable on demand. This loan is included within the amounts owed by group undertakings due within one year (2018: due after more than one year).

Except as explained above, the amounts owed by Group undertakings due within one year are repayable on demand and are interest free (2018: same).

There is no loss allowance included within the amounts owed by group undertakings. Management has assessed the expected credit loss for amounts owed by group undertakings and other debtors in accordance with IFRS 9 and has concluded that no impairment provision is required (2018: none).

17. Creditors: Amounts falling due within less than one year

	2019 £000	2018 £000
Bank overdrafts	861	-
Amounts owed to group undertakings	62,933	49,583
Deferred consideration	600	1,000
Other creditors and accruals	3,843	4,553
	<u>68,237</u>	<u>55,136</u>
	<u><u>68,237</u></u>	<u><u>55,136</u></u>

The amounts owed to group undertakings primarily comprise of short term funding balances, which are repayable on demand and are interest free, except for a loan owed to Diploma Canada Holdings Limited on which interest is charged at UK base rate plus 4% (2018: same).

DIPLOMA HOLDINGS PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

18. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Bank loans	42,116	-
Share-based payment liability	1,689	-
	<u>43,805</u>	<u>-</u>

The Company has a committed multi-currency revolving facility of £30,000,000. In May 2019, the Company formally extended this facility for a further two years to 1 June 2022. The facility has an accordion option to increase the committed facility by a further £30,000,000 up to a maximum of £60,000,000. At 30 September 2019, the Company had utilised £6,149,000 of this facility (2018: £nil). Interest on this facility is payable between 70–115bps over LIBOR, depending on the ratio of net debt to EBITDA.

On 8 July 2019, the Company extended its facilities with a new two-year term loan for an aggregate principal amount of £40,000,000 which was fully drawn and lent to Diploma Holdings Inc., a company under the common control of the Group, to assist with the funding of the acquisition of VSP Technologies Inc. At 30 September 2019, £35,967,000 of this loan was outstanding, which is repayable in full by 7 July 2021, but can be extended. Interest on this facility is payable between 90–135bps over LIBOR, depending on the ratio of net debt to EBITDA.

19. Deferred taxation

	2019 £000	2018 £000
At 1 October	1,250	1,065
Charged to profit or loss	(5)	(121)
Credited to other comprehensive income	935	306
Charged directly to equity	(37)	-
At 30 September	<u>2,143</u>	<u>1,250</u>

DIPLOMA HOLDINGS PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

19. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	(55)	(68)
Pension deficit	2,033	1,156
Other timing differences	165	162
	<u>2,143</u>	<u>1,250</u>

The deferred tax asset is recognised on the basis of an expectation of sufficient future profits in the short term against which future reversal of the timing may be deducted. There is no unprovided or unrecognised deferred tax.

20. Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
50,328,720 (2018 - 50,328,720) Ordinary shares of £0.05 each	<u>2,516</u>	<u>2,516</u>

21. Share based payments

The charge for share-based payments relates to the Group's Long Term Incentive Plan. Further details of this award scheme is described in the Remuneration Committee Report of the Annual Report & Accounts of the Group.

22. Reserves

Share premium account

The share premium account represents a premium on the issue of ordinary share capital in the Company.

Capital redemption reserve

The capital redemption reserve maintains the nominal value of the equity share capital of the Company when the shares are repurchased or cancelled.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

23. Defined benefit pension liability

The Company maintains a defined benefit pension scheme in the UK called the Diploma Holdings PLC UK Pension Scheme ("the Scheme"). The Scheme is closed to new entrants and to future accrual since 5 April 2000 and the assets of the Scheme are held in separate trustee administered funds. The Scheme is funded in accordance with rates recommended by an independent qualified actuary on the basis of triennial or shorter period reviews using the projected unit method. This Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

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 and the results of the valuation will be reported in the 2020 Annual Report and Financial Statements. 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.

	2019 £000	2018 £000
Amounts recognised in the Balance Sheet are as follows:		
Fair value of plan assets	30,700	29,500
Present value of plan liabilities	(42,700)	(36,300)
Net pension scheme liability	(12,000)	(6,800)

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In addition to the Buy-In policy, the pension scheme net deficit includes £3.5m (2018: £3.5m) of historic annuities and related assets on a net basis, rather than on a gross basis.

