Diploma PLC
Annual Report and Accounts 2009

Diploma PLC is an international group of businesses supplying specialised technical products and services

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Group at a Glance

Sectors

Life Sciences
31%
of revenues
207 employees

Seals
30%
of revenues
358 employees

Controls
39%
of revenues
248 employees

Geography*

Europe
50%

UK & Eire	25%
Continental Europe	25%

North America
44%

US	19%
Canada	25%

Rest of World
6%

* revenue by destination

What makes us different

Resilient Revenues
We focus on essential products and services funded by customers' operating rather than capital budgets, giving stability to revenues

Attractive Margins
Our attractive margins are sustained through the quality of customer service, the depth of technical support and value adding activities

Focused Management
In the operating businesses, strong committed management teams execute well formulated development strategies

Value Enhancing Acquisitions
Carefully selected, value enhancing acquisitions accelerate the organic growth strategy and take us into new but related markets

Strong Cash Flow
An ungeared balance sheet and strong cashflow fund our growth strategy while providing healthy dividends

Financial Highlights

Year ended 30 September

Continuing Businesses‡	2009 £m	2008 £m	
Revenue	**160.0**	156.2	+2%
Operating profit*	**25.6**	26.6	-4%
Operating margin*	**16.0%**	17.0%	
Adjusted profit before tax*†	**25.5**	26.8	-5%
Profit before tax	**20.5**	21.1	-3%
Free cash flow	**23.5**	17.7	+33%

Continuing Businesses‡	Pence	Pence	
Adjusted earnings per share*†	**14.8**	16.0	-8%
Basic earnings per share	**10.8**	11.4	-5%
Total dividends per share	**7.8**	7.5	+4%
Free cash flow per share	**20.8**	15.6	+33%

* Before amortisation of acquisition intangible assets

† Before fair value remeasurements

‡ The Anachem business has been classified as discontinuing and its results excluded from the analysis in 2009 and 2008.

Note: Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted profit before tax, adjusted earnings per share and free cash flow. The narrative on pages 2 to 37 is based on these alternative measures and an explanation is set out in note 2 to the consolidated financial statements.

Chairman's Statement

Resilient revenue and profit performance and strong free cash flow

John Rennocks
Chairman

The Diploma Group demonstrated the resilience of its business model in the face of the global recession which impacted most markets and geographies from early in the financial year. The Group drew strength from its spread of sectors and geographies, as well as the focus on providing consumable products and services to specialised market sectors. Where revenues were reduced, the Group's businesses reacted quickly to scale back operating costs and working capital and reduce balance sheet exposure.

Although underlying Group revenues and operating profits were reduced, operating margins were held to a creditable 16% in the continuing businesses and free cash flow of £23.5m was generated in the year. This enabled the Group to continue to invest selectively in new growth initiatives which will bring rewards as markets eventually recover.

Results and Dividends

Shortly after the financial year end, contracts were exchanged for the disposal of the Manual Liquid Handling business of Anachem for cash proceeds up to a maximum of £8.6m; the results of Anachem for the year ended 30 September 2009 have been classified as discontinuing.

In 2009, Group revenue from the continuing businesses increased by 2% to £160.0m (2008: £156.2m). Operating profit, before the amortisation of acquisition intangible assets, decreased by 4% to £25.6m (2008: £26.6m) and operating margins reduced to 16.0% (2008: 17.0%).

Adjusted profit before tax from the continuing businesses decreased by 5% to £25.5m (2008: £26.8m) and adjusted earnings per share declined 8% to 14.8p (2008: 16.0p). Including the discontinuing business, adjusted profit before tax was £26.7m (2008: £27.5m) and adjusted earnings per share 15.6p (2008: 16.4p).

The strong cash flow performance is reflected in an increase of 33% in free cash flow from the continuing businesses to £23.5m (2008: £17.7m). Cash flow of £1.7m was added by the discontinuing business and £12.2m invested in the acquisition of businesses. At 30 September 2009, cash funds had increased by £5.6m to £21.3m (2008: £15.7m).

In recognition of the strong free cash flow and resilient earnings performance, the Board proposes to increase the final dividend by 6% to 5.3p (2008: 5.0p). The total dividend for the year will increase by 4% to 7.8p (2008: 7.5p).

Management and Employees

The experience, knowledge and skills of our employees continue to be a crucial element in the success of the Group. As the economic outlook has deteriorated however, there has been a need to reduce the number of people employed in several of the Group's businesses to match the requirements of their contracting markets. I wish to thank all of our employees for their understanding and hard work throughout a challenging year.

Outlook

The Board anticipates that the 2010 financial year will continue to be challenging and is not planning for early recovery in trading activity. The Board remains confident however in the resilience of the Group's model and the strength of its cash flow. The Group therefore is well positioned to take advantage of growth opportunities which should come with market recovery.

John Rennocks
Chairman

16 November 2009

Chief Executive's Review

The Group focused on short term performance, while selectively investing for longer term growth

Bruce Thompson
Chief Executive Officer

Strategy and Performance

The Group comprises a number of high quality, specialised businesses supplying technical products and services and operating in the three broad industry sectors of Life Sciences, Seals and Controls. The businesses aim to achieve stable revenue growth through the focus on essential products and services funded by customers' operating, rather than capital budgets. Attractive margins are sustained through the quality of customer service, depth of technical support and value adding activities. The Group's strategic objective is to build more substantial, broader based businesses in the chosen sectors through a combination of organic growth and acquisition.

This year has proved a real test of this strategy as the Group's operating businesses, while demonstrating their resilient characteristics, still felt the effects of the dramatic downturn in the global economy. The Group's revenues from the continuing businesses increased by 2% over the prior year; underlying revenues reduced by 12%, after adjusting for currency translation effects and contributions from acquisitions.

The downturn impacted early in the year and the Group's businesses reacted quickly and decisively to re-focus efforts on optimising performance at the reduced revenue levels. Cost reduction programmes implemented in the first half of the year, reduced the total headcount and net monthly costs for the continuing businesses by 10% and 6% respectively by the end of the year.

Operating margins were held to a creditable 16.0% (2008: 17.0%) and operating profits of the continuing businesses reduced by 4% to £25.6m (2008: £26.6m). After adjusting for currency effects, acquisitions and costs of specific overhead reduction programmes, underlying operating profits reduced by ca. 10%.

Close attention has also been applied to maximising cash flow and reducing balance sheet exposure. Working capital and in particular inventory, was sharply reduced in those businesses with reduced revenues and this resulted in a strong increase in operating cashflow. The Group's total free cash flow from continuing businesses increased by 33% to £23.5m (2008: £17.7m) and the Group closed the year with cash balances at 30 September 2009 of £21.3m (2008: £15.7m).

Sector developments

At the sector level, in addition to the focus on short term performance, the businesses have continued to invest selectively in new growth initiatives which will position them well to gain early benefit from any market recovery. Key developments in each sector are summarised below.

Life Sciences

The Healthcare businesses in Canada, now managed together through the newly formed Diploma Canada Healthcare Inc. ("DCHI"), continued to make good progress, increasing revenues by 10% in Canadian dollars and 20% in UK sterling. The DCHI businesses supply into the public sector funded Healthcare sector where overall funding has grown steadily over many years, but with increased focus now on the cost-effective use of public sector health funds.

Capital expenditure budgets in hospitals have been more tightly controlled this year and instrument purchases have been limited to those which can demonstrate clear performance and/or efficiency benefits. The DCHI businesses have responded by taking a pro-active approach to renewing existing supplies contracts and targeting new contracts. Through these initiatives, there has been a strong growth in the underlying supplies component of the businesses, which represents the larger part of DCHI revenues.

DCHI continues to look for opportunities to accelerate growth by securing new suppliers for the existing businesses, or by acquiring complementary businesses which bring these new product lines. The bolt-on acquisition of Meditech in November 2008, consolidated DCHI's position as a leading supplier of products and services to the growing in-vitro fertilisation ("IVF") market, represented by the ca. 30 dedicated IVF clinics across Canada.

In the European environmental businesses, sales of consumable products and services have again held up well, but capital equipment sales have suffered from decisions by customers to defer capital expenditure. In response to the 9% reduction in revenues, operations have been restructured to increase the focus on segments which offer long term growth potential, while reducing costs.

Where the growth potential for any Group business is limited for market or supplier reasons, consideration has to be given to whether the business may perform better under different ownership. This was the case with the Manual Liquid Handling ("MLH") business of Anachem Limited. In October 2009, after the year end, a contract was signed for the disposal of the MLH business to one of its principal suppliers; the transaction is due to complete in January 2010.

Seals

The Seals sector businesses have been most impacted by the downturn in the global economy, since the principal market drivers are the growth in the industrial economy and in particular heavy construction. The core Aftermarket business demonstrated its resilient characteristics with revenues reducing less than the broader market. However, the major impact of the downturn was felt by the Industrial OEM businesses (RTD Seals and M Seals) and those businesses which primarily supply to construction equipment dealers (Bulldog and HKX).

With underlying revenues reducing by 21% (after adjusting for currency effects and acquisitions), the main short term priority has been to optimise performance at the reduced revenue levels. Substantial cost reduction programmes led to a reduction in the headcount and monthly operating expenses of 15% and 9% respectively. Working capital has also been reduced sharply which generated free cash flow of £8.6m, an increase of 76% over the prior year.

As in previous cyclical downturns, the Seals businesses have maintained focused investment in a small number of strategic projects to ensure that they emerge stronger and well placed to exploit growth opportunities, as the markets recover. This year, advantage was taken of the reduced activity levels to complete the installation of the new warehouse automation and carousel system in Hercules' main Clearwater operations. The investment in the project this year has been £0.9m and results will be seen in improved operational leverage, as volumes increase.

In addition, continued investment has been applied to establishing the Hercules Europe Aftermarket business, despite unfavourable current market conditions. A further £0.3m has been invested in relocating the business to a new facility, building appropriate inventory and distributing a new 4-language seal and seal kit catalogue. As market conditions improve, Hercules Europe will be well placed to build market share.

Finally, HFPG completed the acquisition of RTD Seals in January 2009 for a consideration of £10.1m. RTD Seals is a good sized, long established supplier to industrial OEMs with a strong market position in the Mid-Western states in the US. RTD Seals made a positive contribution of £0.7m to operating profits in very difficult trading conditions and is well positioned to gain early benefit from any market recovery.

Controls

With a large proportion of revenues generated in the UK and Germany and a wide range of product applications, the underlying market drivers are the growth of the UK and German industrial economies. In both countries, real GDP and manufacturing output fell markedly over the year, with the UK entering recession in late 2008 and Germany following early in 2009.

While strongly influenced by the general industrial economic environment, the Controls businesses focus on more specialised, technology driven market segments. The businesses have benefited in particular from the stronger market conditions in the Defence and Military Aerospace sectors. With a larger part of the revenues generated from repair, refurbishment and upgrade programmes, the Controls businesses have been less exposed to cut-backs and delays in major capital programmes.

The Medical equipment sector has also remained strong, but other sectors have performed less well, including general Industrial, Motorsport and Commercial Aerospace. Against this market background, the Controls businesses saw revenues reduce by 10% in UK sterling terms, a reduction of 15% in local currency terms. As with other sectors, the Controls businesses have reacted quickly by implementing cost reduction programmes. Sector headcount and monthly operating expenses reduced by 10% and 8% respectively over the course of the year.

Further progress was made during the year in building a more substantial, more integrated business around the IS-Group. The Cabletec manufactured products were made available to the IS-Group's European network of

Chief Executive's Review
The Group continues to deliver against Key Performance Indicators

sub-distributors. In addition, the portfolio of high performance wiring and interconnect products, which share common suppliers, was aligned under a single management team which will bring benefits in purchasing, stock management and cross-European sales opportunities.

Key Performance Indicators ("KPI's")

EPS and TSR Growth

The principal metrics used in measuring Group performance over the longer term are growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR").

Adjusted EPS for the continuing businesses fell back this year by 8% to 14.8p (2008: 16.0p), but measured over a longer period, adjusted EPS has grown by an average of 16% p.a. over the last five years. Over the same five year period, TSR has grown by 81% compared with growth of 68% in the TSR for the FTSE 250 index.

The Group uses four further financial KPI's which drill down through the organisation and are used as the principal quantitative elements in the short and long term incentive programmes for senior management of the operating businesses. Performance against these KPIs is summarised below.

Revenue Growth

In 2009, the operating businesses were impacted by the dramatic downturn in global economies and markets, but benefited from currency translation effects and contributions from acquisitions. Revenue from continuing businesses increased by 2% in the year, though on an underlying basis adjusted for currency effects and acquisitions, revenues declined by 12%. Over five years, revenue has grown at 14% p.a. through a combination of organic growth and acquisitions.

Operating Margin

As revenues reduced in 2009, cost reduction programmes were quickly initiated. However, the impact of these programmes has lagged the revenue reduction and has not been sufficient to offset the effects of operational leverage. Operating margins therefore reduced in the year but remain at a healthy 16.0%, close to the average of 16.3% over the last five years.

Free Cash Flow

The Group is strongly cash generative over the business cycle; over the last five years, an average of 99% of adjusted profit after tax has been converted into free cash flow. In 2009, in response to the reduction in trading levels, working capital was reduced sharply which resulted in a strong increase in operating cashflow. With capital expenditure focused on a small number of strategic projects, free cash flow of £23.5m was generated, an increase of 33% over the prior year.

Return on Trading Capital Employed

Over the previous five years, return on trading capital employed has remained consistently above 20%. In 2009, this has reduced to 19.0%, partly because of the impact of the weak UK sterling on overseas trading capital employed.

Non Financial KPIs

In the operating businesses, non financial KPIs are used which are tailored to the particular requirements and characteristics of each business. At the Group level, non financial KPIs measure the success in managing two key elements of the strategy, the management of human resources and acquisitions.

In 2009, the key employee statistics were broadly maintained in a year when there were significant headcount and cost reduction programmes. Two acquisitions were also completed in a difficult environment where the supply of good quality acquisitions, with owners who are ready to sell, has been limited.

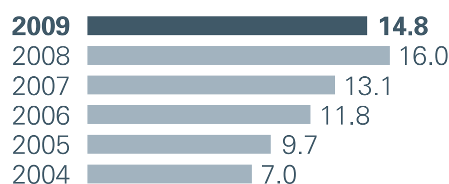
The Group has delivered a resilient revenue and profit performance, together with exceptionally strong free cash flow, despite the recessionary environment impacting most of its key markets. The Group has reacted quickly and decisively in bearing down on operating costs and working capital, while still investing in selected growth initiatives. The Group is well positioned to benefit from any market recovery.

Bruce Thompson
Chief Executive Officer

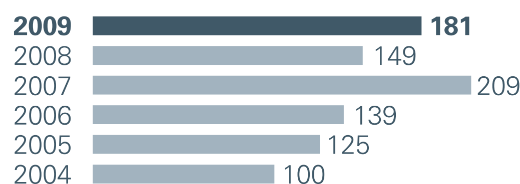
16 November 2009

Five year performance

Adjusted EPS (pence): 16% p.a. growth



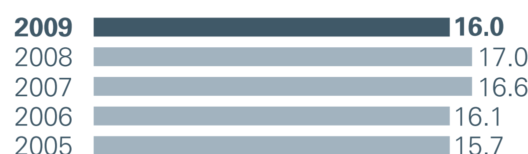
TSR growth: +81% (compared with FTSE 250 +68%)



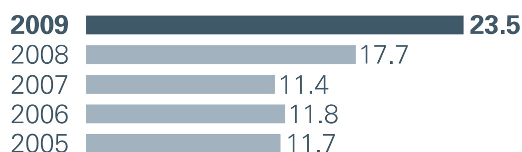
Financial KPI's

Revenue growth (£m)

Operating margin (%)



Free cash flow* (£m)



*excluding the sales of surplus land and buildings

ROTCE† (%)

†TCE includes goodwill and intangible assets

Non financial KPI's

Key employee statistics

	2007	2008	2009
Number of employees	712	833	823
Males as % of total	64%	65%	66%
Length of service (years)	5.2	5.2	6.4
Average staff turnover	21.1%	20.2%	18.3%
Sick days lost per person	2.9	3.4	3.6

Acquisition overview

	Life Sciences	Seals	Controls
2009	Meditech	RTD Seals	
2008	Hitek	Snijders	
2007	AMT	M Seals	Cabletec
2006	CBISS		
2005		HKX	

Directors and Advisors

Our experienced Board focuses on strategy, financial control and risk management

JL Rennocks
Non-Executive Chairman

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director and Company Secretary

I Henderson
Chief Operating Officer

JW Matthews
Non-Executive

IM Grice
Non-Executive

JL Rennocks FCA (64)*†‡

Non-Executive Chairman

Joined the Board in July 2002. He is Chairman of Nestor Healthcare plc, Deputy Chairman of Inmarsat plc and a non-Executive Director of Babcock International Group PLC and of other companies. He has previously been Executive Director Finance at Corus Group Plc and Finance Director of PowerGen Plc and Smith & Nephew plc.

NP Lingwood ACA (50)

Group Finance Director and Company Secretary

Joined the Company in June 2001 and appointed Group Finance Director on 3 July 2001. Prior to joining Diploma, he was Group Financial Controller of Unigate PLC, having previously qualified with Price Waterhouse, London.

JW Matthews FCA (65)*†‡

Non-Executive

Joined the Board in 2003. He is Chairman of Regus Group plc. He has previously been Chairman of Crest Nicholson plc and was a Managing Director of County NatWest and Deputy Chairman/Deputy Chief Executive of Beazer plc.

BM Thompson (54)

Chief Executive Officer

Joined the Board in 1994 and appointed Chief Executive Officer in 1996. He started his career in the automotive industry, first as a design engineer and then in marketing. Prior to joining Diploma, he was Director of Arthur D Little Inc's Technology Management Practice in the United States.

I Henderson (53)

Chief Operating Officer

Joined the Board as a Director in 1998. He was previously a Director of Glenchewton plc and ANC Holdings Limited.

IM Grice (56)*†‡

Non-Executive

Joined the Board in January 2007. He is Chairman of Pims Group Limited and a non-Executive Director of John Graham Holdings Limited. He was Group Chief Executive of Alfred McAlpine plc until February 2008.

Investment Bankers:
Lazard & Co
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers:
Panmure Gordon & Co
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London EC2N 6XB

Solicitors:
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Auditors:
Deloitte LLP
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London EC4A 3BZ

Bankers:
Royal Bank of Scotland
62-63 Threadneedle Street
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Member of:
* the Remuneration Committee
† the Audit Committee
‡ the Nomination Committee

Strategy and Performance

Group Strategy

The Group comprises a number of high quality, specialised businesses supplying technical products and services and operating in the three broad industry sectors of Life Sciences, Seals and Controls. The businesses aim to achieve stable revenue growth through the focus on essential products and services funded by customers' operating, rather than capital budgets. Attractive margins are sustained through the quality of customer service, depth of technical support and value adding activities. The Group's strategic objective is to build more substantial, broader based businesses in the chosen sectors through a combination of organic growth and acquisition. There are a number of core themes which underpin the strategies of the Group and its operating businesses:

Focus on markets which can deliver stable revenue growth

The businesses aim to achieve stable revenue growth by focusing on markets where the demand is funded by operating budgets which are less impacted by economic cycles than capital budgets. A high proportion of the Group's revenues are generated from consumable products and service contracts and in many cases the products will be used in repair, maintenance and refurbishment applications, rather than original equipment manufacture. Where public sector funding or regulation is involved, year on year changes in funding may also be less dramatic.

In Life Sciences, the Canadian businesses supply into the public sector funded Healthcare sector which, over many years, has been growing steadily at the rate of 6-7% p.a. Annual variations are mostly dependant on the periodic additional tranches of funding provided by individual Provinces. Additional stability is provided in this sector by multi-year customer contracts for consumables and service which underpin at least 60% of sector revenues. The European environmental businesses supply to utilities and other industrial customers where the demand is largely driven by Environmental and Health & Safety regulations.

In Seals, the core business is the next day delivery of seals and seal kits used in the repair and maintenance of heavy mobile machinery. This focus on the Aftermarket means that the businesses, though not immune from a market downturn, are relatively insulated from the extremes of the business and economic cycles. The risk profile of the business this year has been improved by extending further into international markets, with the further investment in Hercules Europe and into industrial OEMs, through the acquisition of RTD Seals. In 2009, 33% of sector revenues were generated in international markets outside North America and Industrial OEMs now account for ca. 23% of sector revenues.

In Controls, the businesses offer specialised products and services used in technically demanding applications. They have demonstrated a more resilient performance than the general industrial economies in which they operate, by focusing on more buoyant markets including Defence, Aerospace and Medical Equipment.

Strong customer relationships underpinned by full service offering

Sales and marketing are the main drivers for each of the businesses. With a background in specialised distribution it is natural to start with the needs of key customers and then to design the business models to respond to these requirements in terms of products, service offerings and operational responsiveness.

A key priority for the businesses is to build strong customer relationships within selected product and market segments. Attractive margins are sustained over time by providing a range of services to customers which they value and are prepared to pay for. Such services fall broadly into three categories – customer service, technical support and value added activities.

Customer service can be, for example, the delivery of products held in inventory on a next day basis. Technical support is often provided by helping customers design the product into their specific applications. Value adding activities are services such as kitting or assembly, which the customers would have to pay someone else to provide, or they would have to invest in their own resources.

Ultimately, customers will always demand competitive product performance, pricing and responsive delivery. However, the broader service offering builds stronger links with the customers at many levels, making switching more difficult.

If real value is not provided to customers, margins will erode over time. The evidence that value is being delivered to customers is provided by the stability over time of the Group's gross margins in specific product and market segments. Over five years, average group gross margins have remained stable at ca. 36%. Shorter term movements in gross margin principally arise due to changes in the mix of business or short term currency movements.

Secure supply of quality differentiated products

Given the specialised nature of the businesses, it is critical that they have a secure supply of quality, differentiated products. There are a number of ways that this can be achieved and each business uses a blend to develop their product portfolios:

- Quality manufacturer-branded products supplied on an exclusive basis, typically secured with long term distribution agreements.
- Own brand products supplied or manufactured under contract.
- Selective in-house manufacturing and assembly.

Securing quality differentiated products is seen as a continuous process rather than a one-off activity. Over time, products in the portfolio will become less competitive and it is important that the businesses have plans for selective new product development and for the introduction of new suppliers, for example through Somagen's bolt-on acquisition this year of Meditech.

The Life Sciences and Controls businesses mostly source high quality, manufacturer branded products under exclusive, long term contracts. These contracts are typically 3-5 years in duration but in some cases extend to ten years. These manufacturer branded products are supplemented selectively with own brand and manufactured products. The a1-group has improved competitiveness by developing its own range of containment products which are now manufactured by reliable sub-contractors. Cabletec has also had success with its own range of manufactured products, including flexible braided products and multi-core cables.

In Seals, the aftermarket products are marketed under the businesses' own brand names including Hercules, Bulldog and HKX. Products are sourced globally from a range of manufacturers and security of supply is provided by the control of the brands and the cultivation of multiple alternative suppliers. In supplying Industrial OEM's, more emphasis is placed by M Seals and RTD Seals on the manufacturer brands.

Motivated and committed management teams
The Diploma organisational philosophy is to develop strong, self-standing management teams in the operating businesses committed to, and rewarded according to, the short and long term success of their businesses. The small corporate team focuses on strategy and financial control.

The development of strong managers and management teams remains a priority for the Group and is key to the successful implementation of the business strategies. The Group needs to maintain and develop a group of managers with the potential to manage aggressive growth strategies. Importantly they must be able to motivate their staff and engender in them the same commitment.

To achieve this, the businesses concentrate on ensuring a challenging work environment and appropriate reward systems. Balanced compensation packages are a combination of competitive salaries, annual bonuses and long term incentive plans targeted at the individual business level.

The cadre of ca. 50 senior managers in the operating businesses, demonstrate a good blend of energy, ambition and experience. The average age of these managers is 45 and they have an average length of service within their companies of ten years.

Efficient and responsive operations and information systems
Continuing, substantial investments are made in infrastructure and systems to give high levels of customer service, responsiveness and operational efficiency. This is an important element of the value added by the Group when transforming owner-managed companies into more substantial broader based businesses.

Ongoing investment programmes ensure that the principal businesses are operating from purpose built or newly expanded facilities designed for efficient operations and with the scale to support significant future growth.

Core Strategic Themes

Focus on markets which can deliver stable revenue growth

Strong customer relationships underpinned by full service offering

Secure supply of quality differentiated products

Motivated and committed management teams

Efficient and responsive operations and information systems

Carefully selected acquisitions to accelerate growth

Similarly in the area of information systems, regular investment ensures that the businesses are supported by integrated IT systems designed to give strong functionality and efficiency and capable of supporting growth. Over the past five years, an average of £0.5m p.a. has been invested in improving the Group's information systems. In 2009, the Hercules operation in Clearwater, Florida invested a further £0.9m in new warehouse management software and automated stock picking carousels.

Once the businesses have achieved a certain critical mass and have invested in appropriate facilities and IT systems, they can generally increase revenues without a significant increase in working capital. A strong focus on operating costs (80-90% employee related) and tight management of working capital ensure resilient operating margins and strong cashflow.

Strategy and Performance continued

Carefully selected acquisitions to accelerate growth
To complement the organic growth strategy, the Group makes selective acquisitions to accelerate growth and enter into new, but related markets. The Group's ungeared balance sheet, supported by strong and consistent operating cash flow, provides the resources to support an active acquisition programme. In 2009, free cash flow of £23.5m was generated through tight management of working capital.

Clear criteria have been established to guide the Group's pro-active acquisition programme and these criteria are derived from the strategic themes above. Prospective acquisitions should be sales and marketing led with strong customer relationships and a secure supply of quality, differentiated products. They should have capable management, and the potential for profitable growth and cash generation.

A competitive advantage in making acquisitions is the Group's flexibility in structuring transactions. In many of the medium sized acquisitions, such as AMT and Somagen, where the objective was to extend into new markets or geographies, less than 100% of the business has been acquired. In these cases, owner managers are left with a minority stake in the business (up to 25%), with put and call options exercisable over 3-5 year periods. This allows vendors to remain in the businesses with a large part of the value crystallised, but still with the potential for future gain. For the Group, this reduces risk and gives additional confidence in the quality of the acquisition.

Acquisition Overview	Life Sciences	Seals	Controls
2009	Meditech	RTD Seals	
2008	Hitek	Snijders	
2007	AMT	M Seals	Cabletec
2006	CBISS		
2005		HKX	

In 2009, the acquisitions of Meditech in Canada and RTD Seals in the US have been completed. However, the supply of good quality acquisitions, with owners who are ready to sell, has been limited. Owners, unless forced to sell, are generally delaying their decision until there is firmer evidence of a sustained economic and market recovery.

Key Performance Indicators

EPS and TSR growth
The success of the Group strategy in the longer term is measured in financial terms by the growth in the two key measures of adjusted earnings per share ("EPS") and total shareholder return ("TSR"). These are the principal quantitative measures used in the incentive compensation programmes for the Executive Directors.

	2005	2006	2007	2008	2009
Adjusted EPS (pence)	9.7	11.8	13.1	16.0	14.8
TSR index (2004=100)	125	139	209	149	181

Adjusted EPS is measured relative to RPI growth and the method of calculation is detailed in note 2 to the financial statements. Over the last five years, adjusted EPS has grown at an average rate of 16% p.a.

TSR is a combination of share price growth and reinvested dividends and is measured by comparison with the FTSE mid-250 index, as set out on page 33 of the Remuneration Report. Over the last five years the TSR of Diploma PLC has grown by 81%, compared to growth of 68% in the TSR of the FTSE mid-250 index.

In support of these principal measures of performance, the Group uses four financial key performance indicators ("KPIs") as described below and defined in note 2 to the consolidated financial statements. As well as being used to measure the performance at Group level, the financial KPIs drill down through the organisation and are used as the principal quantitative elements in the short and long term incentive programmes for senior management of the operating businesses.

Revenue growth
Revenue growth is reported in detail for the sectors and operating businesses and is a key driver in the business. Revenue growth is compared to the relevant market growth rate to confirm that progress is being achieved in increasing market share by a combination of sales and marketing initiatives, product line extensions and geographic expansion. The Group's objective is to grow organically at a rate higher than GDP growth and then to supplement this with carefully selected acquisitions.

	2005	2006	2007	2008	2009
Revenue (£m)	95.3	112.1	124.5	156.2	160.0
Revenue growth	+15%	+18%	+11%	+25%	+2%

Over the last five years, average revenue growth of 14% p.a. has been achieved in the continuing businesses. In 2009, the businesses were impacted by the dramatic downturn in global economies and markets, but benefited from currency translation effects and contributions from new acquisitions. Revenue from continuing businesses increased by 2% in the year, though on an underlying basis, adjusted for currency effects and new acquisitions, revenues declined by 12%.

Operating margin
Operating margin represents operating profit, before amortisation of acquisition intangible assets, divided by revenue. It is an important measure for the Group as it monitors the success of the businesses in achieving superior margins by offering strongly differentiated products and services, as well as by running their operations efficiently.

	2005	2006	2007	2008	2009
Operating margin	15.7%	16.1%	16.6%	17.0%	16.0%

In recent years, the Group's operating margin in the continuing businesses steadily increased from ca. 12% in 2004 to 17% in 2008. A number of the acquisitions made in recent years have had a positive impact on Group average margins. The most important driver, however, has been the operational leverage gained as the businesses have increased in scale, leading to increased revenues without a proportionate increase in operating costs. This effect was most visible in the Seals sector businesses in North America where major investments have been made in the IT infrastructure and the warehousing operations to support the increasing scale and scope.

As revenues reduced in 2009, the operating businesses reacted quickly by bearing down on operating costs. Headcount and net monthly operating costs for the continuing businesses were reduced by 10% and 6% respectively during the year. However, the impact of cost reduction programmes has lagged the revenue reduction and has not been sufficient to reverse the effects of operational leverage. Operating margins reduced in the year, but remain at a healthy 16%.

Free cash flow

Free cash flow is defined as the cash flow generated after tax, but before acquisitions and dividends. This measures the success of the operating businesses and the Group as a whole, in turning profit into cash through the careful management of working capital and capital investments in the business.

	2005	2006	2007	2008	2009
Free cash flow (£m)	11.7	11.8	11.4	17.7	23.5
As % of PAT	103%	86%	75%	93%	131%

Over the last five years, the Group has generated a robust free cash flow averaging £15.2m p.a. representing 99% of average adjusted profit after tax. These figures exclude the one-off proceeds from the sale of surplus land and buildings from legacy businesses – which amounted to ca. £20m over the period 2003-2007.

Free cashflow in 2009 has been particularly strong at £23.5m representing 131% of adjusted profit after tax. This has been achieved through a sharp reduction in working capital which resulted in a strong increase in operating cashflow.

Return on trading capital employed

Return on trading capital employed ("ROTCE") represents operating profit, before amortisation of acquisition intangible assets, as a percentage of trading capital employed ("TCE"), defined as net assets less net cash and non-operating assets and liabilities.

	2005	2006	2007	2008	2009
ROTCE	23.0%	25.1%	25.5%	22.4%	19.0%

At the Group and sector level, TCE, as defined in note 2 of the consolidated financial statements, includes the total cash invested in acquisitions, including all gross goodwill and acquired intangible assets, both capitalised and written off in previous years. Over the last five years, ROTCE has remained consistently above 20%, though in 2009 has slipped to 19.0%, partly because of the impact of weak UK sterling on overseas TCE.

At the operating business level, goodwill and acquired intangible assets are excluded from TCE so that management is judged more narrowly on the return achieved on capital invested in fixed assets and working capital. This is because the operating business management may not have been directly involved in the price negotiations for acquisitions completed within their sectors.

Non financial KPIs

In the operating businesses, non financial KPIs are used which are tailored to the particular requirements and characteristics of each business. At the Group level, non financial KPIs measure the success in managing human resources.

Key Employee Statistics	2007	2008	2009
Number of employees	712	833	823
Males as % of total	64%	65%	66%
Length of service (years)	5.2	5.2	6.4
Average staff turnover	21.1%	20.2%	18.3%
Sick days lost per person	2.9	3.4	3.6

The average number of employees in the continuing businesses in 2009 has decreased by 1% to 823 (2008: 833). These figures include the ca. 40 employees added with the acquisitions of RTD Seals and Meditech. Excluding these additions, the total headcount in the continuing businesses has reduced by 10% over the year. The proportion of males to females is broadly unchanged with males accounting for 66% of the total (2008: 65%); average length of service has increased to 6.4 years (2008: 5.2 years). The other employee KPIs have remained very stable given the cost reduction programmes within the businesses. Average staff turnover has reduced to 18.3% (2008: 20.2%) and sick days lost per person were 3.6 days (2008: 3.4 days).

Sector Review: Life Sciences

Sector Definition and Scope

The Life Sciences sector businesses supply a range of consumables, instrumentation and related services to clinical, environmental and industrial applications.

The Canadian Healthcare businesses are managed through Diploma Canada Healthcare Inc ("**DCHI**") . The two principal operating businesses are Somagen, based in Edmonton, Alberta, and AMT, based in Kitchener, Ontario. Somagen supplies a range of consumables and instruments used in the diagnostic testing of blood, tissue and other samples in the 500-600 hospital pathology laboratories across Canada. It is also a leading supplier of products and services to the growing in-vitro fertilisation ("IVF") market. AMT supplies specialty electrosurgery and endoscopy equipment and consumables for use in the operating rooms and endoscopy suites of the same Canadian hospitals. A large proportion of DCHI's revenues come from multi-year customer contracts with hospitals and buying groups.

The **a1-group** is a supplier to Environmental testing laboratories and to Health & Safety engineers. The UK operations of the a1-group are located in Luton and Tranmere. In Continental Europe, the group has locations in Dusseldorf in Germany and Basel in Switzerland. The group supplies a range of specialised analysers for detecting and measuring specific elements in liquids, solids and gases. It also supplies gas detection devices, a range of containment enclosures for potent powder handling and equipment and services for the monitoring and control of environmental emissions.

In October 2009, a contract was signed for the disposal of the manual liquid handling ("MLH") business of Anachem Limited with the transaction due to complete in January 2010. Anachem is being treated in these accounts as a discontinuing business held for sale and its revenues and profits have been excluded from the sector analysis.

Market Drivers

The DCHI businesses supply into the Canadian Healthcare sector, which is mostly public sector funded. The principal demand driver is therefore the level of healthcare spending by the Canadian Government.

C$bn	2005	2006	2007	2008	Growth % p.a
Public sector health expenditure in Canada	99.3	105.8	113.2	120.3	6.8%
Total healthcare expenditure	141.4	151.3	161.6	171.9	6.8%

Source: Canadian Institute for Health Information

The Canadian Healthcare industry is a proven, long term growth environment for medical device distribution. A growing, aging and well-educated patient population demands very high standards of service delivery, helping to ensure on-going growing demand. The Canadian Health Act ("the Act") ensures universal coverage for all insured persons for all medically necessary services provided by hospitals, physicians and other healthcare providers. The Act is a piece of federal legislation, with the Provinces responsible for the delivery of the healthcare services. The strength of the legislation comes in the Federal Government's ability to control delivery through Federal-Provincial transfer payments, which represent the largest source of revenues for the Provinces.

The relative stability and consistency in funding by each of the Provinces, guaranteed through the Act, ensures that the market remains well funded through the economic cycle. Over many years, healthcare expenditure has grown steadily in the range 6-7% p.a. with annual variations mostly dependant on the periodic additional tranches of funding provided by individual Provinces.

Other factors which may influence the demand for products and services supplied by the DCHI businesses are:

- Proportion of total healthcare budgets allocated to diagnostic testing and to surgical procedures.
- Emergence of new tests driven by focus on specific diseases or allergies.
- Increased use of electrosurgical and endoscopic procedures in hospitals.

The a1-group supplies to customers in the Environmental industry across Europe. The market demand is largely driven by Environmental and Health & Safety regulations. Growth in recent years has been driven by the need to be compliant with a range of EU regulations including:

- New legislation or regulatory obligations relating to the environment, pollutants or potentially hazardous contaminants.
- The growing importance to companies of protecting the workforce from contact with potentially hazardous materials.
- Greater use of new technologies in process control and integrated pollution control.

The market for Environmental Monitoring and Instrumentation (EMI) in the UK has been estimated by a 2006 DTI/ CEED study to be ca. £190m with an annual growth rate through to 2015 projected at ca. 3% p.a. In 2009, the market for consumable products has shown resilience, but capital equipment sales have suffered from decisions by customers to defer capital expenditure in the face of the economic recession. This initial impact was seen in the UK, but a similar trend is now being experienced with customers in Continental Europe.

Sector Performance

The continuing Life Sciences businesses increased revenues in 2009 by 11% to £49.9m (2008: £45.0m). Sector revenues benefited on translation from the stronger Canadian dollar and Euro relative to UK sterling and a contribution from the newly acquired Meditech business in Somagen. On a comparable and constant currency basis, sector revenues were broadly flat year on year. Operating profits increased by 23% to £10.6m (2008: £8.6m), with operating margins increasing to 21.2% (2008: 19.1%).

Capital expenditure in the sector was £0.6m, including £0.5m invested in field equipment for placement by the Canadian Healthcare businesses. The balance was invested in hire equipment to help service customers of the a1-group. Free cash flow of £7.6m was generated in the sector (2008: £6.8m).

The **DCHI** businesses increased revenues by 10% in Canadian dollars and 20% in UK sterling terms. The businesses continued to make good progress in markets where overall funding remains steady, but increased focus is being placed on the most cost effective use of funds. Although overall Healthcare funding has remained steady during the economic downturn, hospitals have been conscious of the need to be seen to use funds prudently. As a result, there has been a marked increase in the use of formal tenders for both capital expenditures and contracted consumables. There are also examples of cost reduction initiatives at a Provincial or Regional level, such as grouped purchasing contracts and stated targets for reducing the number of operating procedures. The DCHI businesses have responded by strongly selling the benefits to hospitals of proprietary products, supplied as part of longer term contracts for competitively priced packages of products. As a result the underlying supplies component of the business, which represents the larger part of DCHI group revenues, saw sales increase by 16% year on year.

AMT reported continued growth in its core Electrosurgery business with increasing penetration of its proprietary smoke evacuation products, benefiting from the new Canadian advisory standard for the capture of smoke plume. There were also strong sales of other consumable products, including grounding pads and surgical instruments. Revenues were given a welcome boost in the second half of the year by an exceptional order from a single Province for the supply of face shields, to protect hospital employees from the transfer of swine flu. Depending on the development of swine flu as a pandemic, there may be further orders from other Provinces for these face shields in the current year. The Endoscopy business saw good growth in its sales of consumable products, including argon probes and flexible endoscopic instruments. Sales of capital equipment were reduced against a strong prior year comparative.

For Somagen, there remains pressure on its hospital laboratory customers, where the focus remains firmly on cost reduction and efficiency. The laboratories have been targeted as areas where costs can be managed through limits on services, testing menus and reimbursements. Responding to these pressures, Somagen has been very successful in placing new instruments which provide higher levels of automation and operational efficiency. The new Sebia Capillarys platform and reagents are proving very successful with higher volume laboratories, which are facing a shortage of skilled technologists and increasing workloads. The Sakura products for pathology laboratory automation are also filling the need for larger instruments, with higher throughput capability.

In November 2008, Somagen completed the small bolt-on acquisition of Meditech, a Montreal based supplier of in-vitro fertilisation ("IVF") products. This acquisition has now established Somagen as a leading supplier of products and services to the growing IVF market, represented by approximately 30 dedicated clinics across Canada.

The **a1-group** experienced an overall reduction of 9% in revenues. The analyser and containment businesses delivered modest revenue growth, with the centre of activity moving towards Continental Europe and the results benefiting on translation from the stronger euro relative to UK sterling.

The businesses are increasing their focus on core competencies in the areas of containment technologies for personal protection and elemental analysis with related automation. In the containment business, new contracts have been won during the year for the supply of customised stainless steel solutions for the personal protection of technicians in the research laboratories of the major European pharmaceutical companies. These products, supplied under the a1-safetech brand and manufactured under contract, combine distinct ergonomic advantages with unique handling and safety features. The a1-group is also a leading supplier of elemental analysers (branded a1-envirotech) which respond to the needs of the petrochemical industry to measure sulphur and nitrogen accurately at low levels. In parallel, new products are being introduced to measure contamination by halides in petrochemical and bulk chemistry products.

CBISS experienced a continued slowdown in the market for new continuous emissions monitoring systems ("CEMS"). The longer term demand is still forecast to be strong for new CEMS installations in energy from waste ("EFW"), Biomass and power applications; however, projects are being deferred due to lack of funding or extended planning processes. Orders for new capital equipment are therefore significantly reduced and the business is currently relying on the base business, generated from service contracts. CBISS has responded to the lower activity levels in 2009 by restructuring itself operationally to improve efficiency, reduce costs and lead times and complete MCERTS accreditation of CEMS software.

Anachem is being treated in these financial statements as a discontinuing business held for sale and its revenues of £15.7m (2008: £16.1m) and operating profits of £1.2m (2008: £0.7m) have been excluded from the sector analysis.

Life Sciences Statistics

	2009	2008
Revenue	£49.9m	£45.0m
Operating Profit*	£10.6m	£8.6m
Operating Margin*	21.2%	19.1%
Free Cash Flow	£7.6m	£6.8m
Trading Capital Employed	£45.5m	£44.2m
ROTCE	23.3%	19.4%

*before amortisation of acquisition intangible assets.

Customers

Clinical	77%
Utilities	8%
Life Sciences Research	6%
Chemical & Petro-chemical	5%
Industrial & Other	4%

Geography

North America	73%
Europe	26%
Rest of World	1%

Products

Consumables	67%
Instrumentation	23%
Service	10%

Sector Review: Seals

Sector Definition and Scope

The Seals sector businesses supply a range of hydraulic seals, gaskets, cylinders and attachment kits used in heavy mobile and industrial machinery.

The **Hercules Fluid Power Group** ("HFPG") comprises Hercules Sealing Products ("Hercules"), Bulldog Hydraulic & Gaskets ("Bulldog"), RTD Seals and HKX. The core Hercules business based in Clearwater, Florida provides a next day delivery service throughout the US, for seals, seal kits and cylinders used in a range of heavy mobile machinery applications. Hercules in Canada offers the same range of products from its two branch operations located in the provinces of Ontario and Quebec. In Europe, Hercules has centred its operations in the Netherlands.

Bulldog supplies a range of gasket and seal kits for heavy duty diesel engines, transmissions and hydraulic cylinders used in off road and marine applications. Bulldog is based in Reno, Nevada, but more than 75% of sales are to international customers outside the US. HKX is based near Seattle, Washington and supplies hydraulic kits used in the installation of attachments on excavators. HKX's colour coded kit systems with 'lego-logic' instructions, substantially reduce the time and engineering expertise required to install attachments.

RTD Seals, acquired in January 2009, has operations in Minneapolis, Minnesota and Chicago, Illinois. RTD Seals supplies seals, O-rings and custom moulded and machined parts to a range of Industrial OEM customers, cylinder manufacturers and sub-distributors.

Fluid Power Equipment ("FPE") is based in the UK, with operations in Darlington and Doncaster, and supplies a range of seals, seal kits, cylinder parts and sealants to ram repairers, mobile and heavy plant operators, mechanical handling and process control companies.

M Seals is a specialised distributor of O-rings, moulded parts, PTFE products and shaft seals. Products range from the finest precision seals for hearing aids to large heavy duty seals for wind power mills. M Seals has operations in Espergaerde in Denmark and Halmstad in Sweden.

Market Drivers

The core business of HFPG is the supply of sealing products to the mobile machinery Aftermarket, where HFPG supplies into a broad range of applications in heavy construction, logging, mining, agriculture, material handling (lift trucks, fork lifts and dump trucks) and refuse collection.

Products are generally used in the repair and maintenance of equipment after it has completed its initial warranty period or lease term, or has been sold on in the pre-used market. The main customers are machinery and cylinder repair shops, engine and transmission re-builders and tractor parts distributors.

The principal market drivers are the growth in the general industrial economy and in particular heavy construction; although the Aftermarket focus means that the businesses are relatively insulated from the extremes of the economic and business cycles.