	2019 £000	2018 £000
The amounts recognised in the Profit and Loss account are as follows:		
Interest cost on liabilities	(1,000)	(1,000)
Charged to operating profit	(100)	-
Interest on assets	800	900
Total	<u>(300)</u>	<u>(100)</u>

	2019 £000	2018 £000
The amounts recognised in Other Comprehensive Income are as follows:		
Investment gain/(loss) on scheme assets in excess of interest	1,800	(1,800)
Effect of changes in financial assumptions on scheme liabilities	(7,200)	600
Effect of changes in demographic assumptions on scheme liabilities	-	(600)
Actuarial (losses) recognised in Other Comprehensive (Expense)/Income	<u>(5,400)</u>	<u>(1,800)</u>

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was £13.0m (2018: £7.6m).

Analysis of movement in the pension deficit

	2019 £000	2018 £000
At 1 October	6,800	5,400
Amounts charged to the Profit and Loss Account	300	100
Contributions paid by employer	(500)	(500)
Net effect of remeasurements of Scheme assets and liabilities	5,400	1,800
At 30 September	<u>12,000</u>	<u>6,800</u>

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	2019 £000	2018 £000
Reconciliation of present value of plan liabilities		
At 1 October	36,300	36,300
Interest cost on liabilities	1,000	1,000
Past service cost	100	-
Actuarial losses	7,200	-
Benefits paid	(1,900)	(1,000)
At 30 September	42,700	36,300
	2019 £000	2018 £000
Reconciliation of present value of plan assets		
At 1 October	29,500	30,900
Interest income	800	900
Actuarial gains/(losses)	1,800	(1,800)
Contributions	500	500
Benefits paid	(1,900)	(1,000)
At 30 September	30,700	29,500
	2019 £000	2018 £000
Composition of plan assets:		
Equities*	19,300	20,000
Buy-in policy**	11,300	9,500
Bonds	-	-
Cash	100	-
	30,700	29,500

* Quoted market price in an active market.

** The Buy-In policy was valued on the same basis as the underlying pensioner liabilities.

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Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2019, the major categories of assets were as follows:

	2019 %	2018 %
North American equities	16	17
UK equities	16	17
European equities (non-UK)	16	17
Asia Pacific and Emerging Markets equities	16	17
Buy-In policy	36	32

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2019 %	2018 %
Discount rate	1.8	2.9
Expected rate of pension increases - CPI	2.4	2.4
Inflation assumption - RPI	3.4	3.4
Inflation assumption - CPI	2.4	2.4

Demographic assumptions:

The mortality table used is S2NxA as published in CMI 2017.

The allowance for future improvements in longevity used was year of birth projections, with a long term improvement rate of 1.0%. It is assumed that members will take a 100% lump sum on retirement being their maximum cash sum available (based on current commutation factors).

DIPLOMA HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2019

The sensitivities of the 2019 pension liabilities to changes in assumptions are as follows:

	Estimated increase %	Estimated increase £000
Discount rate - 0.5% decrease	9.1	3.9
Inflation - 0.5% increase	4.2	1.8
Life expectancy - 1 year increase	3.3	1.4

When setting the investment strategy for the Scheme, the Trustees, in conjunction with the employer, take into account the liability profile of the Scheme. The current strategy is designed to invest in growth assets in respect of deferred pensioners. Annuity policies have been taken out in respect of some historic pensioners, but the Scheme has not purchased annuities for retirements since 2005.

In addition to these individual annuity policies, the Trustees have purchased a Buy-In policy for all existing pensioners as at 1 September 2018. The Buy-In policy secures the Scheme against both market and mortality risk relating to these pensioners. The Scheme however remains liable ultimately for the liabilities, should the insurance company which sold the liabilities go into insolvent liquidation.

24. Commitments under operating leases

At 30 September the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	2018 £000
Land and buildings		
Not later than 1 year	195	128
Later than 1 year and not later than 5 years	620	383
Later than 5 years	360	-
	<u>1,175</u>	<u>511</u>

25. Controlling party

The Company's immediate and ultimate parent undertaking and ultimate controlling party is Diploma PLC, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The registered office address of the immediate and ultimate parent undertaking is the same and consistent with below.

Copies of the Annual Report & Accounts of Diploma PLC for the year ended 30 September 2019 can be obtained from the Group Company Secretary at 12 Charterhouse Square, London, EC1M 6AX.