	2005	2006	2007	2008	Growth % p.a.
US real GDP growth(1)	+3.1%	+2.7%	+2.1%	+0.4%	2.1%
Annual US construction spending $billion(2)	1,102	1,168	1,151	1,072	(0.9)%
US mobile hydraulic shipments $million(3)	2,724	2,766	2,626	2,913	2.2%

Sources:
(1) Bureau of Economic Analysis – US Department of Commerce
(2) US Census Bureau
(3) National Fluid Power Association

In the US, HFPG benefited from the strong growth in the economy from mid-2003 to mid-2006. Into 2007 and 2008, the residential construction sector declined due to over supply of homes and the sub-prime mortgage crisis. In late 2008 and 2009, the recession broadened and deepened to impact the whole US economy. In spite of the announcement of national stimulus packages, funding has remained limited for national and municipal infrastructure and maintenance programmes and the house building sector has remained depressed.

In Canada, there has been significantly lower economic activity in the key industrial regions close to the US border which are dependant on demand from the US market. The Oil and Gas industry in Alberta, which fuelled economic growth in recent years, has also slowed as lower oil prices have constrained the establishment of new extraction sites in the oil sands territories.

In Europe, FPE and Hercules Europe supply to a broad range of industrial users including construction, agriculture and material handling. Growth has remained sluggish in these sectors in recent years and this was exacerbated by the general downturn in the economy – in the UK from late 2008, followed by Continental Europe in early 2009.

In the Industrial OEM sector served by RTD Seals and M Seals, manufacturers have cut back production and reduced inventories to respond to the reduction in general demand. There are some signs that this business is stabilising, but customers remain very cautious as they wait to see whether there will be a sustained recovery.

Sector Performance

The Seals businesses saw revenues increase in UK sterling terms by 13% to £48.2m (2008: £42.6m). However, the results benefited on translation from the stronger US dollar and euro, relative to UK sterling and from the first year contribution from RTD Seals. Underlying sector revenues decreased by 21%, after adjusting for currency effects and for the acquisition.

The businesses responded to the reduced revenues with substantial cost reduction programmes which led to a reduction of 15% in headcount and of 9% in monthly operating costs. However, these programmes lagged the revenue reduction and were not sufficient to offset the negative impact from operational leverage. As a result, operating profits reduced by 18% to £5.5m (2008: £6.7m) and operating margins reduced to 11.4% (2008: 15.7%).

In response to the reduction in trading activity, working capital was reduced sharply which resulted in a strong increase in operating cashflow. Capital expenditure in the sector was £1.1m

with the major element being investment in the new warehouse automation system in Hercules' main Clearwater operations. Strong free cash flow of £8.6m was generated in the year (2008: £4.9m)

HFPG saw underlying revenues (excluding the RTD Seals acquisition) reduce by 23% in US dollar terms. The core Hercules business, with its focus on the Aftermarket, demonstrated its resilient characteristics, with revenues reducing less than the broader market. Focused marketing initiatives have been implemented to capture market share during the downturn, including the launch of a new e-commerce site, monthly new seal and seal kit product introductions and special product promotions. There was also growth in the Seals-on-Demand business from the custom machining of over-sized and out-of-production seals.

Internationally, the main focus has been on the strategic development of the Aftermarket business in Europe. Despite unfavourable market conditions during the year, investment has continued in establishing the Hercules Europe business to ensure that it is well positioned to exploit the market recovery when it comes. The business has been relocated to a larger facility in the Netherlands and inventory has been built of ca. 1,300 seal kit products for popular European heavy equipment models. A new website has been established and a 4-language seal and seal kit catalogue, tailored for the European market, has been distributed. Outside of the European initiative, Hercules' international sales and marketing efforts have been focused on Latin America and Asia.

The major impact of the downturn has been experienced by the Bulldog, HKX and RTD Seals businesses, which supply to construction equipment dealers and Industrial OEMs. Bulldog has seen a significant fall in demand for its products, exacerbated by extensive de-stocking by customers who are typically distributors and dealers, rather than end-users. As with Hercules, Bulldog has worked hard to maintain or improve market share in a depressed market through sales and marketing initiatives and new product introductions.

HKX has been impacted by the dramatic reduction in the market for new excavators in North America. In 2009, sales of new excavators are down by ca. 70% from the peak in 2005. HKX's revenues have reduced by ca. 40% over the same period which shows that it has been able to increase penetration in a severely depressed market. This has been achieved by introducing attachment kit programmes to new customers, as well as improving the product and service offering. HKX has also responded to the depressed market for new equipment by developing kit programmes targeted at the refit sector.

In January 2009, HFPG acquired RTD Seals, a leading US based supplier of seals, O-rings and custom moulded and machined parts. RTD Seals is a good sized, long established supplier to Industrial OEMs with a strong position in the Mid-Western US states. This acquisition, when supported by HFPG's broader sales and marketing resources, will provide a platform for building HFPG's Industrial OEM business in North America. RTD Seals has been impacted this year by the significant downturn in industrial activity in the US. However, it contributed £6.9m to revenues and £0.7m to operating profit in a very difficult trading environment and is well positioned to benefit early from any market recovery.

Seals Statistics

	2009	2008
Revenue	£48.2m	£42.6m
Operating Profit*	£5.5m	£6.7m
Operating Margin*	11.4%	15.7%
Free Cash Flow	£8.6m	£4.9m
Trading Capital Employed	£38.2m	£30.1m
ROTCE	14.6%	22.5%

*before amortisation of acquisition intangible assets.

Customers

Heavy Construction	49%
Industrial OEMs	23%
Logging & Agriculture	5%
Dump & Refuse Trucks	4%
General Industrial	19%

Geography

North America	67%
Europe	20%
Rest of World	13%

Products

Seals & Seal Kits	68%
O-rings	9%
Attachment Kits	9%
Gaskets	6%
Cylinders & Other	8%

In response to the reduced revenues, HFPG has implemented cost reduction programmes which have resulted in a 17% reduction in headcount and a 10% reduction in monthly operating expenses. There continues to be a focus on operational efficiency and on further opportunities to reduce working capital, with resources being planned assuming no near term recovery in the markets.

Investment has been maintained in the new warehouse automation and carousel system project in Hercules' Clearwater operations to ensure that, when the market eventually recovers, the business will emerge stronger and well placed to exploit growth opportunities.

The **FPE** business in the UK was impacted by the general economic downturn in the UK and by a sharp decline in exports to sub-distributors in Continental Europe, resulting in a 11% decline in revenues. As with the US, there are some signs of stability returning to the market, but with recovery expected to be slow. **M Seals** has also been substantially impacted by the economic downturn as its major OEM customers reduced production and took extended summer shutdowns. Good progress in supplying the major wind turbine manufacturers has not been sufficient to offset the general downturn in activity and revenues have fallen sharply in the second half of the year. There are few signs yet of demand returning to pre-recession levels and recovery is expected to be slow.

Sector Review: Controls

Sector Definition and Scope

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

The **IS-Group** has its principal operations in Swindon, UK from where IS-Rayfast supplies high performance wiring and interconnect products for use in a range of technically demanding applications including Aerospace, Military & Marine, Rail and Electronics. Cabletec, based in Weston-super-Mare, UK, distributes similar products, but in addition supplies a range of manufactured products, including flexible braided products and multi-core cables.

IS-Motorsport and Clarendon supply wiring, harness components and fasteners into the Motorsport sector, supplying most of the Formula 1 teams, as well as other series in the UK, US and Continental Europe. The UK operations are located in Swindon and Leicester, with satellite operations in Indianapolis and Mooresville, in the US. The IS-Group has also established a representative office in Beijing, with an initial focus on the Chinese commercial aerospace repair and Aftermarket sector.

Hawco supplies a range of instrumentation and control devices used in the sensing, measurement and control of temperature and pressure. Applications range from chilled cabinets for supermarkets, bars and restaurants to fire detection systems. Hawco has its operations in Guildford and Bolton, in the UK.

In Germany, **Sommer** and **Filcon** supply a range of high performance wiring and connectors to customers in a range of high technology industries including Defence, Aerospace, Automotive Diagnostics and Medical equipment. A range of value adding activities enhances the customer offering, including connector assembly, marking of protective sleeves and prototype quantities of customised multi-core cables. Sommer and Filcon have operations in Stuttgart, Munich and Frankfurt in Germany.

Market Drivers

With over 90% of sector sales in the UK and Germany and a wide range of product applications, the underlying market drivers are the growth of the UK and German industrial economies:

	2005	2006	2007	2008	Growth % p.a.
UK real GDP growth(1)	+2.1%	+2.8%	+3.0%	+0.7%	2.1%
UK Production index(2)	100.0	101.6	102.2	99.2	(0.3)%
Germany real GDP growth(1)	+0.9%	+3.2%	+2.6%	+1.0%	1.9%

Sources:
(1) Organisation for Economic Co-operation and Development (OECD)
(2) The Office of National Statistics – Index of Production for Manufacturing

Over the period 2005 – 2007, real GDP in the UK grew at an average rate of 2-3% p.a. but manufacturing has remained relatively flat. The economy slowed through 2008 and then entered a severe recession in the final quarter of the year. Real GDP and manufacturing output are projected to fall by ca. 4% and 10% respectively in 2009, with only slow recovery forecast for 2010.

In Germany, after a period of modest recovery in 2006 and 2007, mainly driven by export performance, growth slowed through 2008. The German economy entered recession later than the US and UK economies, with the fall in output accelerating at the beginning of 2009. The decline in GDP is projected at ca. 6% for 2009 with activity forecast to pick up slowly during the course of 2010.

While strongly influenced by the UK and German economies, the Controls sector businesses focus on more specialised, technology driven market segments, including the Defence and Aerospace sectors:

	2005	2006	2007	2008	Growth % p.a.
German Defence equipment budget € billion(1)	8.1	8.2	8.6	9.5	5%
UK Defence capital equipment £billion(2)	6.7	6.4	7.0	7.7	5%
Commercial Aerospace market growth(3)	+7.2%	+5.1%	+7.2%	+1.8%	5%

Sources:
(1) Federal Ministry of Finance – Germany.
(2) UK Government's Expenditure Plans 2008/9
(3) Boeing and Airbus market outlook publications – revenue passenger kilometres

The combined Defence capital budgets in the UK and Germany have grown at an average of ca. 5% p.a. over the last five years. The IS-Group and Sommer focus more on repair, refurbishment and upgrade programmes as well as supplying to Tier 2 electronics suppliers. They typically only supply to OEMs and the Tier 1 suppliers when ex-stock availability and responsiveness are important. As a result, they are less exposed to cutbacks and delays in major defence programmes. Filcon has a greater involvement in the major capital projects through its supply of connectors; however, Filcon has its products designed-in to a broad range of air, sea and land applications and is not over-exposed to individual projects.

In the commercial aerospace sector, again the IS-Group and Sommer focus more on repair, refurbishment and upgrades and they benefited from the buoyancy in the overall market which showed strong growth in the five year period to 2008. Boeing and Airbus are still projecting longer term growth of ca. 5% p.a. in revenue passenger kilometres, but the industry has slowed dramatically with the global economic downturn. The effects are seen most dramatically in the reduction in projected new aircraft orders (less than 300 in 2009 compared with ca. 1500 in 2008). Although the backlog remains strong, the reduced level of new orders along with cancellations of existing orders will lead to a further slow-down in production rates.

In Motorsport, demand has been impacted by the range of cost cutting measures, including testing restrictions, being implemented in Formula One and other motor racing series. Other specialised, technically driven markets including Medical, have remained more resilient than the general industrial sectors, though they have not been immune from the economic downturn.

Sector Performance

The Controls businesses saw revenues decrease in 2009 by 10% to £61.9m (2008: £68.6m); on a constant currency basis, revenues reduced by 15%. Sector operating profits decreased by 16% to £9.5m (2008: £11.3m), with operating margins reduced to 15.3% (2008: 16.5%).

As with other sectors, cost reduction measures were implemented in the Controls sector businesses to respond to reductions in revenues. Sector headcount and monthly operating expenses reduced by 10% and 8% respectively during the year.

With only £0.1m being invested in the sector during 2009, strong free cash flow of £8.9m was generated (2008: £8.3m).

The **UK Controls** businesses saw revenues decrease by 9% with lower sales in all market sectors, except the core Defence and Military Aerospace markets, which have benefited from ongoing upgrade, refurbishment and maintenance programmes. In the land systems segment, the Force protection programme of electronic counter measures, vehicle camera systems, protected weapon stations and the tactical support vehicle programmes have contributed to IS-Group revenues. The military marine segment revenues have closely tracked the ongoing build programmes for the Astute submarine and the Type 45 frigates. In Military Aerospace, again robust revenues have been supported by a range of ongoing programmes, including the Eurofighter, unmanned air vehicles, Nimrod and the various helicopter programmes.

Other markets for the IS-Group have been impacted by the general economic slowdown, as well as by sector specific factors. In Civil Aerospace, the IS-Group supplies products principally for the initial fit-out of aircraft interiors and then their subsequent upgrade and refurbishment; revenues have been softer here in line with the general slowdown in new aircraft production. In Motorsport, demand has been impacted by the range of cost cutting measures, including testing restrictions, being implemented in Formula One. The cut-backs in sponsorship by major automotive companies is also having a significant impact on other series, especially World Rally and NASCAR.

IS-Group's manufactured products supplied to Energy and Industrial customers and the Hawco business in general, have been more exposed to the major downturn in UK industrial markets. Declining end-user demand and over-stocking at customers have contributed to reduced revenues. The Hitek calibration services business, which was transferred into Hawco at the beginning of the year, has maintained revenues and shown a good degree of resilience.

The **German Controls** businesses saw revenues decrease by 10% in UK sterling terms and by 22% in local currency terms. The market downturn came later to Germany than the UK and the US, but its impact was felt strongly in the second half of the year. For Sommer, significantly weaker trading activity was experienced in the supply of components to Germany's traditionally strong Industrial, Automobile and Motorsports sectors. The Defence and Aerospace sectors were also impacted, but to a lesser degree. The Medical market proved to be an exception, with growth being generated from several long standing projects coming to fruition, as well as from a good level of repeat business. The business is centred on the provision of protective sleeves for stents, laparoscopic and cardiovascular instruments and catheters, where demand has remained strong. The Utilities market in Germany has also remained stable and sales here advanced modestly.

The principal markets for Filcon's connector products are Defence, Aerospace and Motorsport. Unlike the other Controls businesses, Filcon supplies a high proportion of its products to capital projects. As the general economy has slowed in Germany, there have been increasing levels of project cut-backs and delays. Filcon has its products designed-in to a wide range of applications and is therefore not over-dependant on single projects. The backlog of orders remains solid and call-offs are now resuming.

Controls Statistics

	2009	2008
Revenue	£61.9m	£68.6m
Operating Profit*	£9.5m	£11.3m
Operating Margin*	15.3%	16.5%
Free Cash Flow	£8.9m	£8.3m
Trading Capital Employed	£30.0m	£27.3m
ROTCE	31.7%	41.4%

*before amortisation of acquisition intangible assets.

Customers

Aerospace & Defence	36%
Electronics	12%
Motorsport	11%
Rail, Energy & Utilities	8%
Medical & Scientific	5%
Industrial & Other	28%

Geography

United Kingdom & Eire	52%
Continental Europe	43%
Rest of World	5%

Products

Wire & Cable	45%
Connectors	22%
Control Devices	16%
Fasteners	5%
Equipment & Components	12%

Finance Review

Continuing Businesses

Revenue increased by 2% to £160.0m (2008: £156.2m) and operating profit, before amortisation of acquisition intangible assets, decreased by 4% to £25.6m (2008: £26.6m). The operating margin, before amortisation of acquisition intangible assets, reduced to 16.0% (2008: 17.0%) reflecting in particular, the significant operational leverage in the Seals businesses.

The results this year benefited from currency gains of £14.8m to revenue and £2.4m to operating profit, which arose on the translation of the results of the overseas businesses. In addition the businesses acquired in 2009 and 2008 contributed £1.2m to operating profits on revenue of £8.4m. In response to the difficult trading environment this year, £0.6m of costs were incurred on specific cost reduction programmes which should pay back in the coming financial year. The UK and Canadian businesses also suffered an impact on gross margins from the depreciation of local currencies on products purchased in overseas markets. After adjusting for these items, underlying revenues decreased by ca. 12% and operating profits, before amortisation of acquisition intangible assets, decreased by ca. 10%.

Adjusted profit before tax (which is a defined alternative performance measure, as discussed below) decreased 4.9% to £25.5m (2008: £26.8m), after net finance expense, excluding fair value remeasurements, of £0.1m (2008: income of £0.2m). Adjusted earnings per share fell 7.5% to 14.8p compared with 16.0p last year, reflecting the larger proportion of earnings contributed in 2009 by those businesses owned in part by minority shareholders.

IFRS profit before tax, which is after amortisation of acquisition intangible assets of £3.1m (2008: £2.7m) and fair value remeasurements of £1.9m (2008: £3.0m), was £20.5m (2008: £21.1m) and IFRS basic earnings per share were 10.8p (2008: 11.4p).

Discontinuing Business

The results of Anachem, which was formerly part of the Life Sciences sector, have been disclosed separately in the consolidated financial statements as a discontinuing business. Contracts were exchanged in October 2009 for the sale of the MLH business, which represents the largest part of Anachem, and will realise proceeds of up to £8.6m. On completion in early January 2010, the net assets of the MLH business are expected to be ca. £1.4m. The sale contract provides that the residual pension liabilities in the closed defined pension scheme of Anachem will be transferred, prior to completion, to Diploma Holdings PLC. At 30 September 2009 the accounting deficit in the Anachem pension scheme was £3.0m, out of the Group deficit of £4.7m, before deferred tax. Further information on the results of Anachem are set out in note 22 to the consolidated financial statements.

Taxation

The Group's adjusted effective tax charge represented 29.8% (2008: 29.1%) of adjusted profit before tax. This year's effective rate benefited from the reduction in UK corporate tax rates to 28% from 29% in 2008. However this was not sufficient to offset the benefit to last year's tax charge of one-off adjustments made to prior year tax returns. The Group's adjusted effective tax rate in any particular year will also depend on the geographic mix of profit made by the Group.

Free Cash Flow and Cash Funds

The Group's free cash flow from the continuing businesses, which is before expenditure on acquisitions or returns to shareholders, increased by £5.8m to £23.5m. With a further £1.7m of free cash flow being contributed by the discontinuing business, aggregate total free cash flow of £25.2m represented 134% of adjusted profit after tax (2008: 92%).

Operating cash flow from the continuing businesses increased by £6.4m to £34.2m (2008: £27.8m) and was boosted by a reduction in working capital of £6.1m, compared with an increase of £1.3m last year. The reduction in working capital arose principally from a targeted reduction in stock across the Group to match the lower trading activity; a reduction in trade receivables which followed from reduced revenues, was largely offset by a similar reduction in trade payables.

At 30 September 2009, working capital in the Group's operating businesses remained unchanged from 2008 at 17.6% of Group revenue, reflecting the reduction in working capital in line with the decrease in revenue.

Group tax payments increased by £1.2m to £9.0m (2008: £7.8m), largely reflecting the impact of AMT moving to a monthly tax payment basis in 2009, as well as having to pay its 2008 annual tax liabilities.

Capital expenditure of £1.8m (2008: £1.6m) represented 82% (2008: 73%) of annual depreciation and included £0.9m on a major project to complete the installation of warehouse automation in the Seals facility in Clearwater. A further £0.6m was spent on acquiring field equipment in support of contracts in the Life Sciences businesses and the balance was spent on various tooling projects and on small upgrades to the general IT infrastructure across the Group.

The Group spent £11.1m (2008: £7.6m) on the acquisition of businesses during the year and paid deferred consideration of £1.1m (2008: £0.3m), as described below. At 30 September 2009 the Group's cash funds had increased by £5.6m to £21.3m (2008: £15.7m). The Group continues to maintain a £20m committed revolving bank facility which expires on 23 November 2010, together with £5m of working capital facilities. None of these facilities were utilised at 30 September 2009.

Related Party Transactions

The minority shareholders in Somagen, AMT and M Seals are also directors and employees of these companies and as such represent related parties. During the year, dividends of £0.7m (2008: £0.9m) were paid to the minority shareholders and £1.1m was paid to the vendors of AMT as deferred consideration in respect of the final settlement of their performance payment.

At 30 September 2009, the Group also has a liability to purchase the minority shareholdings in AMT, Somagen and M Seals. The aggregate liability is estimated at £13.1m (2008: £11.2m), of which ca. £3.1m will be payable in December 2009 to acquire the final 8.2% minority shareholding in Somagen; the balance will be payable between 1 October 2010 and 31 December 2012 to acquire the minority shareholdings in AMT and M Seals. In 2008, £3.7m was paid to the minority shareholders in Somagen to acquire 11.8% of the share capital. These liabilities arise under put/call options entered into at the time of acquisition and are based on the Directors' estimate of the Earnings Before Interest and Tax of these businesses when the options crystallise.

Based on the expected performance of these businesses, the Directors have reassessed the potential liability at 30 September 2009 to acquire the remaining outstanding minority interests. The fair value remeasurement of these options has led to a charge of £1.9m (2008: £3.0m) being made in the consolidated Income Statement. An analysis of the movement in this liability is set out in note 19 to the consolidated financial statements.

Land at Stamford

The Group continues to retain approximately 150 acres of farm and former quarry land in Stamford which relates to a former business which has now closed. This land is included in the consolidated Balance Sheet at £Nil and in the opinion of the Directors, is unlikely to be worth more than £0.5m in its present condition. The Directors anticipate that this land will continue to be leased to a local farmer and there is no intention to dispose of this land in the foreseeable future.

Acquisitions, Intangible Assets and Goodwill

During the year the Group acquired two businesses, in support of broadening its Life Sciences and Seals businesses, for £11.1m, in aggregate; deferred consideration payable of £0.6m has been provided at 30 September 2009 in respect of each of these businesses, as described further in note 21 to the consolidated financial statements. The acquisition of RTD in January 2009 was partly funded by drawing down £4.6m of US$ borrowings from the revolving bank facility. These borrowings were repaid in full during the year from the operating cash flow of the US businesses.

Acquisition intangible assets of £4.2m were recognised in connection with these acquisitions, as well as goodwill of £3.5m, reflecting the amount paid for the acquisitions during the year, in excess of the value of the net assets. This goodwill largely comprises the value in each of these businesses relating to the product know-how held by the employees, prospects for sales growth in the future (from both new customers and new products) and operating cost synergies.

The Directors have carried out an impairment review of the total Group goodwill of £59.6m held at 30 September 2009 and, despite the weakened trading environment, remain satisfied that none of this goodwill has been impaired.

Pensions

Pension benefits to employees are provided through defined contribution schemes at an aggregate cost in 2009 of £0.7m (2008: £0.6m). In addition, the Group retains a small number of legacy defined benefit pension schemes in the UK which are closed to future accrual. At 30 September 2009 the accounting deficit in these defined benefit schemes had increased by £3.0m to £4.7m (2008: £1.7m). The upheaval in the financial markets caused by the banking crisis has contributed to a sharp reduction in bond yields, which are used to value the pension liabilities. This led to an increase in the gross pension liability of £4.6m to £18.8m (2008: £14.2m) which more than offset a strong increase in the market value of the underlying investments of £1.6m and the Group's cash contribution to the schemes this year of £0.2m.

During the year, a triennial actuarial funding valuation of the PLC scheme was completed, as of 30 September 2008. This valuation, using tighter mortality assumptions, resulted in a reduction in the ongoing funding level of this scheme to 84% (2008: 96%). As a consequence, the Group has agreed to increase its annual contributions to fund this deficit to £96,000 pa (2008: £42,000 pa) from 1 October 2009. A triennial actuarial funding valuation of the Anachem scheme is due as of 30 September 2009.

Net of deferred tax, the aggregate deficit in the defined benefit schemes at 30 September 2009 was £3.4m (2008: £1.2m), which equates to 2.8% (2008: 1.1%) of total shareholders' equity.

Capitalisation and Dividends

At 30 September 2009, the number of shares in issue is 113.2m, of which 0.9m are held by the Company's employee benefit trust. Shareholders' funds, which represents the Group's total capital, increased by £13.3m to £121.4m, due to the effect of exchange rate movements and earnings retained for the year.

The Group's trading capital employed, which is defined in note 2 to the consolidated financial statements, increased at 30 September 2009 by £11.6m to £116.1m (2008: £104.5m), of which £80.8m (2008: £70.2m) was accounted for by goodwill and acquisition intangible assets. The Group's return on trading capital employed decreased to 19.0% (2008: 22.4%) at 30 September 2009. This reduction reflects the lower operating profits earned this year, but was exacerbated by the impact of the increase in overseas trading capital at 30 September 2009, resulting from the weakening in UK sterling.

Following the Board's announcement last year that it intended to move dividend cover towards 2.0 times, based on adjusted earnings per share, the amount distributed to shareholders in the form of ordinary dividends increased by £1.5m in 2009 to £8.4m (2008: £6.9m).

Measuring Financial Performance

The Board uses specific measures when assessing the performance of the Group and these are referred to throughout this Annual Report in the discussion of the performance of the businesses. These measures are not defined in IFRS, but are used by the Board to assess the underlying operational performance of the Group and its businesses. As such the Board believes these performance measures are important and should be considered alongside the IFRS measures. The alternative performance measures, which have been used in this Annual Report, are described in note 2 to the consolidated financial statements.

Reported performance takes into account all the factors (including those which the Group cannot influence, principally currency exchange rates) that have affected the results of the Group's business and which are reflected in the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

The Group has not been required to adopt any other new accounting standards during the year which have had a material impact on the consolidated financial statements.

Risks and Uncertainties

Risk Management Process

Risk assessment and evaluation is an integral part of the Group's annual planning cycle and market specific risks are evaluated as part of the budgetary process.

Each operating business is required each year to identify and document the significant strategic, operational and financial risks facing the business. For each significant risk, a number of scenarios are mapped out and an assessment is made of the likelihood and impact of each risk scenario. Finally, plans and processes are established, which are designed to control each risk and minimise its potential impact.

The risk assessments from each of the operating businesses are reviewed with the Executive Directors and a consolidated risk assessment is reviewed by the Board.

The risks and uncertainties which are currently judged to have the largest potential impact on the Group's long term performance are set out below. It should be recognised that additional risks not currently known to management, or risks that management currently regard as immaterial, could also have a material adverse effect on the Group's financial condition or the results of operations.

Strategic Risks

Downturn in major markets

Adverse changes in the major markets in which the businesses operate can have a significant impact on performance. The effects will either be seen in terms of slowing revenue growth, due to reduced or delayed demand for products and services, or pressure on margins due to increased competitive pressures.

To mitigate the effects of such adverse changes, the businesses identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand. Changes to cost levels and inventories can then be made in a measured way to mitigate the effects.

In addition, there are a number of characteristics of the Group's businesses which moderate the impact of economic and business cycles on the Group as a whole:

- The Group's businesses operate in three different sectors with different cyclical characteristics and across a number of geographic markets.
- The businesses offer specialised products and services and this offers a degree of protection against customers quickly switching business to achieve better pricing.
- A high proportion of the Group's sales comprise consumable products and service contracts which are purchased as part of customers' operating expenditure, rather than through capital budgets.
- In many cases the products will be used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

Loss of key supplier(s)

The Group's businesses ensure that they have secure long term access to strong, differentiated product offerings by combining:

- Quality manufacturer-branded products, mostly sourced under long term distribution agreements.
- Own-brand products, manufactured under contract.
- Selective in-house manufacture and assembly.

There are risks to the businesses if a major supplier decides to cancel the distribution agreement or if the supplier is acquired by a company which has its own distribution channels in the relevant market. There is also the risk of a supplier taking away exclusivity and either setting up direct operations or establishing another distributor.

The potential impact on an individual business may be high where a supplier represents a significant proportion of the sales and purchases of the business. However, the potential impact on the Group is lower as no supplier represents more than 15% of Group revenue and only six suppliers represent more than 2% each of Group revenue.

Relationships with suppliers have normally been built up over many years and a strong degree of inter-dependence has been established. There are further actions planned and implemented by the operating businesses to control or to mitigate risks:

- Where dependence is high, long term, multi-year exclusive contracts signed with suppliers.
- Where possible, change of control clauses included in contracts for protection or compensation in the event of acquisition.
- Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation.
- Regular review meetings and adherence to contractual terms.
- Regular reviews of inventory levels.
- Bundling and kitting of products and provision of added value services.
- Periodic research of alternative suppliers as part of contingency planning.

Loss of major customer(s)

As with any businesses, the loss of one or more major customers can be a material risk.

Specific large customers are important to individual operating businesses and a high level of effort is expended in ensuring that these customers are retained and encouraged not to switch to another supplier. In addition to providing high levels of customer service, close integration is established where possible with customers' systems and processes.

The nature of the Group's businesses, however, ensures that there is not a high level of dependence on any individual customers. No customer represents more than 5% of sector revenue or more than 2% of Group revenue.

Technological change

The Group's businesses operate in specialised markets offering products which are often technical in nature. As a result, there is always the risk that a technological change will make specific products less competitive or in the worst case, obsolete. In addition to the write-off of unsaleable inventory, this can impact the sales performance of the business if replacement products are not available.

The Group's exposure to this risk is reduced by the spread of businesses and technologies, as well as by the fact that the products, though technical, are typically not subject to very rapid technological change.

The operating businesses monitor the key technologies to get early warning of changes in product competitiveness, so that plans can be developed for changes in the supplier portfolio as required. Also, the businesses, with sufficient lead time, mostly have the opportunity to change suppliers in the event of a major technology shift.

Product liability

There is always a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability.

To offset this risk, technically qualified personnel and control systems are in place to ensure products meet quality requirements. The businesses, in their Terms and Conditions of sale with customers, will typically mirror the Terms and Conditions of sale from their suppliers. In this way the liability can be limited and subrogated to the supplier. In addition, this avoids the need for businesses to maintain material warranty provisions in their financial statements.

However, if a legal claim is made it will typically draw in our business as a party to the claim and the business may be exposed to legal costs and potentially damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. To mitigate this risk, the Group has established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £10m in all sectors.

Loss of key personnel

The success of the Group is built upon strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have a significant impact on performance, at least for a time.

Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term. However, the more successful initiatives focus on ensuring a challenging work environment with appropriate reward systems. The Group places very high importance on planning the development, motivation and reward of key managers in the operating businesses to mitigate this risk:

- Ensuring a challenging working environment where managers feel they have control over and responsibility for their businesses.
- Establishing management development programmes to ensure a broad base of talented managers.
- Offering a balanced and competitive compensation package with a combination of salary, annual bonus and long term incentive plans targeted at the individual business level.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Operational Risks

Major damage to premises

The Group businesses mostly operate from combined office/warehouse facilities which are dedicated to the business and not shared with other Group businesses. Major damage to the facility from fire, malicious damage or natural disaster would impact the business for a period until the damage is repaired or alternative facilities have been established.

The businesses have developed plans to prevent incidents, including fire and security alarms and regular fire drills. Insurance policies are also in place including property, contents and business interruption cover which would mitigate the financial impact.

However, the priority in such an event is to become operational as quickly as possible to minimise disruption to customers. Plans to ensure a quick and orderly recovery have been developed by the businesses and are periodically reviewed.

The business where the risk is greatest is Hercules in Clearwater, Florida which is most at risk from an environmental disaster caused by a hurricane or tornado. The building structure has been designed to withstand 150mph winds and a specific disaster plan has been drawn up and is regularly reviewed. This includes:

- Back-up power generator.
- Materials on hand to secure the facility.
- Communications re-route to other branches or interim location.

Risks and Uncertainties continued

- IT recovery plan using back-up server in separate location.
- Regular building inspection and weather monitoring.
- Plans to drop-ship product from suppliers where needed.

Loss of information technology ("IT") systems
Computer systems are critical to the businesses since their success is built on high levels of customer service and quick response. A complete failure of IT systems, with the loss of trading and other records, would be more damaging to the businesses than major physical damage to facilities. IT system failure could have a number of causes including power failure, fire and viruses.

Business interruption insurance cover is held across the Group and contingency plans have been drawn up in all businesses. The recovery plans differ by individual business, but will include some or all of the following elements:

- Full data back-ups as a matter of routine.
- Back-up tapes stored in fire proof safes.
- Back-up servers identified.
- Communication re-route options identified.
- Service contracts with IT providers with access to replacement servers.
- Uninterruptible power sources and back-up generators where required.
- Virus checkers and firewalls.

Disruption by service providers
All the operating businesses use third party carriers to physically transport products. Disruption to this service is most critical in businesses such as Hercules where the business model requires rapid, often next day, delivery of products. Most businesses will have a principal carrier that is used, but they will monitor and maintain accounts with alternative carriers.

Financial Risks

The Group's activities expose it to a variety of financial risks; foreign currency, liquidity, interest rate and credit. The Group's overall management of these risks is carried out by a central treasury team (Group treasury) under policies and procedures which are reviewed and approved by the Board. Group treasury identifies, evaluates and where appropriate, hedges financial risks in close co-operation with the Group's operating businesses. The Group treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure. The policies for managing these financial risks are set out below and further analyses of these risks are set out in note 18 to the consolidated financial statements.

Foreign currency risk
Foreign currency risk is the risk that changes in currency rates will affect the Group's results. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the euro and the Canadian dollar (translational exposure). During the year ended 30 September 2009, ca. 70% of the Group's revenue and operating profits from continuing businesses were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to increase revenue by £14.8m and to increase operating profit by £2.4m. It is estimated that a strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce operating profit, before amortisation of acquisition intangible assets and tax, by approximately £1.8m (7.0%) (2008: £2.0m (7.5%)) due to currency translation.

The Group has certain investments in foreign operations whose net assets are also exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations are not hedged. At 30 September 2009, the Group's non-UK sterling trading capital employed in overseas businesses was £87.7m (2008: £75.0m), which represented 76% of the Group's trading capital employed. It is estimated that a strengthening of UK sterling of 10% against all the non-sterling capital employed would reduce shareholders' funds by £7.8m (2008: £6.9m).

The Group's UK businesses are also exposed to foreign currency risk on purchases that are denominated in a currency other than their local currency, principally US dollars, euro and Japanese yen (transactional exposure). The Group's Canadian businesses are also exposed to a similar risk as the majority of their purchases are denominated in US dollars.

The UK and Canadian businesses hedge up to 80% of forecast US dollar and euro foreign currency exposures using forward foreign exchange contracts. The Group classifies its forward foreign exchange contracts, hedging forecasted transactions, as cash flow hedges and states them at fair value.

Details of average exchange rates, used in the translation of overseas earnings, and of year end exchange rates, used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 27 to the consolidated financial statements.

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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses, but it maintains a £5m overdraft facility on which interest is payable at UK Base Rate plus 100 bps. The Group also has an undrawn committed £20m revolving bank facility which expires on 23 November 2010. Interest on this facility is payable at 80 bps over LIBOR.

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. An analysis of the currency and interest rate profile of the Group's funds is shown in note 18 to the consolidated financial statements. The Group manages its interest-bearing funds in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus funds are deposited with commercial banks that meet the credit criteria approved by the Board, for periods of between one to six months at rates that are generally fixed by reference to the relevant UK Base Rate, or equivalent rates. The Group does not undertake any hedging activity of interest rates.

It is estimated that an increase of 1% in interest rates would increase the Group's profit before tax by a maximum of £0.2m (2008: £0.1m)

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.

Trade receivable exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. 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. An analysis of the Group's credit risk to trade receivables is set out in note 15 to the consolidated financial statements.

The Group establishes an allowance for impairment that represents its estimate of incurred 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 allowance account is written off against the underlying receivable.

Exposure to financial counterparty credit risk is controlled by the Group treasury team in establishing and monitoring counterparty limits. Centrally managed funds are invested entirely with counterparties whose credit rating is 'A' or better.

Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

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

Accounting Risks

Inventory obsolescence
Working capital management is critical to success in specialised distribution businesses as this has a major impact on cash flow. The principal risk to working capital, other than credit risk to trade receivables is in inventory obsolescence and write-off. Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover excess stock and potential obsolescence.

Fraud and theft
The Group's operating businesses are relatively straight-forward businesses where a significant incidence of fraud or theft should become apparent relatively quickly. The risks are also moderated by the fact that the products are relatively specialised industrial products and therefore not particularly valuable or attractive on the open market. Finally, tangible fixed assets are not significant across the Group and generally comprise IT and warehouse equipment, where any loss would be quickly apparent.

As additional security, processes are in place to further reduce the opportunity for fraud or theft:

- Specified signature levels and responsibilities.
- Segregation of responsibilities.
- Controls on shipping addresses.
- Weekly flash reports of cash balances and regular bank reconciliations.
- Regular review of supplier and creditor ledgers to identify fictitious suppliers.
- Group wide policy and procedures for "whistle-blowing".

The Audit Committee carries out an annual assessment of the fraud risks in the businesses and discusses these risks with management.

Corporate and Social Responsibility

The Board takes serious account of the social, environmental and ethical impacts of the Group's activities and monitors them as part of the annual risk assessment process. The risk assessments are led by the Managing Directors of each of the Group's operating companies and are then reviewed by the Board. The Managing Directors are responsible for complying with the relevant employment, social and environmental regulations in the geographical areas in which they operate.

Employment

Building and developing the skills, competencies, motivation and teamwork of employees is recognised by the Board as being key to achieving the Group's business objectives. The stability and commitment of the employees is demonstrated by the average length of service being 6.4 years (2008: 5.2 years). In addition the number of working days lost to sickness is less than 2% a year (2008: 2%). These measures remain consistent across each of the Group's sectors.

The Group values the commitment of its employees and recognises the importance of communication to good working relationships. The Group keeps employees informed on matters relating to their employment, on business developments and on financial and economic factors affecting the Group. This is achieved through management briefings, internal announcements, the Group's website and by the distribution of Preliminary and Interim Announcements and press releases. Copies of the Annual Report are also made available in the operating businesses. This communication programme enables employees to gain a better understanding of the Group's business objectives and their roles in achieving them.

Both employment policy and practice in the Group are based on non-discrimination and equal opportunities. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. The Group remains supportive of the employment and advancement of disabled persons. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. If an employee is, or becomes disabled during their period of employment, the Group will, if necessary and to the extent possible, adapt the work environment to enable the employee to continue in their current position or retrain the employee for duties suited to their abilities following disablement. At 30 September 2009 the Group's employees included two who were disabled and one who was on long term sick leave.

Employment policies throughout the Group have been established to comply with relevant legislation and codes of practice relating to employment, health and safety and equal opportunities. The Group provides good quality working environments and facilities for employees, and training and development appropriate to each of their roles.

Health and Safety

The Group places a great deal of importance on the provision of clean, healthy and safe working conditions. In addition to compliance with all local regulations, the Group promotes working practices which protect the health and safety of its employees. Health and Safety matters are kept under regular review by local management who report on such matters to the Chief Operating Officer. During 2009, 36 employees (2008: 41) were reported as having suffered minor injuries at work; none of these injuries resulted in absence from work for more than three days. No employee (2008: one) suffered a serious injury during the year.

Health and Safety training is part of the induction process for new employees. Specific training is given where relevant, for example regarding forklift truck operation and chemical handling, as well as general fire safety and first aid matters.

Environmental

The Group regards compliance with relevant environmental laws as an important part of its responsible approach to the environment and is committed to good environmental management practices throughout its operations. The Managing Directors appointed by the Board have responsibility for the environmental performance of their operating businesses and each subsidiary is required to implement initiatives to meet their responsibilities.

Relationships with Suppliers, Customers and Other Stakeholders

The Group recognises the obligation it has towards the parties with whom it has business dealings including customers, shareholders, employees, suppliers and advisors. Dealings with these groups depend upon the honesty and integrity of the Group's employees and every effort is made to ensure that a high standard of expertise and business principles is maintained in such dealings. Where appropriate, training is given to maintain and to raise standards.

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

The Group does not have a formal code that it follows with regard to payments to suppliers. Group companies agree payment terms with their suppliers when they enter into binding purchasing contracts for the supply of goods and services.

Suppliers are, in that way, made aware of these terms. Group companies seek to abide by these payment terms when they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 30 September 2009 the amount of trade creditors shown in the Group balance sheet represents 46 days (2008: 48 days) of average purchases.

Community Impact and Involvement

The Group contributes to local worthwhile causes and charities and ensures that the Group's operations cause minimal negative impact within the community.

In common with all companies, the Group has limited resources and the amount of money available for charitable purposes varies over time.

The Group made donations for charitable purposes during the year which amounted to £14,825 (2008: £20,452). No political donations were made.

Directors' Report

For the year ended 30 September 2009

The Directors present their Report and the audited financial statements for the year ended 30 September 2009.

Principal Activities

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 in the Business Review on pages 10 to 26; the Business Review incorporates the requirements of the Companies Act.

Results and Dividends

The profit for the financial year attributable to shareholders was £13.0m (2008: £13.3m). The Directors recommend a final dividend of 5.3p per ordinary share (2008: 5.0p), to be paid, if approved, on 20 January 2010. This, together with the interim dividend of 2.5p per ordinary share paid on 17 June 2009, amounts to 7.8p for the year (2008: 7.5p).

Share Capital

At the date of this Report there were 113,239,555 ordinary shares of 5 pence each in issue, all of which are fully paid up and quoted on the London Stock Exchange. 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 Company Secretary.

There are no restrictions on the transfer of ordinary shares in the capital of the Company, other than those which may be imposed by law from time to time. In accordance with the Listing Rules of the Financial Services Authority, certain employees are required to seek approval of the Company to deal in its shares.

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.

Share Allotment

A general allotment power and a limited power to allot in specific circumstances for cash, otherwise than pro-rata to existing shareholders, were given to the Directors by resolutions approved at the Annual General Meeting of the Company held on 14 January 2009. These powers will expire at the conclusion of the 2010 Annual General Meeting and resolutions to renew the Directors' powers are therefore included within the Notice of the 2010 Annual General Meeting.

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 Annual General Meeting of the Company held on 14 January 2009. In the year to 30 September 2009 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2010 Annual General Meeting and a resolution to renew the authority is therefore included within the Notice of the 2010 Annual General Meeting.

Substantial Shareholdings

At 13 November 2009 the Company had been notified, pursuant to the Financial Service Authority's Disclosure and Transparency Rules, of the following notifiable voting rights in its ordinary share capital:

	Percentage of ordinary share capital
Fidelity International	9.46
F&C Asset Management plc	9.04
Legal & General Investment Management Limited	5.84
Insight Investments Limited	3.81
Lincoln Vale European Partners Master Fund LP	3.71
Newton Investment Management Limited	3.69
IG International Management Limited	3.20
Legg Mason	3.17
Herald Investment Trust plc	3.05

As far as the Directors are aware there were no other notifiable interests.

Directors

The persons currently serving as Directors of the Company are shown on pages 8 and 9. JW Matthews retires from the Board by rotation at the Annual General Meeting on 13 January 2010 and being eligible, offers himself for re-election. The Directors' beneficial interests in the Company's ordinary share capital at 30 September 2009 are set out in the Remuneration Report on page 37.

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 Business Review on pages 10 to 26. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on page 20. In addition pages 24 and 25 of the Annual Report includes 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, despite the current uncertain economic outlook.

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 and Accounts.

Directors' Report continued

For the year ended 30 September 2009

Directors' and Officers' Liability Insurance and Indemnity

The Company has purchased insurance to cover its Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The Company also indemnifies its Directors and Officers to the extent permitted by law. Neither the insurance nor the indemnity provide cover where the Director or Officer has acted fraudulently or dishonestly.

Other Statutory Information

An explanation of the Company's policy on matters relating to Employment, Health and Safety, Environmental and its relationship with suppliers, customers and other stakeholders is set out within the Business Review on page 26 of the Annual Report. The Group's use of financial instruments is discussed on page 24. Corporate Governance disclosures are set out on pages 29 to 37.

Articles of Association

As a result of implementation of the final tranche of the Companies Act 2006 on 1 October 2009 and of the Shareholder Rights Directive in August 2009, the Company's Articles of Association in their current form, now contain certain provisions that no longer reflect current legislation and best practice. The Board therefore considers it prudent to replace the Company's existing Articles of Association with new Articles of Association ("New Articles") that take into account these new developments in legislation.

A summary of the material changes brought about by the proposed adoption of the New Articles will be set out in an Appendix to the Notice of Annual General Meeting. It is intended that a special resolution for adoption of the New Articles of the Company will be put to shareholders at the Annual General Meeting.

A copy of the New Articles will be on display at the registered office of the Company during normal business hours on any week day, up to and including the date of the Annual General Meeting, and will be available on the Company's website.

Annual General Meeting

The Annual General Meeting will be held at midday on 13 January 2010 in the Brewers' Hall, Aldermanbury Square, London EC2V 7HR. The business of the meeting will be set out in the Notice of the Annual General Meeting which is a separate document which will be sent to all shareholders.

Independent Auditors

A resolution to re-appoint Deloitte LLP (formerly Deloitte & Touche LLP) as auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

NP Lingwood
Company Secretary

16 November 2009

Corporate Governance

Compliance Statement

The Board recognises the importance of high standards of corporate governance throughout the Group. The Board is accountable to the Company's shareholders for good governance and this statement sets out how the principles set out in the Combined Code on Corporate Governance ("the Code"), issued in June 2003 and last updated in June 2008 by the Financial Reporting Council, are applied by the Company. The Board confirms that the Company has complied with all of the Provisions set out in Section 1 of the Code, throughout the year.

Directors

The Board

The Board comprises three non-Executive Directors, including the Chairman, and three Executive Directors, providing a wide range of skills and experience. The biographical details of the Board members are set out on pages 8 and 9. The Board has six scheduled meetings each year and meets more frequently as required. It met on six occasions during the year under review.

The following table sets out the number of meetings of the Board and its Standing Committees during the year and individual attendance by Board members at these meetings:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	6	5	3	1
Non-Executive Directors:				
JL Rennocks (Chairman)	6	5	3	1
JW Matthews	6	5	3	1
IM Grice	6	5	3	1
Executive Directors*:				
BM Thompson	6			
I Henderson	6			
NP Lingwood	6			

*The Executive Directors attend all the meetings of the Audit Committee; BM Thompson also attended the meetings of the Nomination and Remuneration Committees during the year.

The duties of the Board and its Committees are set out clearly in formal terms of reference which are reviewed regularly and state the items specifically reserved for decision by the Board. The Board establishes overall Group strategy, including acquisitions and withdrawal from existing activities. It approves the Group's strategy and the operating budget and reviews performance through monthly reports and management accounts.

The approval of acquisitions, for the most part, is a matter reserved for the Board, save that it delegates to the Chief Executive Officer the responsibility for such activities to a specified level of authority. Similarly, there are authority levels covering capital expenditure which can be exercised by the Chief Executive Officer. Beyond these levels of authority, projects are referred to the Board for approval.

The Board establishes the remuneration of non-Executive Directors and the Company's framework of executive remuneration and its cost in the light of recommendations made by the Remuneration Committee.

Other matters reserved to the Board include treasury policies, internal control, risk management and the appointment or removal of the Company Secretary. The Company maintains appropriate insurance cover in respect of legal action against its Directors.

Chairman and Chief Executive

The roles of the Chairman, who is non-Executive, and the Chief Executive Officer are separate and clearly defined. The Chairman is also Chairman of Nestor Healthcare plc and Intelligent Energy plc and has a number of other Board appointments. The Board is satisfied that the Chairman's other Board appointments and commitments do not place constraints on his ability properly to fulfil his role as Chairman of Diploma PLC.

Board Balance and Independence

The non-Executive Directors are appointed for specified terms, the details of their respective appointments being as set out in the Remuneration Report on page 33. Non-Executive Directors are required to inform the Board of any changes to their other appointments.

The non-Executive Directors are determined by the Board to be independent in character and judgement and there are no relationships or circumstances which could affect, or appear to affect, a Director's judgement. JW Matthews is the senior independent Director.

There are three standing Committees of the Board to which various matters are delegated. Membership of the Committees is set out on page 9 and terms of reference are available on request and are set out on the Company's website. In order to ensure that undue reliance is not placed on particular individuals, the Board has decided that all its independent non-Executive Directors should serve on all Committees. The Board regularly reviews the chairmanship of its Committees.

During the year the Chairman has had meetings with the non-Executive Directors, without the Executive Directors present.

Appointments to the Board

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. The members of the Nomination Committee are JL Rennocks, who is the Chairman, and the two non-Executive Directors.

The Committee would be chaired by the senior independent Director on any matter concerning the chairmanship of the Company. The Company Secretary is the Secretary to the Committee.

The Nomination Committee has written terms of reference which were reviewed and updated during 2005, covering the authority delegated to it by the Board. These include the following duties:

- To be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Before making an appointment, the Committee will evaluate the balance of skills, knowledge and experience on the Board and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

Corporate Governance continued

- In identifying suitable candidates, the Committee shall consider candidates on merit and against objective criteria and will take care that appointees have enough time available to devote to the position.
- The Committee will consider candidates from a range of backgrounds, both internally and externally and may use the services of external advisors to facilitate the search.

On appointment, Directors undertake an informal induction process which is designed to develop knowledge and understanding of the Company's business, and includes visits to various Group operating sites.

The Nomination Committee met once during the year under review.

Information and Professional Development
The main Board papers comprising an agenda and formal Board reports, together with briefing papers on specific matters, are sent to the Directors in advance of each Board meeting.

The training needs of the Directors are periodically discussed at meetings with briefings as necessary on various elements of corporate governance and regulatory issues.

The Company Secretary acts as an advisor to the Board on matters concerning governance and regulatory issues and he ensures Board procedures are complied with. All Directors have access to his advice and a procedure also exists for Directors to take independent professional advice at the Company's expense. No such advice was sought during the year. The appointment and removal of the Company Secretary and his remuneration are matters for the Board as a whole.

The Board has decided that because of the relative small size of the Company and to limit its costs, the role of the Company Secretary should be combined with that of the Group Finance Director. This matter is regularly reviewed by the Board.

Performance Evaluation
During the year the Board completed the process of evaluating its own performance, together with that of its Committees and individual Directors, including the Chairman. The results of the evaluation process are summarised for presentation to the Board and areas for improvement are identified and action taken where necessary.

Re-election
All Directors must stand for election at the first Annual General Meeting after they are appointed. The Articles provide that all Directors will stand for re-election at least every three years.

Remuneration

The Board has established a Remuneration Committee consisting exclusively of independent non-Executive Directors. The application of corporate governance principles in relation to the Directors' remuneration is described in the Remuneration Report on page 33.

Accountability and Audit

Financial Reporting
It is a requirement of the Code that the Board should present a balanced and understandable assessment of the Company's position and prospects. This requirement extends to interim and other price sensitive public reports and to reports to regulators, as well as to information required to be presented by statutory requirements.

In this context, reference should be made to the Statement of Directors' Responsibilities on page 38, the Directors' Report on pages 27 and 28 which includes a statement regarding the Group's status as a going concern, and to the Reports of the Auditors on pages 70 and 71, which includes a statement by the auditors about their reporting responsibilities.

Internal Control
The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Throughout the year, the Group has been in full compliance with the Combined Code provisions on internal control.

The Board has established a clear organisational structure with defined authority levels. The day to day running of the Group's business is delegated to the Executive Directors of the Company. The Executive Directors visit each operating unit on a regular basis and meet with both operational and finance management and staff.

Key financial and operational measures are reported on a weekly and/or monthly basis and are measured against both budget and interim forecasts which have been approved and reviewed by the Board. Each operating unit is required to prepare an annual self assessment report on internal control and these are reviewed by the Board.

During the year the Board has carried out a review of the effectiveness of the Group's systems of internal control. This review included a risk assessment process on the key financial, operational and compliance risks to identify, evaluate and manage significant risks to the Group's business. The assessments have been effected at both Group and individual company level. They included common definitions of risk and ensure, as far as practicable, that the policies and procedures established by the Board are appropriate to manage the perceived risks to the Group. During the year, the risk assessment process revealed no significant risks of which the Board was not previously aware.

The risks and uncertainties which are currently judged to have the largest potential impact on the Group's long term performance are set out in the Business Review on pages 22 to 25.

In January 2009, the company appointed a full time internal auditor as a member of the Group's finance department. Since this appointment, a programme of internal audit visits has been completed at most of the Group's businesses. The remaining businesses will be visited during the forthcoming financial year. The Audit Committee keeps under review the need for a fully independent internal audit function in the Group. The Audit

Committee believes that the Group's system of internal control is appropriate for a group of the size and nature of Diploma PLC and the Audit Committee's current view is that a separate independent internal audit function is not necessary.

Audit Committee and Auditors

The Board has established an Audit Committee comprising the three non-Executive Directors. The Committee is chaired by JW Matthews. The Company Secretary is the Secretary to the Committee.

The main roles and responsibilities of the Committee are set out in written terms of reference, which were reviewed and updated during 2005 and which generally encompass those set out in the Code, which are as follows:

- to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial judgements contained therein;
- to review the Group's internal financial controls and its internal controls and risk management systems;
- to make recommendations to the Board, for it to put to shareholders for approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors and to approve the terms of engagement of the external auditors;
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by external auditors; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- to annually consider whether there is a need for a formal internal audit function and make recommendation to the Board.

In addition, the Audit Committee has an important role to play through its responsibility for, and oversight of, the auditor relationship and auditor independence. The Committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides.

In 2008, the Committee reviewed the audit engagement and, following an audit tender process, recommended to the Board the appointment of Deloitte LLP as auditors to the Company and Group.

The Committee normally meets at least five times a year. The external auditors and the Executive Directors generally attend Audit Committee meetings. In addition, the Committee periodically meets the external auditors without the Executive Directors present.

The Audit Committee's responsibilities are discharged in the following manner:

- at its meetings in May and November, the focus falls on a review of the Interim Report and the Annual Report and Accounts respectively. On both occasions, the Committee receives reports from the Group Finance Director and from the external auditors identifying any accounting or judgemental issues requiring its attention;
- the external auditors present their audit plan at the September meeting; and
- the Committee meets to approve formal Interim Management Statements which are released to the market in January and August, in accordance with the Disclosure and Transparency Rules.

The Committee has also formally reviewed and approved the arrangements by which Company employees may, in confidence, raise concerns about possible irregularities in financial reporting or other matters (so called "whistleblowing" procedures).

On an annual basis, the Committee also assesses annually the effectiveness of the external audit process. This assessment covers all aspects of the audit service provided by the Company's external auditors. The Committee also reviews annually a report on the external auditors' own quality control procedures.

The Committee has also established a set of guidelines covering the type of non-audit work that can be assigned to auditors. These relate to further assurance services – where the auditors' detailed knowledge of the Group's affairs means that they may be best placed to carry out such work. This extends to, but is not restricted to, shareholder and other circulars, regulatory reports, and on occasions, work in connection with disposals. Work in connection with acquisitions, including due diligence reviews, is generally not provided by the auditors, but is put out to tender to other firms.

Taxation services are generally not provided by the auditors; a separate firm is retained to provide tax advice, including any assistance with tax compliance matters generally, except in Canada, where the auditors provide some assistance on the tax computations.

In other circumstances, proposed assignments are put out to tender and decisions to award work taken on the basis of demonstrable competence and cost effectiveness.

The Committee receives an annual report which provides details of any assignments and related fees carried out by the auditors in addition to their normal audit work, and these are reviewed against the above guidelines.

Corporate Governance continued

Communications with Shareholders

The Company maintains regular contact with major shareholders to communicate clearly the Group's objectives and monitors movements in significant shareholdings. The Company recognises the importance of communicating with its shareholders and does this through its Annual and Interim Reports, Interim Management Statements and at the Annual General Meeting and through the processes described below.

Most shareholder contact is with the Chief Executive Officer and Group Finance Director and presentations are made on the operating and financial performance of the Group and its longer term strategy. The slide presentations made to representatives of the investment community following the announcement of the Preliminary and Interim results are made available on the Company's website at www.diplomaplc.com

The non-Executive Directors are given regular updates as to the views of institutional shareholders and an independent insight is sought through research carried out twice a year by the Company's advisors.

Through these processes, the Board is kept abreast of key issues. The opportunity for shareholders to meet the Chairman or Senior Independent Director, separately from the Executive Directors, is available on request.

Notice of the Annual General Meeting is sent to shareholders at least twenty working days prior to the meeting and includes a separate resolution on each substantially separate issue. In the absence of a poll being called, proxy votes cast are declared after each resolution has been dealt with on a show of hands.

The Chief Executive Officer and Company Secretary generally deal with questions from individual shareholders. All shareholders have the opportunity to put questions at the Company's Annual General Meeting when the Chairman and Chief Executive Officer give a statement on the Group's performance during the year, together with a statement on current trading conditions. The Chairman of the Board and of the Remuneration and Audit Committees will normally be available to answer questions at the meeting.

Remuneration Report

This Report is presented to shareholders by the Board and provides information on Directors' remuneration. This Report complies with the Directors' Remuneration Report Regulations 2002 and also sets out how the principles of the FRC Combined Code on Corporate Governance ("the Code") issued in June 2003 and last updated in June 2008, relating to Directors' remuneration are applied.

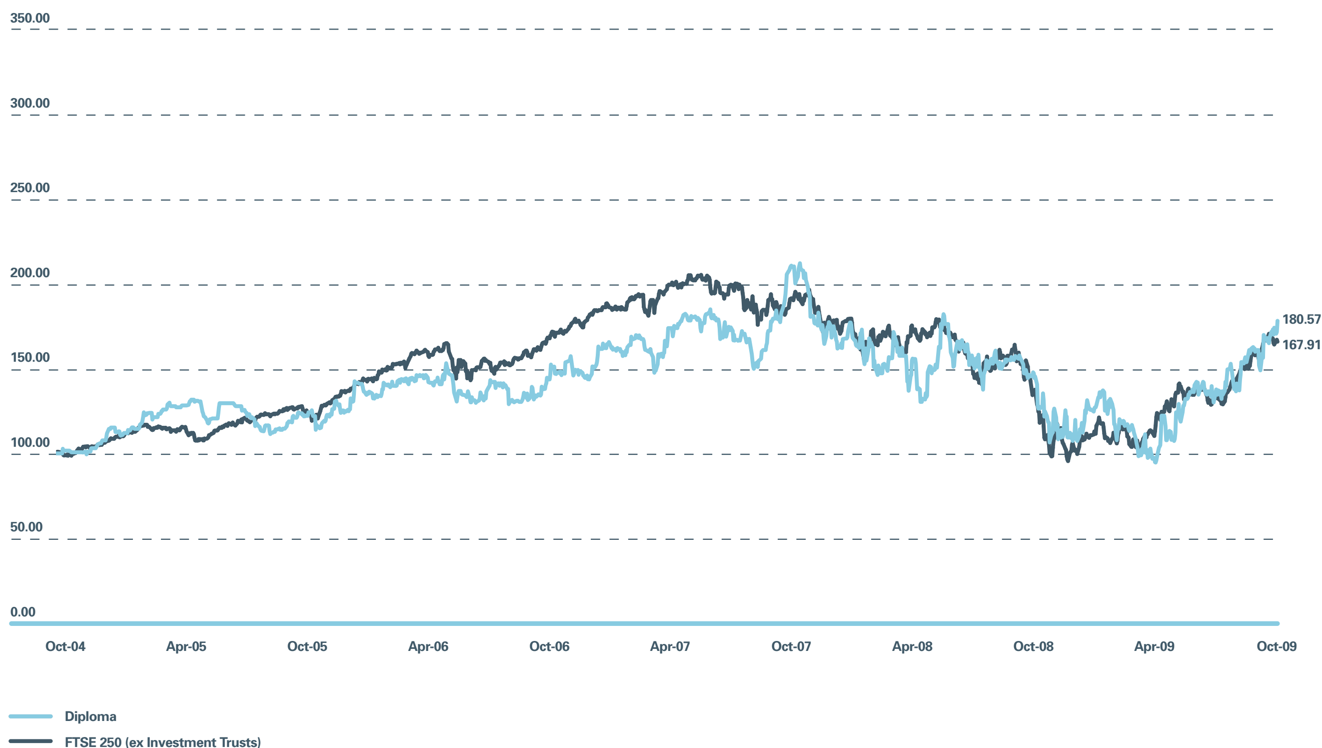
A resolution will be put to shareholders at the Annual General Meeting on 13 January 2010, inviting them to consider and approve this Report.

Performance

The Board recognises the importance of linking remuneration policies to the performance of the Group and shareholder return.

The graph below shows the total shareholder return for a holding of the Company's ordinary shares for the five financial years to 30 September 2009. This is compared to the total shareholder return for a hypothetical holding in the FTSE mid-250 index (excluding investment trusts). This was chosen as the Remuneration Committee ("the Committee") believes it is the most appropriate index to which the Company's performance can be compared and it is the index which is used for the purposes of the Long Term Incentive Plan.

Total shareholder return is the growth in value of a share plus the value of dividends re-invested in the Company's shares on the day on which they are paid.



The five year total shareholder return figures for Diploma PLC and the FTSE mid-250 index were as follows:

	Diploma	FTSE mid-250
September 2004	100	100
September 2009	181	168
	+81%	+68%

Governance

Remuneration Report continued

Remuneration Committee

The Committee is governed by formal terms of reference agreed by the Board and comprises two non-Executive Directors and the Chairman. The written terms of reference were reviewed and updated during 2005 and are published on the Company's website. The Committee comprised IM Grice who is the Chairman, JW Matthews and JL Rennocks. The Committee determines the specific remuneration packages, including share schemes, of the Executive Directors and also monitors the remuneration of other senior executives who report to the Executive Directors. The Chief Executive attends meetings at the invitation of the Committee to provide guidance as appropriate on the impact of remuneration policy and advice on the performance of Executive Directors. The Chief Executive does not attend meetings when his own position is discussed. Any matter affecting the Chairman is discussed by the Committee without the Chairman present.

The Committee met on three occasions during the year.

The Committee received advice and a written report from Towers Perrin in July 2008 on matters relating to Directors' Remuneration, as reported in last year's Remuneration Report. The Committee took the advice into account in establishing remuneration policies for the 2009 financial year. The Committee has not sought any external advice during the current financial year.

The Committee is satisfied that the current share incentive scheme, including grant levels and performance conditions, remains appropriate to the Company's current circumstances. However, the Committee intends to take advice on the current share incentive scheme and other aspects of remuneration during 2010.

Remuneration Policy

This Remuneration Report sets out the Company's policy on Directors' remuneration for 2009 and, so far as practicable, for subsequent years. In framing this policy the Committee has given full consideration to the provisions of the Code.

The Company's policy for Executive Director remuneration is that total remuneration (basic remuneration plus short term and long term remuneration) should reward both short and long term results, delivering competitive rewards for target performance.

The Company's policy for basic Director remuneration is to pay competitive market salaries and associated benefits, having regard to the Directors' experience, the size and complexity of the job and any other relevant factors, such as business sector expertise.

Share ownership is encouraged. Equity-based reward programmes align the interests of Executive Directors with those of shareholders and the long term success of the Group.

The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Company's business environment and in remuneration practice. Any changes in policy for years after 2009 will be described in future Remuneration Reports. Any statements in this Report in relation to remuneration policy for years after 2009 should be considered in this context.

Components of Remuneration

The current elements of remuneration for Executive Directors are as follows:

Salary and Benefits

The Committee reviews salaries taking account of Group and personal performance. Account is also taken of the levels of pay awarded elsewhere in the sector and competitive market practice.

The value of non-salary benefits for Executive Directors is included in the table of remuneration on page 36 and comprises life and health insurance and cash payments in lieu of a car. The value of these benefits is not pensionable, but is assessable to tax.

Short Term Incentives

The Company operates an annual performance related cash bonus scheme for Executive Directors. The maximum bonus payment under this scheme in 2009 is 100% of basic salary for the Chief Executive Officer and 80% (2008: 70%) for other Executive Directors. On target bonus is 60% for the Chief Executive Officer and 50% (2008: 40%) for other Executive Directors. The bonus for the Chief Executive Officer is wholly dependent on the financial performance of the Group; the bonus for the other Executive Directors is 75% (2008: 80%) based on the financial performance of the Group with the remaining 25% (2008: 20%) subject to achievement of specified personal objectives.

Long Term Incentive Plan ("LTIP")

The Company operates a Long Term Incentive Plan ("LTIP") for Executive Directors. In line with current best practice, the LTIP provides for annual grants to Executive Directors.

Under the LTIP, Executive Directors are awarded rights to acquire ordinary shares. Each award made under the LTIP is subject to performance conditions which will determine how many, if any, of the shares under the award the participant is entitled to receive after the three year performance period. The value of awards which can be made in any year to a participant will normally be equal to 100% of basic salary. This limit can be increased to a maximum of 200% in the case of a participant who within the previous 12 months joined the Group or received a significant promotion.

In any ten-year period, the number of shares which may be issued or placed under option under any executive share plan established by the Company, may not exceed 5% of the issued ordinary share capital of the Company from time to time. In any ten-year period the number of shares which may be issued or placed under option, under any all-employee share plan established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

Two performance conditions apply to the awards so that the vesting of 50% of the award will be linked to earnings per share ("EPS") growth and 50% will be linked to Total Shareholder Return (share price growth and reinvested dividends) ("TSR"), measured by comparison with the FTSE mid-250 index (excluding investment trusts).

The first performance condition is that the average annual compound growth in the Company's earnings per share ("EPS") over the three consecutive financial years, following the year prior to the grant, must exceed the annual compound growth

rate in the UK Retail Price Index (RPI) plus 3% per annum, over the same period. At this level of performance, 30% of the award relating to EPS performance would vest. Full vesting of the award relating to EPS performance requires that the Company's average annual compound growth in EPS exceeds the compound growth in RPI plus 5% per annum over the period. Between these two points, an increasing proportion of vesting occurs at RPI plus 3.5%, RPI plus 4% and RPI plus 4.5%. For the purposes of this condition, EPS will comprise adjusted EPS as defined in note 2 to the consolidated financial statements. The definition of adjusted EPS remains consistent with the definition of EPS approved by the Remuneration Committee in previous years.

EPS was chosen as the appropriate measure of performance as it provides an absolute benchmark of the Company's performance and is therefore a suitable balance to the relative TSR performance measurement.

The second performance condition compares the growth of the Company's TSR over a three year period to that of the companies in the FTSE mid-250 index (excluding investment trusts). The Company's ranking amongst the comparator companies determines the percentage of shares which will vest to a participant. For the participant to receive the full number of shares awarded, the Company must rank in the top quartile of the comparator group. Where the Company's performance is at the median, 30% of any award is vested. Between these two points, vesting is on a straight-line basis. Where performance over the three year period does not reach the median ranking, no shares are vested, the relevant award lapses and there is no re-testing of performance.

The TSR performance condition was chosen as the Committee believes that TSR is an appropriate method of comparing the performance of the Company to that of its peers. The FTSE mid-250 index (excluding investment trusts) was chosen as the comparator group as there are a limited number of companies which are directly comparable to the Company and the index was therefore felt to be a suitable yardstick of relative performance.

Subsisting awards may vest before their vesting date in the event of a change of control of the Company, in accordance with the rules of the LTIP.

Benefits under the LTIP are not pensionable.

Awards under this LTIP have been made annually by the Remuneration Committee to BM Thompson, I Henderson and NP Lingwood, the last award being made on 17 November 2008. Following the end of the relevant performance period, the number of shares over which an award vests is determined and a participant may then exercise the award on payment of £1 at any time within ten years of the date of grant. The number of shares over which the 2006 awards have vested at 30 September 2009 are set out on page 36. The outstanding awards will vest on 30 September 2010 and 2011 respectively, subject to the performance conditions set out above, measured over three year performance periods ending on 30 September 2010 and 2011.

Pension Arrangements

The Executive Directors receive pension contributions from the Company which are paid into money-purchase schemes. No Directors are members of the Group's defined benefit schemes. The pension contributions are 20.0% (2008: 20.0%) of base remuneration, excluding bonuses.

Relative Performance of Remuneration Elements

The Committee's view is that the performance related elements of the remuneration package for Executive Directors should be a significant element of the total. This serves to align the interests of such Directors with shareholders. Assuming full payment of all elements, more than 60% of the total remuneration of each of the Executive Directors would be performance related.

Service Contracts – Executive Directors

The service agreements of the Executive Directors include the following terms:

	Date of Contract	Notice Period
BM Thompson	13 July 2000	12 months
I Henderson	1 August 2000	12 months
NP Lingwood	3 July 2001	12 months

The Executive Directors are subject to rolling contracts and offer themselves for re-election as Directors at least every three years in accordance with the Company's Articles of Association. Payments on termination for Executive Directors are restricted to the value of salary and contractual benefits for the notice period. There is no predetermined special provision for Executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of individual cases of early termination and determine compensation payments accordingly.

Non-Executive Directors

The fees for the non-Executive Directors are determined by the Board as a whole, having regard to market practice. Business expenses are also reimbursed.

The non-Executive Directors do not have contracts of service, but are appointed pursuant to letters of appointment. Such appointments are for a one year term and the Company's policy is for re-appointment to be on an annual basis. Non-Executive Directors are not eligible to participate in any incentive plan or Company pension arrangement and are not entitled to any payment in compensation for any early termination of their appointment. They are due for re-appointment to the Board on the following dates:

	Date of Re-appointment	Renewal
IM Grice	24 January 2010	Annual
JW Matthews	24 July 2010	Annual
JL Rennocks	11 July 2010	Annual

All Directors' appointments are subject to approval of the shareholders in General Meeting sought on a three yearly basis.

During the year ended 30 September 2009 the non-Executive Directors each received a fee of £35,000 per annum (2008: £30,000). The Chairman, who is a non-Executive Director, received a fee of £70,000 per annum (2008: £60,000) for his services during the year ended 30 September 2009.

Remuneration Report continued

Total Remuneration of the Directors

The total remuneration of the Directors for the year ended 30 September 2009 is set out below.

	Fixed emoluments				
	Salary & fees £000	Other benefits £000	Performance based bonus £000	2009 Total £000	2008 Total £000
IM Grice	35	–	–	**35**	30
I Henderson	207	11	50	**268**	328
NP Lingwood	207	12	50	**269**	329
JW Matthews	35	–	–	**35**	30
JL Rennocks	70	–	–	**70**	60
BM Thompson	340	14	102	**456**	631
	894	37	202	**1,133**	1,408

The pension contributions paid on behalf of the Directors are as follows:

	2009 £000	2008 £000
BM Thompson	**68**	66
I Henderson	**41**	39
NP Lingwood	**41**	39
	150	144

Long Term Incentive Plan

On 17 November 2008 Executive Directors received a share award with a face value of one times salary as set out below. On 30 September 2009 the performance period relating to the award made on 22 December 2006 ended and the LTIP awards vested and became exercisable by each of the Directors, as set out below.

	LTIP shares held at 30 Sept 2008 Number	LTIP shares awarded during the year ended 30 Sept 2009 Number	LTIP shares vested on 30 Sept 2009 (note 1) Number	LTIP shares lapsed on 30 Sept 2009 Number	Share price on date of award	Vesting date	Total LTIP shares held at 30 Sept 2009 Number
BM Thompson							
22 December 2006	191,925	–	175,132	16,793	161.6p	30 Sept 2009	–
17 December 2007	178,225	–	–	–	184.6p	30 Sept 2010	178,225
17 November 2008	–	276,423	–	–	123.0p	30 Sept 2011	276,423
I Henderson							
22 December 2006	115,155	–	105,079	10,076	161.6p	30 Sept 2009	–
17 December 2007	106,715	–	–	–	184.6p	30 Sept 2010	106,715
17 November 2008	–	168,293	–	–	123.0p	30 Sept 2011	168,293
NP Lingwood							
22 December 2006	115,155	–	105,079	10,076	161.6p	30 Sept 2009	–
17 December 2007	106,715	–	–	–	184.6p	30 Sept 2010	106,715
17 November 2008	–	168,293	–	–	123.0p	30 Sept 2011	168,293

Note:

1. The awards which vested on 30 September 2009 were calculated in accordance with the performance conditions described on pages 34 and 35. The awards may be exercised at any time before 22 December 2016 on payment of £1. In aggregate 91.3% of the total LTIP award granted on 22 December 2006 vested unconditionally and became exercisable.
   - Under the first performance condition, the average annual compound growth rate in the Company's adjusted EPS (as defined on page 43) over the three year period ended 30 September 2009 was 7.5% pa; this compares with an annual compound growth rate in RPI +4.5% over the same period of 7.5% pa. Accordingly 82.5% of the shares relating to this award (representing 50% of the total award) vested unconditionally.
   - Under the second performance condition, the Company's TSR grew 14.5% over the three year period ended 30 September 2009; this growth gave the Company a ranking of 42 in the comparator group and put the Company in the 77 percentile. The median TSR was -18.1% and the lower threshold of the upper quartile was 11.7%. Accordingly 100% of the shares relating to this part of the award vested unconditionally.

Directors' Shareholdings

	Ordinary shares of 5p each		
	At 16 November 2009 Number	**At 30 September 2009 Number**	**At 1 October 2008 Number**
IM Grice	**20,000**	**20,000**	20,000
I Henderson	**534,604**	**534,604**	421,875
NP Lingwood	**100,000**	**100,000**	195,875
JW Matthews	**–**	**–**	–
JL Rennocks	**223,766**	**223,766**	214,766
BM Thompson	**1,215,039**	**1,215,039**	1,026,940

Note:

1. The above table excludes interests in the Company's Long Term Incentive Plan, disclosed above.

As described above, following the vesting of the LTIP awards the Executive Directors are able to exercise their vested awards to acquire ordinary shares of 5p each in the Company for an aggregate consideration of £1. The underlying shares are held by the Diploma Employee Benefit Trust and are transferred to the participant on exercise. Whilst ordinary shares are held within the Diploma Employee Benefit Trust, the voting rights in respect of those shares are exercisable by the trustees in accordance with their fiduciary duties. At 30 September 2008 and 2009 the number of shares which are the subject of vested LTIP awards and are held by each Director were as follows:

	Vested LTIP awards				Share price		Amount	
	At 30 Sept 2008 Number	**Exercised during 2009 Number**	**Vested during 2009 Number**	**At 30 Sept 2009 Number**	**At 30 Sept 2008**	**At 30 Sept 2009**	**At 30 Sept 2008 £**	**At 30 Sept 2009 £**
BM Thompson	188,099	(188,099)	175,132	**175,132**	152.5p	**173.0p**	286,851	**302,978**
I Henderson	112,729	(112,729)	105,079	**105,079**	152.5p	**173.0p**	171,912	**181,787**
NP Lingwood	112,729	(112,729)	105,079	**105,079**	152.5p	**173.0p**	171,912	**181,787**

Note:

1. On 17 November 2008, each participant exercised their option to acquire shares which had vested at 30 September 2008, for consideration of £1. The share price at the date of exercise was 114.0p.
2. The share price during the year to 30 September 2009 ranged from 92.25p to 173.0p.

The information set out above under the headings Total Remuneration of the Directors and Directors' Shareholdings has been audited. All other information provided in the Remuneration Report is not subject to audit.

This Remuneration Report has been approved by the Board and signed on its behalf by:

IM Grice
Chairman of the Remuneration Committee

16 November 2009

Statement of Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the Annual Report, 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 IFRSs 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).

The Group financial statements are required by law and IFRSs as adopted by the EU, to present fairly the financial position and the performance of the Group; the Companies Act 2006 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 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 IFRSs, 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.
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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.

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

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the Group's consolidated financial statements, prepared in accordance with IFRSs 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; and
- the Annual Report 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.

This responsibility statement was approved by the Board of Directors on 16 November 2009 and is signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

Consolidated Income Statement

For the year ended 30 September 2009

Continuing businesses	**Note**	**2009 £m**	**2008 £m**
Revenue	3,4	**160.0**	156.2
Cost of sales		**(101.7)**	(99.3)
Gross profit		**58.3**	56.9
Distribution costs		**(4.1)**	(4.1)
Administration costs		**(31.7)**	(28.9)
Operating profit, before amortisation of acquisition intangible assets	3,4	**25.6**	26.6
Amortisation of acquisition intangible assets	11	**(3.1)**	(2.7)
Operating profit	3	**22.5**	23.9
Finance expense, net	6	**(2.0)**	(2.8)
Profit before tax		**20.5**	21.1
Tax expense	7	**(7.1)**	(7.2)
Profit for the year from continuing business		**13.4**	13.9
Profit from discontinuing businesses	22	**0.9**	0.5
Profit for the year		**14.3**	14.4
Attributable to:			
Shareholders of the Company		**13.0**	13.3
Minority interests	20	**1.3**	1.1
		14.3	14.4
Earnings per share			
Basic and diluted earnings – continuing	9	**10.8p**	11.4p
Basic and diluted earnings – discontinuing	9	**0.8p**	0.4p
Basic and diluted earnings – continuing and discontinuing	9	**11.6p**	11.8p

Alternative Performance Measures (note 2)

	Note	**2009 £m**	**2008 £m**
Profit before tax		**20.5**	21.1
Add: Amortisation of acquisition intangible assets	11	**3.1**	2.7
Fair value remeasurements	6	**1.9**	3.0
Adjusted profit before tax – continuing		**25.5**	26.8
Adjusted profit before tax – discontinuing	22	**1.2**	0.7
Adjusted profit before tax – continuing and discontinuing		**26.7**	27.5
Adjusted earnings per share – continuing	9	**14.8p**	16.0p
Adjusted earnings per share – continuing and discontinuing	9	**15.6p**	16.4p

The notes on pages 43 to 67 form part of these financial statements.

Consolidated Balance Sheet

As at 30 September 2009

	Note	2009 £m	2008 £m
Non-current assets			
Goodwill	10	**59.6**	51.6
Acquisition intangible assets	11	**21.2**	18.6
Other intangible assets	11	**0.8**	1.2
Property, plant and equipment	12	**11.6**	11.6
Deferred tax assets	13	**2.1**	1.3
		95.3	84.3
Current assets			
Inventories	14	**28.0**	31.5
Trade and other receivables	15	**25.2**	26.7
Assets held for sale	22	**5.4**	–
Cash and cash equivalents	17	**21.3**	15.7
		79.9	73.9
Current liabilities			
Trade and other payables	16	**(23.3)**	(26.3)
Current tax liabilities		**(1.8)**	(3.3)
Other liabilities	19	**(3.1)**	(1.1)
Liabilities associated with assets held for sale	22	**(3.5)**	–
		(31.7)	(30.7)
Net current assets		**48.2**	43.2
Total assets less current liabilities		**143.5**	127.5
Non-current liabilities			
Retirement benefit obligations	24	**(4.7)**	(1.7)
Other liabilities	19	**(10.6)**	(11.2)
Deferred tax liabilities	13	**(4.1)**	(4.6)
Net assets		**124.1**	110.0
Equity			
Share capital		**5.7**	5.7
Translation reserve		**18.7**	8.0
Hedging reserve		**0.3**	0.7
Retained earnings		**96.7**	93.7
Total shareholders' equity		**121.4**	108.1
Minority interests	20	**2.7**	1.9
Total equity		**124.1**	110.0

The consolidated financial statements were approved by the Board of Directors on 16 November 2009 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on pages 43 to 67 form part of these financial statements.

Consolidated Statement of Recognised Income and Expense

For the year ended 30 September 2009

	Note	2009 £m	2008 £m
Exchange rate adjustments on foreign currency net investments		**10.7**	7.4
(Losses)/gains on fair value of cash flow hedges		**(0.4)**	1.3
Actuarial losses on defined benefit pension schemes	24	**(3.1)**	(0.5)
Deferred tax on items recognised in equity	13	**1.0**	(0.3)
Net income recognised directly in equity for the year		**8.2**	7.9
Profit for the year		**14.3**	14.4
Total recognised income and expense for the year		**22.5**	22.3
Attributable to:			
Shareholders of the Company		**21.2**	21.1
Minority interests		**1.3**	1.2
		22.5	22.3

Other changes in shareholders' equity

	Note	Share capital £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 October 2007		1.1	0.2	0.6	(0.6)	89.4	90.7
Total recognised income and expense for the year attributable to shareholders		–	–	7.4	1.3	12.4	21.1
Bonus issue of shares		4.6	(0.2)	–	–	(4.4)	–
Share-based payments	5	–	–	–	–	0.5	0.5
Purchase of own shares		–	–	–	–	(0.9)	(0.9)
Purchase of minority interests	19	–	–	–	–	3.6	3.6
Dividends	8	–	–	–	–	(6.9)	(6.9)
At 30 September 2008		5.7	–	8.0	0.7	93.7	108.1
Total recognised income and expense for the year attributable to shareholders		–	–	10.7	(0.4)	10.9	21.2
Share-based payments	5	–	–	–	–	0.5	0.5
Dividends	8	–	–	–	–	(8.4)	(8.4)
At 30 September 2009		**5.7**	**–**	**18.7**	**0.3**	**96.7**	**121.4**

The notes on pages 43 to 67 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 30 September 2009

Continuing businesses	**Note**	**2009 £m**	**2008 £m**
Cash flow from operating activities			
Cash flow from operations	23	**34.2**	27.8
Finance income received, net		**–**	–
Tax paid		**(9.0)**	(7.8)
Net cash from operating activities		**25.2**	20.0
Cash flow from investing activities			
Acquisition of subsidiaries (net of cash acquired)	21	**(11.1)**	(7.6)
Deferred consideration paid	19	**(1.1)**	(0.3)
Proceeds from the sale of property, plant and equipment		**0.1**	0.2
Purchase of property, plant and equipment	12	**(1.5)**	(1.4)
Purchase of other intangible assets	11	**(0.3)**	(0.2)
Net cash used in investing activities		**(13.9)**	(9.3)
Cash flow from financing activities			
Dividends paid to shareholders	8	**(8.4)**	(6.9)
Dividends paid to minority interests	20	**(0.7)**	(0.9)
Purchase of own shares		**–**	(0.9)
Net cash used in financing activities		**(9.1)**	(8.7)
Net cash flow from discontinuing business	22	**1.7**	0.3
Net increase in cash and cash equivalents		**3.9**	2.3
Cash and cash equivalents at beginning of year		**15.7**	12.4
Effect of exchange rates on cash and cash equivalents		**1.7**	1.0
Cash and cash equivalents at end of year	17	**21.3**	15.7

Alternative Performance Measures (note 2)

	2009 £m	**2008 £m**
Net increase in cash and cash equivalents	**3.9**	2.3
Add: Dividends paid to shareholders	**8.4**	6.9
Dividends paid to minority interests	**0.7**	0.9
Acquisition of subsidiaries (net of cash acquired)	**11.1**	7.6
Deferred consideration paid	**1.1**	0.3
Free cash flow – continuing and discontinuing	**25.2**	18.0
Less: Free cash flow – discontinuing	**(1.7)**	(0.3)
Free cash flow – continuing	**23.5**	17.7

The notes on pages 43 to 67 form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

1. General Information

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and were authorised by the Directors for publication on 16 November 2009. These statements are presented in UK sterling, with all values rounded to the nearest one hundred thousand, except where otherwise indicated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, 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 "UK GAAP", and are set out in a separate section of the Annual Report on pages 68 to 69.

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 in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Annual Report.

2.1 Adjusted profit before tax

On the face of the consolidated income statement, "adjusted profit before tax" is separately disclosed, being defined as profit before tax and before the costs of restructuring or rationalisation of operations, the profit or loss relating to the sale of property, fair value remeasurements under IAS 32 and IAS 39 in respect of future purchases of minority interests and the amortisation and impairment of acquisition intangible assets. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

2.2 Adjusted earnings per share

"Adjusted earnings per share" is calculated as the total of adjusted profit, less income tax costs, but excluding the tax impact on the items included in the calculation of adjusted profit and the tax effects of goodwill in overseas jurisdictions, 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 earnings per share provides an important measure of the underlying earning capacity of the Group.

2.3 Free cash flow

On the face 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, but before expenditure on business combinations 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.

2.4 Trading capital employed

In the segment analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents and after adding back retirement benefit obligations, deferred tax, amounts in respect of future purchases of minority interests and adjusting goodwill in respect of the recognition of deferred tax on acquisition intangible assets. Return on trading capital employed is defined as being adjusted profit before finance expense/income and tax, divided by trading capital employed plus all historic goodwill and as adjusted for the timing effect of major acquisitions and disposals. Return on trading capital employed at the sector level does not include historic goodwill. The Directors believe that return on trading capital employed is an important measure of the underlying performance of the Group.

3. Business Segment Analysis – Continuing

For management reporting purposes, the Group is organised into three main business segments: Life Sciences, Seals and Controls. These segments form the basis of the primary reporting format disclosures below. The principal activities of each of these segments is described in the Business Review on pages 10 to 26. Segment revenue represents revenue from external customers; there is no inter-segment revenue. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

	Life Sciences		Seals		Controls		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Revenue – existing businesses	**48.8**	45.0	**41.3**	42.6	**61.9**	68.6	**152.0**	156.2
– acquisitions	**1.1**	–	**6.9**	–	**–**	–	**8.0**	–
Revenue – continuing	**49.9**	45.0	**48.2**	42.6	**61.9**	68.6	**160.0**	156.2
Segment operating profit – existing businesses	**10.3**	8.6	**4.8**	6.7	**9.5**	11.3	**24.6**	26.6
– acquisitions	**0.3**	–	**0.7**	–	**–**	–	**1.0**	–
Segment operating profit – continuing	**10.6**	8.6	**5.5**	6.7	**9.5**	11.3	**25.6**	26.6
Amortisation of acquisition intangible assets	**(1.4)**	(1.5)	**(1.3)**	(0.8)	**(0.4)**	(0.4)	**(3.1)**	(2.7)
Operating profit – continuing	**9.2**	7.1	**4.2**	5.9	**9.1**	10.9	**22.5**	23.9

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

3. Business Segment Analysis – Continuing (continued)

Segment assets exclude cash and cash equivalents, deferred tax assets and corporate assets that cannot be allocated on a reasonable basis to a business segment. Segment liabilities exclude retirement benefit obligations, deferred tax liabilities and corporate liabilities that cannot be allocated on a reasonable basis to a business segment. These items are shown collectively in the following analysis as "unallocated assets" and "unallocated liabilities", respectively.

	Life Sciences		Seals		Controls		Total	
	2009 £m	**2008 £m**	**2009 £m**	**2008 £m**	**2009 £m**	**2008 £m**	**2009 £m**	**2008 £m**
Operating assets	**15.6**	21.5	**23.6**	22.0	**23.3**	24.5	**62.5**	68.0
Goodwill	**32.5**	30.6	**12.0**	8.9	**15.1**	12.1	**59.6**	51.6
Acquisition intangible assets	**10.9**	11.4	**8.8**	5.3	**1.5**	1.9	**21.2**	18.6
	59.0	63.5	**44.4**	36.2	**39.9**	38.5	**143.3**	138.2
Unallocated assets:								
– Deferred tax assets							**2.1**	1.3
– Cash and cash equivalents							**21.3**	15.7
– Assets held for sale							**5.4**	–
– Corporate assets							**3.1**	3.0
Total assets							**175.2**	158.2
Operating liabilities	**(9.0)**	(12.4)	**(4.8)**	(4.9)	**(9.3)**	(10.5)	**(23.1)**	(27.8)
Unallocated liabilities:								
– Deferred tax liabilities							**(4.1)**	(4.6)
– Retirement benefit obligations							**(4.7)**	(1.7)
– Future purchases of minority interests							**(13.1)**	(11.2)
– Liabilities associated with assets held for sale							**(3.5)**	–
– Corporate liabilities							**(2.6)**	(2.9)
Total liabilities							**(51.1)**	(48.2)
Net assets							**124.1**	110.0
Other segment information								
Capital expenditure	**0.6**	0.8	**1.1**	0.5	**0.1**	0.3	**1.8**	1.6
Depreciation (including software)	**0.8**	1.0	**0.8**	0.7	**0.6**	0.5	**2.2**	2.2

Alternative Performance Measures (note 2)	Life Sciences		Seals		Controls		Total	
	2009 £m	**2008 £m**	**2009 £m**	**2008 £m**	**2009 £m**	**2008 £m**	**2009 £m**	**2008 £m**
Net assets							**124.1**	110.0
Add/(less):								
– Deferred tax, net							**2.0**	3.3
– Retirement benefit obligations							**4.7**	1.7
– Future purchases of minority interests							**13.1**	11.2
– Cash and cash equivalents							**(21.3)**	(15.7)
– Adjustment to goodwill	**(4.5)**	(4.1)	**(1.4)**	(1.2)	**(0.6)**	(0.7)	**(6.5)**	(6.0)
Group trading capital employed							**116.1**	104.5
Assets held for sale, net							**(1.9)**	–
Corporate assets, net							**(0.5)**	(0.1)
Segment trading capital employed	**45.5**	47.0	**38.2**	30.1	**30.0**	27.3	**113.7**	104.4

4. Geographic Segment Analysis by Origin – Continuing

	Revenue		Operating profit*		Gross assets		Trading capital employed		Capital expenditure	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
United Kingdom	**50.1**	57.7	**6.8**	7.9	**49.3**	51.2	**28.4**	29.5	**0.1**	0.4
Rest of Europe	**32.6**	33.7	**3.9**	5.7	**34.8**	26.8	**21.0**	20.7	**0.2**	0.3
North America	**77.3**	64.8	**14.9**	13.0	**91.1**	80.2	**66.7**	54.3	**1.5**	0.9
	160.0	156.2	**25.6**	26.6	**175.2**	158.2	**116.1**	104.5	**1.8**	1.6

*before amortisation of acquisition intangible assets

5. Group Employee Costs – Continuing

The key management of the Group are the Executive Directors who have authority and responsibility for planning and controlling all significant activities of the Group. The Directors' emoluments and interests in shares of the Company are given in the Remuneration Report on pages 33 to 37. The charge for share-based payments of £0.5m relate to the Group's share schemes, described in the Remuneration Report. The fair value of services provided as consideration for part of the grant of the LTIP awards has been based on a predicted future value model and was £0.2m (2008: £0.2m).

Group staff costs, including Directors' emoluments, are as follows:

	2009 £m	2008 £m
Wages and salaries	**29.3**	26.3
Social security costs	**2.8**	2.4
Pension costs – defined contribution	**0.7**	0.6
Share-based payments	**0.5**	0.5
	33.3	29.8

The average number of employees, including Executive Directors, during the year were:

	2009 Number	2008 Number
Life Sciences	**207**	203
Seals	**358**	360
Controls	**248**	261
Corporate	**10**	9
Number of employees – average	**823**	833
Number of employees – year end	**809**	852

6. Finance Expense, net

	2009 £m	2008 £m
Finance income		
– interest receivable on short term deposits	**0.1**	0.3
– net finance income from defined benefit pension scheme (note 24)	**–**	0.2
	0.1	0.5
Finance expense		
– interest payable on bank borrowings	**(0.1)**	(0.3)
– fair value remeasurement of put options (note 19)	**(1.9)**	(3.0)
– net finance expense from defined benefit pension scheme (note 24)	**(0.1)**	–
	(2.1)	(3.3)
Net finance expense	**(2.0)**	(2.8)

The fair value remeasurement of £1.9m (2008: £3.0m) includes £1.1m (2008: £0.7m) which relates to the unwinding of the discount on the liability for future purchases of minority interests.

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7. Taxation – Continuing

	2009 £m	2008 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**2.4**	2.8
Overseas tax	**5.2**	5.4
	7.6	8.2
Adjustments in respect of prior year:		
UK corporation tax	**–**	(0.4)
Overseas tax	**–**	0.2
	–	(0.2)
Total current tax	**7.6**	8.0
Deferred tax		
The deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(0.2)**	(0.3)
Overseas	**(0.3)**	(0.5)
Total deferred tax	**(0.5)**	(0.8)
Total tax on profit for the year	**7.1**	7.2

Factors affecting the tax charge for the year:

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2009 £m	2008 £m
Profit before tax	**20.5**	21.1
Tax on profit at UK effective corporation tax rate of 28% (2008: 29%)	**5.7**	6.1
Effects of:		
Higher tax rates on overseas earnings	**0.7**	0.7
Adjustments to tax charge in respect of previous periods	**–**	(0.2)
Fair value remeasurements	**0.5**	0.9
Other permanent differences	**0.2**	(0.3)
Total tax on profit for the year	**7.1**	7.2

The Group earns its profits in the UK and overseas. The UK corporation tax rate is 28% (2008: 29%) and this rate has been used for tax on profit in the above reconciliation. The Group's overseas tax rate is higher than that in the UK, primarily because the profits earned in North America are taxed at rates varying from 32% to 38%. The tax relating to the discontinuing business is £0.3m (2008: £0.2m), as set out in note 22.

8. Dividends

	2009 pence per share	2008 pence per share	2009 £m	2008 £m
Interim dividend, paid in June	**2.5**	2.5	**2.8**	2.8
Final dividend of the prior year, paid in January	**5.0**	3.6	**5.6**	4.1
	7.5	6.1	**8.4**	6.9

The Directors have proposed a final dividend in respect of the current year of 5.3p (2008: 5.0p) which will be paid in January 2010, subject to approval of shareholders at the Annual General Meeting on 13 January 2010. The total dividend for the current year, subject to approval of the final dividend, will be 7.8p (2008: 7.5p).

Shares held by the Diploma Employee Benefit Trust are not eligible 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 112,316,906 (2008: 112,237,586) and the profit for the year attributable to shareholders of £13.0m (2008: £13.3m). There were no potentially dilutive shares.

Adjusted earnings per share

Adjusted earnings per share, which is defined in note 2, is calculated as follows:

	2009 pence per share	2008 pence per share	2009 £m	2008 £m
Profit before tax – continuing			**20.5**	21.1
Tax expense			**(7.1)**	(7.2)
Minority interests			**(1.3)**	(1.1)
	10.8	11.4	**12.1**	12.8
Profit from discontinuing business	**0.8**	0.4	**0.9**	0.5
Earnings for the year attributable to shareholders of the Company	**11.6**	11.8	**13.0**	13.3
Amortisation of acquisition intangible assets	**2.7**	2.4	**3.1**	2.7
Fair value remeasurements	**1.7**	2.7	**1.9**	3.0
Tax effects on goodwill, acquisition intangible assets and fair value remeasurements	**(0.4)**	(0.5)	**(0.5)**	(0.6)
Adjusted earnings – continuing and discontinuing	**15.6**	16.4	**17.5**	18.4

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2007	23.4	7.4	11.9	42.7
Acquisitions	5.8	0.8	–	6.6
Adjustments to prior year goodwill	(0.2)	–	(0.2)	(0.4)
Exchange adjustments	1.6	0.7	0.4	2.7
At 30 September 2008	30.6	8.9	12.1	51.6
Acquisitions (note 21)	1.4	2.1	–	3.5
Reclassification	(2.4)	–	2.4	–
Exchange adjustments	2.9	1.0	0.6	4.5
At 30 September 2009	**32.5**	**12.0**	**15.1**	**59.6**

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For the year ended 30 September 2009

10. Goodwill (continued)

Goodwill of £3.5m, which arose on acquisitions completed during the year relates to the product know-how held by the employees, prospects for sales growth from new customers and operating cost synergies.

An impairment review of goodwill held at 30 September 2009 has been completed. The key assumptions used in this review are those regarding the discount rates and forecast for future growth in revenue and cash flow. The discount rates used were ca. 13% (2008: ca. 16%). The revenue and cash flow forecasts are derived from budgets, approved by management, for the next financial year. These are extrapolated thereafter using growth rates ranging from 2% - 10% pa in the medium term and at GDP rates thereafter; changes in selling prices and direct costs are based on past practices and take account of any expectations of future changes in the market.

An increase in the discount rates of up to 2% would be likely to lead to impairments in the carrying value of goodwill of certain businesses of ca. £1m. If growth rates achieved over the next five years are only 2% - 5% pa, this would lead to impairments in the carrying value of goodwill of certain businesses of ca. £3m.

11. Acquisition and Other Intangible Assets

	Acquisition intangible assets £m	Other intangible assets £m	Total £m
Cost			
At 1 October 2007	21.4	1.5	22.9
Additions	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
Exchange adjustments	1.4	0.7	2.1
At 30 September 2008	22.8	2.3	25.1
Additions	–	0.3	0.3
Acquisitions (note 21)	4.2	–	4.2
Disposals	–	(0.2)	(0.2)
Exchange adjustments	1.9	0.1	2.0
Reclassified as held for sale (note 22)	–	(0.4)	(0.4)
At 30 September 2009	**28.9**	**2.1**	**31.0**
Amortisation			
At 1 October 2007	1.3	0.5	1.8
Charge for the year	2.7	0.3	3.0
Disposals	–	(0.1)	(0.1)
Exchange adjustments	0.2	0.4	0.6
At 30 September 2008	4.2	1.1	5.3
Charge for the year	3.1	0.4	3.5
Disposals	–	(0.2)	(0.2)
Exchange adjustments	0.4	0.1	0.5
On assets reclassified as held for sale (note 22)	–	(0.1)	(0.1)
At 30 September 2009	**7.7**	**1.3**	**9.0**
Net book value			
At 30 September 2009	**21.2**	**0.8**	**22.0**
At 30 September 2008	18.6	1.2	19.8

Acquisition intangible assets, which are analysed below, relate to items acquired through business combinations which are amortised over their useful economic life.

	Net book value £m	Economic life
Customer relationships	11.9	5-15 years
Supplier relationships	7.3	7-10 years
Databases and trade names	2.0	5-10 years

11. Acquisition and Other Intangible Assets (continued)

The amount in respect of customer relationships was valued using a discounted cash flow model; the databases were valued using a replacement cost model; the amount in respect of supplier relationships and trade names were valued on a relief from royalty method.

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

12. Property, Plant and Equipment

	Freehold properties £m	Leasehold properties £m	Plant & equipment £m	Total £m
Cost				
At 1 October 2007	8.4	0.7	12.3	21.4
Additions	–	0.2	1.4	1.6
Acquisitions	–	–	0.1	0.1
Disposals	(0.1)	–	(0.9)	(1.0)
Exchange adjustments	0.1	0.1	1.2	1.4
At 30 September 2008	8.4	1.0	14.1	23.5
Additions	–	–	1.6	1.6
Acquisitions (note 21)	–	–	0.2	0.2
Disposals	–	–	(1.5)	(1.5)
Exchange adjustments	0.4	0.1	1.5	2.0
Reclassified as held for sale (note 22)	–	–	(1.4)	(1.4)
At 30 September 2009	**8.8**	**1.1**	**14.5**	**24.4**
Depreciation				
At 1 October 2007	1.7	0.2	7.8	9.7
Charge for the year	0.2	0.1	1.9	2.2
Disposals	(0.1)	–	(0.6)	(0.7)
Exchange adjustments	–	0.2	0.5	0.7
At 30 September 2008	1.8	0.5	9.6	11.9
Charge for the year	0.1	0.1	1.9	2.1
Disposals	–	–	(1.3)	(1.3)
Exchange adjustments	0.1	–	1.0	1.1
On assets reclassified as held for sale (note 22)	–	–	(1.0)	(1.0)
At 30 September 2009	**2.0**	**0.6**	**10.2**	**12.8**
Net book value				
At 30 September 2009	**6.8**	**0.5**	**4.3**	**11.6**
At 30 September 2008	6.6	0.5	4.5	11.6

Land included above, but not depreciated, is £2.0m (2008: £2.0m). Capital commitments contracted, but not provided, were £Nil (2008: £Nil).

Freehold properties includes ca.150 acres of land at Stamford ("the Stamford land") which comprises mostly farm land and former quarry land. In the Directors' opinion the current value of this land is £0.5m (net book value: £Nil).

Notes to the Consolidated Financial Statements

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13. Deferred Tax

The movement on deferred tax is as follows:

	2009 £m	2008 £m
At 1 October	**(3.3)**	(3.6)
Credit for the year	**0.5**	0.8
Acquisitions (note 21)	**0.1**	0.1
Accounted for in equity	**1.0**	(0.3)
Exchange adjustments	**(0.3)**	(0.3)
At 30 September	**(2.0)**	(3.3)

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

	Assets		Liabilities		Net	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Property, plant and equipment	**0.2**	0.2	**(0.5)**	(0.5)	**(0.3)**	(0.3)
Goodwill and intangible assets	**0.1**	0.3	**(4.9)**	(5.1)	**(4.8)**	(4.8)
Retirement benefit obligations	**1.3**	0.5	**–**	–	**1.3**	0.5
Inventories	**0.9**	0.7	**–**	–	**0.9**	0.7
Share-based payments	**0.1**	0.1	**–**	–	**0.1**	0.1
Other temporary differences	**0.8**	0.5	**–**	–	**0.8**	0.5
	3.4	2.3	**(5.4)**	(5.6)	**(2.0)**	(3.3)
Set off of deferred tax	**(1.3)**	(1.0)	**1.3**	1.0	**–**	–
	2.1	1.3	**(4.1)**	(4.6)	**(2.0)**	(3.3)

No deferred tax has been provided for unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas taxation (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax liabilities have not been recognised in respect of unremitted earnings was £0.7m (2008: £1.0m).

14. Inventories

	2009 £m	2008 £m
Finished goods and goods held for resale	**28.0**	31.5

Inventories are stated net of impairment provisions of £3.4m (2008: £3.5m).

15. Trade and Other Receivables

	2009 £m	2008 £m
Trade receivables	**23.7**	24.9
Less: Impairment provision	**(0.5)**	(0.6)
	23.2	24.3
Other receivables	**0.8**	1.0
Prepayments and accrued income	**1.2**	1.4
	25.2	26.7

15. Trade and Other Receivables (continued)

The maximum exposure to credit risk for trade receivables at the reporting date, by currency was:

	2009 £m	2008 £m
Sterling	**8.6**	11.0
US Dollars	**5.0**	4.5
Canadian Dollars	**4.6**	4.3
Euro	**3.5**	3.7
Other	**2.0**	1.4
	23.7	24.9

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

	2009 £m	2008 £m
Not past due	**19.7**	19.8
Past due, but not impaired	**3.4**	4.5
Past due, but impaired	**0.6**	0.6
	23.7	24.9

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

	2009 £m	2008 £m
Up to one month past due	**2.4**	3.0
Between one and two months past due	**0.8**	0.8
Between two and four months past due	**0.2**	0.5
Over four months past due	**–**	0.2
	3.4	4.5

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

	2009 £m	2008 £m
At 1 October	**0.6**	0.6
Charged against profit, net	**–**	–
Utilised by write off	**(0.1)**	–
At 30 September	**0.5**	0.6

16. Trade and Other Payables

	2009 £m	2008 £m
Trade payables	**11.5**	15.2
Other payables	**1.9**	1.0
Other taxes and social security	**1.7**	1.7
Accruals and deferred income	**8.2**	8.4
	23.3	26.3

Notes to the Consolidated Financial Statements

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16. Trade and Other Payables (continued)

The maximum exposure to foreign currency risk for trade payables at the reporting date, by currency was:

	2009 £m	2008 £m
Sterling	**3.9**	5.4
US Dollars	**4.2**	5.0
Canadian Dollars	**0.7**	0.7
Euro	**2.5**	3.8
Other	**0.2**	0.3
	11.5	15.2

17. Cash and Cash Equivalents

	Sterling £m	US$ £m	Can$ £m	Euro £m	2009 Total £m	Sterling £m	US$ £m	Can$ £m	Euro £m	2008 Total £m
Cash at bank	**1.0**	**2.8**	**1.5**	**1.2**	**6.5**	0.5	1.3	0.5	1.4	3.7
Short term deposits	**5.8**	**–**	**6.9**	**2.1**	**14.8**	1.0	4.0	6.2	0.8	12.0
	6.8	**2.8**	**8.4**	**3.3**	**21.3**	1.5	5.3	6.7	2.2	15.7

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

18. Financial Instruments

The Group's principal financial instruments, other than a limited number of forward foreign contracts, comprise cash and short term deposits, trade and other receivables and trade and other payables and other liabilities. Trade and other receivables and trade and other payables arise directly from the Group's day to day operations.

The principal financial risks to which the Group is exposed are those of credit, liquidity, foreign currency and interest rate. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivities is set out on page 24 within Risks and Uncertainties.

Further analyses of these risks are included in the consolidated financial statements as follows:

a) Credit risk

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

	Carrying amount 2009 £m	Carrying amount 2008 £m
Trade receivables	**23.2**	24.3
Other receivables	**0.8**	1.0
Cash and cash equivalents	**21.3**	15.7
	45.3	41.0

There is no material difference between the carrying amount 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 15. An analysis of cash and cash equivalents is set out in note 17.

18. Financial Instruments (continued)

b) Liquidity risk

The Group has no cash loans or overdrafts at each reporting date.

	Carrying amount 2009 £m	2008 £m
Trade payables	**11.5**	15.2
Other payables	**1.9**	1.0
Other liabilities	**13.7**	12.3
	27.1	28.5
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**16.5**	17.3
One-two years	**8.5**	2.1
Two-five years	**3.7**	12.2
	28.7	31.6
Less: Discount	**(1.6)**	(3.1)
	27.1	28.5

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

c) Currency risk

The Group holds forward foreign exchange contracts to hedge forecast transactional exposure of certain of the Group's businesses to movements in the US dollar and euro. These forward foreign exchange contracts are classified as cash flow hedges and are stated at fair value. The net fair value of forward foreign exchange contracts used as hedges at 30 September 2009 was a £0.3m liability (2008: £0.2m asset).

d) Interest rate risk

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.

In January 2009, the Group drew down US$7.0m (£4.6m) from its revolving bank facility of £20.0m to finance the acquisition of RTD, as described in note 21. The loan was repaid in full by 30 September 2009. The weighted average of the interest paid on the loan, which was by reference to LIBOR, was 1.3%.

An analysis of cash and cash equivalents at the reporting dates is set out in note 17.

e) Fair values

There are no material differences between the carrying value of financial assets and liabilities and their fair value. The basis for determining fair values are as follows:

- Derivatives
  Forward exchange contracts are valued at year end spot rates adjusted for the forward points to the contract's value date, and gains and losses taken to equity. No contract's value 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 notional amount 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.

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19. Other Liabilities

	2009 £m	2008 £m
Future purchases of minority interests	**13.1**	11.2
Deferred consideration	**0.6**	1.1
	13.7	12.3
Analysed as:		
Due within one year	**3.1**	1.1
Due after one year	**10.6**	11.2

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

	2009 £m	2008 £m
At 1 October	**11.2**	11.8
Released to retained earnings	**–**	(3.6)
Unwinding of discount	**1.1**	0.7
Fair value remeasurements	**0.8**	2.3
At 30 September	**13.1**	11.2

The Group retains put/call options to acquire the outstanding minority shareholdings in Somagen, AMT and M Seals, which are exercisable between 1 October 2009 and 31 December 2012.

At 30 September 2009, 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 the businesses and to reflect foreign exchange rates at 30 September 2009. This led to a remeasurement of the fair value of these put options and the liability was increased by £0.8m (2008: £2.3m) by a charge to the consolidated Income Statement.

At 30 September 2009, deferred consideration of £0.6m comprised £0.3m payable to the vendors of the business and assets of RTD and £0.3m payable to the vendors of Meditech, as described further in note 21. Deferred consideration of £1.1m was paid on 9 February 2009 to the vendors of AMT in final settlement of their performance payment.

20. Minority Interests

	£m
At 1 October 2007	1.8
Acquisition of minority interests	(0.3)
Share of profit for the year	1.1
Accounted for in equity	0.1
Dividends paid	(0.9)
Exchange adjustments	0.1
At 30 September 2008	1.9
Share of profit for the year	1.3
Dividends paid	(0.7)
Exchange adjustments	0.2
At 30 September 2009	**2.7**

21. Acquisitions

On 5 November 2008, Somagen Diagnostics Inc, a subsidiary in the Group, acquired 100% of Meditech Istisharat Canada Inc ("Meditech") for maximum consideration of £1.6m (C$2.9m), including expenses. The initial cash paid on acquisition was £1.3m (C$2.4m) and a balance of £0.3m (C$0.5m) is payable in November 2009, based on the performance of the business in the year ended 31 October 2009.

On 12 January 2009, the Group completed the acquisition of the business, assets and goodwill of RT/Dygert International Inc ("RTD") for maximum consideration, including expenses, of £13.4m (US$20.3m). The business was acquired by RTD Seals Corp ("RTD Seals"), a wholly owned subsidiary of the Group's North American Seals business of Hercules Fluid Power Group. The initial cash consideration was £9.8m (US$14.9m), with the balance of up to £3.6m (US$5.4m) payable in deferred consideration in 2010, based on a number of factors, including principally the performance of the business in the year ending 31 December 2009. At 30 September 2009, £0.3m (US$0.5m) has been provided for as deferred consideration.

The consideration for all of the acquisitions set out above was paid in cash and met from the Group's existing cash resources.

Set out below is an analysis of the net book value and fair value of the net assets acquired and the consideration payable in respect of the acquisitions completed during the year.

	Book value £m	Fair value £m
Acquisition intangible assets	–	4.2
Property, plant and equipment	0.2	0.2
Deferred tax	–	0.1
Inventories	2.7	2.8
Trade and other receivables	1.6	1.6
Trade and other payables	(0.7)	(0.7)
Net assets acquired	3.8	8.2
Goodwill arising on acquisitions completed during the year		3.5
		11.7
Satisfied by:		
Cash paid		10.9
Expenses of acquisition		0.2
Net cash paid		11.1
Provision for deferred consideration payable		0.6
Total consideration		**11.7**

From the date of acquisition to 30 September 2009, these acquired businesses contributed £8.0m to revenue and £1.0m to operating profit. If the acquisition of the acquired businesses had been made at the beginning of the financial year, the acquired businesses would have contributed £10.4m to revenue and £0.6m to profit after tax. Profit after tax should not be viewed as indicative of the results of these acquired operations that would have occurred, if these acquisitions had been made at the beginning of the year.

22. Discontinuing Business

Diploma PLC has signed a contract for the disposal of the Manual Liquid Handling ("MLH") business of Anachem Limited. The transaction is expected to complete on, or about, 8 January 2010.

On completion, the business of Anachem Limited will comprise the core MLH business which supplies manual liquid handling products (eg pipettes and tips), services and related laboratory consumables to major pharmaceutical and biotechnology companies, research institutions and universities.

The MLH business contributed £10.7m to revenue in the year ended 30 September 2009 (2008: £10.6m). At completion, net assets, excluding cash, of the MLH business of Anachem Limited are expected to be approximately £1.4m.

The initial sale proceeds to be received on Completion, which will be reinvested in the Group's businesses, are £7.8m, before disposal costs, of which £0.8m will be held in escrow. The sale proceeds may be subject to minor adjustment, based on the net assets at completion. Further sale proceeds of up to £0.8m may be receivable, depending on the revenues earned in the 12 months to 31 December 2010.

The remainder of the business in Anachem Limited comprises the Instruments division which supplies laboratory automation products; this business will be transferred to a separate entity prior to completion, with the intention of realising further value.

Anachem Limited was not discontinued or classified as held for sale as at 30 September 2008 and the comparative consolidated Income Statement and consolidated Cash Flow Statement have been restated to show the activities as a discontinuing business.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

22. Discontinuing Business (continued)

The results of the discontinuing business included in the consolidated Income Statement for the year ended 30 September 2009 were as follows:

	2009 £m	2008 £m
Revenue	**15.7**	16.1
Cost of sales	**(10.2)**	(10.7)
Gross profit	**5.5**	5.4
Distribution costs	**(0.6)**	(0.8)
Administration costs	**(3.7)**	(3.9)
Profit before tax	**1.2**	0.7
Tax expense	**(0.3)**	(0.2)
Profit attributable to discontinuing business	**0.9**	0.5

The major classes of assets and liabilities comprising the business classified as held for sale are as follows:

	2009 £m
Other intangible assets	0.3
Property, plant and equipment	0.4
Inventories	2.4
Trade and other receivables	2.3
Total assets held for sale	**5.4**
Trade and other payables	(3.2)
Current tax liabilities	(0.3)
Total liabilities associated with assets held for sale	**(3.5)**
Net assets of discontinuing business	**1.9**

Cash flows from the discontinuing business included in the consolidated Cash Flow Statement are as follows:

	2009 £m	2008 £m
Profit from discontinuing business	**0.9**	0.5
Depreciation/amortisation of tangible and other intangible assets	**0.3**	0.3
Tax expense	**0.3**	0.2
Operating cash flow before changes in working capital	**1.5**	1.0
Decrease in working capital	**0.5**	–
Cash flow from operating activities	**2.0**	1.0
Tax paid	**(0.2)**	(0.4)
Net cash from operating activities	**1.8**	0.6
Net cash used in investing activities	**(0.1)**	(0.3)
Net cash flow from discontinuing business	**1.7**	0.3

22. Discontinuing Business (continued)

Anachem Limited was previously reported within the Life Sciences business segment and within the United Kingdom geographic segment analysis.

	2009 £m	2008 £m
Capital expenditure	**0.1**	0.3
Depreciation (including software)	**0.3**	0.3

The aggregate payroll costs and average number of employees of the discontinuing business were as follows:

	2009 £m	2008 £m
Wages and salaries	**3.7**	4.0
Social security costs	**0.4**	0.4
Pension costs – defined contribution	**0.2**	0.2
	4.3	4.6

	2009 Number	2008 Number
Number of employees – average	**118**	133

23. Reconciliation of Cash Flow from Operating Activities – Continuing

	2009 £m	2008 £m
Profit for the year from continuing businesses	**13.4**	13.9
Depreciation/amortisation of tangible and other intangible assets	**2.2**	2.2
Amortisation of acquisition intangible assets	**3.1**	2.7
Share-based payments expense	**0.5**	0.5
Finance expense, net	**2.0**	2.8
Tax expense	**7.1**	7.2
Operating cash flow before changes in working capital	**28.3**	29.3
Decrease/(increase) in inventories	**6.0**	(1.4)
Decrease in trade and other receivables	**2.4**	0.8
Decrease in trade and other payables	**(2.3)**	(0.7)
Cash paid into defined benefit schemes	**(0.2)**	(0.2)
Cash flow from operating activities	**34.2**	27.8

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

24. Retirement Benefit Obligations

The Group maintains several defined benefit schemes, all of which are closed to future accrual and the assets of the schemes are held in separate trustee administered funds. The schemes are funded in accordance with rates recommended by independent qualified actuaries on the basis of triennial or shorter period reviews using the projected unit method.

The two principal defined benefit schemes ("the schemes") are the Diploma Holdings PLC Permanent Staff Pension and Assurance Scheme ("the PLC Scheme") and the Anachem Limited Retirement Benefits Scheme ("the Anachem Scheme").

Pension deficit included in the balance sheet:

	2009 £m	2008 £m
Market value of schemes' assets		
Equities	**11.1**	9.5
Bonds	**3.0**	3.0
Cash	**–**	–
	14.1	12.5
Present value of schemes' liabilities	**(18.8)**	(14.2)
	(4.7)	(1.7)

Amounts (charged)/credited to the consolidated Income Statement in respect of defined benefit schemes:

	2009 £m	2008 £m
Charged to operating profit	**–**	–
Interest cost	**(1.0)**	(0.9)
Expected return on schemes' assets	**0.9**	1.1
(Charged)/credited to finance income (note 6)	**(0.1)**	0.2
	(0.1)	0.2

Amounts recognised in the consolidated Statement of Recognised Income and Expense ("SORIE"):

	2009 £m	2008 £m
Experience adjustments on schemes' assets	**0.7**	(3.4)
Changes in assumptions on schemes' liabilities	**(3.8)**	3.0
Experience adjustments on schemes' liabilities	**–**	(0.1)
Actuarial loss on schemes' liabilities	**(3.1)**	(0.5)

Analysis of movement in the pension deficit:

	2009 £m	2008 £m
At 1 October	**1.7**	1.6
Amounts charged/(credited) to profit and loss account	**0.1**	(0.2)
Contributions paid by employer	**(0.2)**	(0.2)
Actuarial loss	**3.1**	0.5
At 30 September	**4.7**	1.7

24. Retirement Benefit Obligations (continued)

Analysis of the movements in the present value of the schemes' liabilities:

	2009 £m	2008 £m
At 1 October	**14.2**	16.4
Interest cost	**1.0**	0.9
Actuarial loss	**–**	0.1
Loss/(gain) on changes in assumptions	**3.8**	(3.0)
Benefits paid	**(0.2)**	(0.2)
At 30 September	**18.8**	14.2

Analysis of the movements in the present value of the schemes' assets:

	2009 £m	2008 £m
At 1 October	**12.5**	14.8
Expected return on assets	**0.9**	1.1
Actuarial gain/(loss)	**0.7**	(3.4)
Contributions paid by employer	**0.2**	0.2
Benefits paid	**(0.2)**	(0.2)
At 30 September	**14.1**	12.5

Principal actuarial assumptions for the schemes at balance sheet dates:

	2009	2008	2007
Inflation rate	**3.4%**	3.8%	3.4%
Expected rate of pension increases	**3.4%**	3.8%	3.4%
Discount rate	**5.5%**	7.0%	5.8%
Number of years a current pensioner is expected to live beyond age 65			
• Men	**22.1**	21.9	21.9
• Women	**25.0**	24.8	24.8
Expected return on schemes' assets			
Analysed as:			
Equities	**8.0%**	8.0%	8.0%
Bonds	**5.5%**	5.5%	5.5%
Cash	**2.0%**	4.5%	5.0%

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

24. Retirement Benefit Obligations (continued)

Demographic assumptions:

Basic mortality table used:	100% of PCMA00/PCFA00
Year the mortality table was published:	2003
Allowance for future improvements in longevity:	Year of birth projections, with medium cohort improvements with adjustments to reflect expected scheme experience
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)

Sensitivities:
Sensitivity of 2009 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Assumption	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	12.2	2.3
Expected rate of pension increase	Increase by 0.5%	4.2	0.8
Life expectancy	Increase by 1 year	1.9	0.4

Cash funding:
Accounting costs do not impact on the incidence or amount of cash contributions for defined benefit plans. Future cash contributions are determined based upon triennial actuarial valuations.

	PLC	Anachem
Date of last formal funding valuation	30 September 2008	5 April 2007
Deficit	£1,508,000	£839,000
Funding level	84%	91%
Funding approach	Assumes that schemes' assets will outperform Government bonds by 2.84% pa pre-retirement and 0.24% pa post-retirement	Assumes that schemes' assets will outperform Government bonds by 2.35% pa pre-retirement and NIL% pa post-retirement
Lump sum contributions per annum to remove the deficit	£96,000	£120,000
Period over which the deficit is expected to be removed	1 October 2009 – 30 September 2029	1 October 2007 – 30 September 2017
Expected contributions during FY2010	£96,000	£120,000
Current investment strategy	80% Equities/20% Bonds	85% Equities/15% Bonds
Number of deferred members at date of actuarial valuation	137	187

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

24. Retirement Benefit Obligations (continued)

History of experience gains and losses:

All experience adjustments are recognised directly in equity, net of related tax.

	2009	2008	2007	2006	2005
Experience adjustments arising on schemes' assets:					
Amount (£m)	**0.7**	(3.4)	0.3	0.6	1.1
% of schemes' assets	**5%**	27%	2%	5%	9%
Changes in assumptions arising on present value of schemes' liabilities:					
Amount (£m)	**(3.8)**	3.0	2.3	(0.6)	–
% of present value of schemes' liabilities	**20%**	21%	14%	3%	–
Experience adjustments arising on present value of schemes' liabilities:					
Amount (£m)	**–**	(0.1)	0.1	(0.6)	(1.7)
% of present value of schemes' liabilities	**–**	1%	1%	3%	11%
Present value of schemes' liabilities	**(18.8)**	(14.2)	(16.4)	(18.0)	(16.1)
Market value of schemes' assets	**14.1**	12.5	14.8	13.3	11.7
Deficit	**(4.7)**	(1.7)	(1.6)	(4.7)	(4.4)

25. Commitments

At 30 September 2009 the Group has total lease payments under non-cancellable operating leases as follows:

	Land and Buildings 2009 £m	2008 £m
Lease payments due:		
Within one year	**1.3**	1.1
Within two to five years	**2.0**	2.3
After five years	**0.3**	0.3
Total payable at 30 September	**3.6**	3.7

Operating lease payments made in respect of land and buildings during the year were £1.4m (2008: £1.1m).

26. Audit Fees

During the year the Group received the following services from the auditors:

	2009 £'m	2008 £'m
Fees payable to the auditors for the audit of:		
– the Company's annual report	**0.1**	0.1
– the Company's subsidiaries, pursuant to legislation	**0.1**	0.1
Total audit fees	**0.2**	0.2

Non audit fees of £4,000 (2008: £Nil) for taxation advisory services provided in Canada and £10,000 in connection with the Interim Report, were paid to the Group's auditors.

27. Exchange Rates

The following exchange rates have been used to translate the results of the overseas business:

	Average 2009	2008	Closing 2009	2008
US Dollar	**1.54**	1.97	**1.60**	1.78
Canadian Dollar	**1.82**	1.99	**1.72**	1.90
Euro	**1.14**	1.31	**1.09**	1.27

Group Accounting Policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, 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 2009 and the comparative period. There has been no material impact on the Group's consolidated financial statements in 2009 from the issue of IFRS, or interpretations to existing Standards, during the year.

1 Group Accounting Policies

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.

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 has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The 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.

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 Divestments

The results and cash flows of major lines of business that have been divested have been classified as discontinuing businesses and the comparatives for the year to 30 September 2008 amended accordingly.

1.4 Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable for goods supplied and services rendered to customers, after deducting sales allowances and value added taxes. 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 over the period of the contract.

1.5 Employee benefits

The Group operates a number of pension plans, both of the defined contribution and defined benefit type. The defined benefit schemes are closed to the accrual of future benefits.

(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 plans
The deficit recognised in the balance sheet for the Group's defined benefit pension schemes 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 plans is recognised as follows:

(i) Within profit before tax:

- 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 liabilities of the schemes – calculated by reference to the scheme liabilities and major assumptions, including the discount rate, at the beginning of the year; and
- Expected return on the assets of the schemes – calculated by reference to the scheme assets and long-term expected rate of return at the beginning of the year.

(ii) Within the statement of recognised income and expense:

- Actuarial gains and losses arising on the assets and liabilities of the schemes arising from actual experience and any changes in assumptions at the end of the year.

The Group has adopted a policy of recognising all actuarial gains and losses for all of its defined benefit schemes in the period in which they occur, outside the income statement, in the SORIE.

(c) Share-based payments
The Executive Directors of the Group receive part of their remuneration in the form of share-based payment transactions, whereby the Directors render services in exchange for shares in the Company, or rights over shares ("equity-settled" transactions).

Equity-settled transactions 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 profit and loss account 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.

1.6 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 income statement;

(ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated; and

(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 income statement, any exchange component of that gain or loss is also recognised in the 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; and

(iii) All resulting exchange differences are recognised in translation reserves as a separate component of equity; these cumulative exchange differences are recognised in the 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 income statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated Group accounts such exchange differences are initially recognised in translation reserves as a separate component of equity and subsequently recognised in the income statement on disposal of the net investment.

1.7 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 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 schemes, the difference between accelerated capital allowances and depreciation and for short term timing differences where a provision held against receivables or stock 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 that in a business combination) of other assets and liabilities in a transaction that affects neither the tax 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 income statement, except when the item on which the tax or charged 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.

1.8 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried 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 other repairs and maintenance expenditure is charged to the income statement in the period in which it is incurred.

Group Accounting Policies continued

Freehold land is not depreciated as it has an infinite life. Depreciation on other items of property, plant and equipment begins when the asset is available for use and is charged to the income statement on a straight-line basis so as 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	Plant and equipment	–	plant and machinery between 3 and 7 years
Leasehold property	– term of the lease		–	IT hardware between 3 and 5 years
			–	fixtures and fittings between 5 and 15 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 income statement.

1.9 Intangible assets

All intangible assets, excluding goodwill arising on a business combination, are stated at their amortised cost or fair value less any provision for impairment.

(a) Research and development costs

Research expenditure is written off as incurred. Development costs are written off as incurred until it can be demonstrated that the conditions for capitalisation as described in IAS 38 (Intangible Assets) are met. At which point further costs are capitalised as intangible assets up until the intangible asset is readily available for production 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 are acquired as a result of a business combination, including, but not limited to, customer lists, supplier lists, databases, technology and software and patents and 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 income statement over the expected useful economic lives.

(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 and tangible assets, net of the aggregate fair value of the liabilities (including contingencies of businesses acquired at the date of acquisition), and net of any costs directly attributable to the business combination. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Impairment testing is carried out annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill on acquisitions is not amortised.

1.10 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 exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit 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 cash-generating unit, 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 income statement.

(a) Impairment of goodwill

Goodwill acquired in a business combination is allocated to a cash-generating unit; cash-generating units for this purpose are the business entities 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. Cash-generating units 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 cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the goodwill attributable to the cash-generating unit.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(b) Impairment of other tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss for tangible and intangible assets other than goodwill is recognised immediately in the income statement.

1.11 Inventories
Inventories are stated at the lower of cost, (generally calculated on a 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.

1.12 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 income statement.

(b) Trade payables
Trade payables are non interest-bearing and are initially measured at their fair 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 form an integral part of the Group's cash management system.

(d) Put options held by minority interests
On exercise of put options held by minority shareholders in the Group's subsidiaries, the purchase price of the shares is calculated by reference to the 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 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 income statement.

(e) Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments in the form of forward foreign exchange contracts to manage the effects of its exposures to fluctuations in foreign exchange arising from operational and financial activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The fair value of forward foreign exchange contracts is their quoted market price at the balance sheet date.

Under IAS39, hedging relationships are categorised by type and must meet strict criteria to qualify for hedge accounting. At the inception of the transaction the Group documents the relationship between the hedging instrument and the hedged item. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Group uses cash flow hedges (eg forward foreign exchange currency contracts) to hedge exposure to variability in cash flows of a highly probable forecast transaction.

In relation to cash flow hedges, to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss. For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

The Group does not use financial instruments to hedge the exposure to changes in the fair value of recognised assets or liabilities that are attributable to a particular risk and could affect profit or loss (fair value hedges). No financial instruments are used to hedge net investments in a foreign operation (net investment hedges).

1.13 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.

(a) Finance leases
Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

(b) Operating leases
Rentals payable under operating leases are charged to the 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.

Group Accounting Policies continued

1.14 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 Director's best estimate of the expenditure required to settle the obligation at the balance sheet date.

1.15 Dividends
The annual final dividend is not provided for until approved at the Annual General Meeting; interim dividends are charged in the period they are paid.

1.16 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 effective hedge.

(c) Retained earnings reserve – The retained earnings reserve comprises total recognised income and expense for the year attributable to shareholders. Bonus issues of share capital and dividends to shareholders are also charged directly to this reserve. On acquisition of minority interests, the liability held in the consolidated financial statements for the future purchases of those minority interests is released to the retained earnings 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.

1.17 Accounting standards, interpretations and amendments to published standards not yet effective
The following new standards, amendments and interpretations to existing standards have been published and have been endorsed by the EU, that are mandatory for the Group's accounting periods beginning on or after 1 October 2009:

- IAS1 (revised) 'Presentation of Financial Statements';
- IAS23 (revised) 'Borrowing Costs';
- IAS27 (revised) 'Consolidated and Separate Financial Statements';
- IFRS2 (revised) 'Share-based Payment';
- IFRS3 (revised) 'Business Combinations'; and
- IFRS8 'Operating Segments'.

The Group has considered the impact of these new standards and interpretations in future periods and, subject to the comments below, no significant impact is expected on reported profit or net assets.

IFRS3 (revised) 'Business Combinations' will apply to business combinations arising from 1 October 2010. Amongst other changes, the revisions effected by the new standard require subsequent changes in the fair value of contingent consideration payable in respect of an acquisition to be recognised in the income statement rather than against goodwill, and require transaction costs attributable to an acquisition to be recognised immediately in the income statement. IFRS3 (revised) will be applied prospectively to transactions occurring from 1 October 2009. It is therefore not possible to assess in advance the impact on the Group's financial statements.

IAS1 (revised) 'Presentation of Financial Statements' requires entities to prepare a statement of comprehensive income. All no-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Owner changes in equity are shown in a statement of changes in equity. IAS1 will be applied to all future financial reporting from 1 October 2009. However this will not impact the Group's reported profit or net assets since only the disclosure and presentation of the financial statements will be affected.

The Group has chosen not to early adopt any of these new standards and interpretations.

2 Critical Accounting Estimates and Judgements

In order to prepare these consolidated financial statements in accordance with the accounting policies set out in note 1 above, management has used estimates and judgements to establish the amounts at which certain items are recorded. Critical accounting estimates and judgements are those which have the greatest impact on the financial statements and require the most difficult and subjective judgements about matters that are inherently uncertain. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However given the judgemental nature of such estimates, actual results could be different from the assumptions used. The critical accounting estimates and judgements are set out below:

2.1 Goodwill impairment

The Directors use their judgement to determine the extent to which goodwill has a value that will benefit the performance of the Group over future periods. To assist in making this judgement, the Directors undertake an assessment, at least annually, of the carrying value of the Group's capitalised goodwill, using discounted cash flow forecasts to derive the "value in use" to the Group of the capitalised goodwill. This calculation is usually based on projecting future cash flows over at least a five year period and using a terminal value to incorporate expectations of growth thereafter. A discount factor is applied to obtain a current value ("value in use"). The "fair value less costs to sell" of an asset is used if this results in an amount in excess of "value in use".

Estimated future cash flows for impairment calculations are based on management's expectations of future volumes and margins based on plans and best estimates of the productivity of the assets in their current condition. Future cash flows therefore exclude benefits from major expansion projects requiring future capital expenditure where that expenditure has not been approved at the balance sheet date.

Future cash flows are discounted using discount rates based on the Group's weighted average cost of capital, adjusted if appropriate for circumstances specific to the asset being tested. The weighted average cost of capital is impacted by estimates of interest rates, equity returns and market and country related risks. The Group's weighted average cost of capital is reviewed on an annual basis.

The projection period is, in the opinion of the Directors, an appropriate period over which to view the future results of the Group's businesses for this purpose. Changes to the assumptions and discount rates used in making these forecasts could significantly alter the Director's assessment of the carrying value of goodwill.

2.2 Retirement benefits

The Group's financial statements include the costs and obligations associated with the provision of pension retirement benefits to current and former employees. It is the Directors' responsibility to set the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set after consultation with the Group's actuaries and are consistent with those assumptions used to determine the financing elements related to the Schemes' assets and liabilities. Whilst the Directors believe that the assumptions used are appropriate, a change in the assumptions used would affect the Group profit and financial position. Details of these assumptions, which are based on advice from the Group's actuaries, are set out in note 24.

2.3 Taxation

The Group operates in a number of tax jurisdictions around the world. Tax regulations generally are complex and in some jurisdictions agreeing tax liabilities with local tax authorities can take several years. Consequently, at the balance sheet date tax liabilities and assets are based on management's best estimate of the future amounts that will be settled. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

Deferred tax assets mainly represent timing differences that the Group expects to recover at some time in the future and by their nature, the amounts recorded are therefore dependent on management's judgement about future events. Account has also been taken of future forecasts of taxable profit in arriving at the values at which these deferred tax assets are recognised. If these forecast profits do not materialise or change, or there are changes in tax rates or to the period over which the timing difference might be recognised, then the value of the deferred tax asset will need to be revised in a future period.

2.4 Current assets

In the course of normal trading activities, judgement is used to establish the net realisable value of various elements of working capital, principally inventory and trade receivables. Impairment charges are made against obsolete or slow-moving inventories, bad or doubtful debts.

The decision to make an impairment charge is based on the facts available at the time the financial statements are approved and are also determined by using profiles, based on past practice, applied to certain aged inventory and trade receivables categories. In estimating the collectability of trade receivables, judgement is required in assessing their likely realisation, including the current creditworthiness of each customer and related ageing of the past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration of its financial condition, credit ratings or bankruptcy.

2.5 Property, plant and equipment

It is Group policy to depreciate its property, plant and equipment assets, except freehold land, on a straight-line basis over their estimated useful lives. This applies an appropriate matching of the revenue earned with the delivery of goods and services. A key element of this policy is the estimate of the useful life applied to each category of property, plant and equipment which, in turn, determines the annual depreciation charge. Variations in asset lives could impact Group profit through an increase or decrease in the depreciation charge.

2.6 Future purchases of minority interests

The Group's financial statements include a financial liability for the net present value of the expected amount that it will pay in future years to acquire the outstanding shares held by minority shareholders in the Group's subsidiaries. This amount is based on the Directors' estimate of the future profitability of the relevant subsidiary and on an assumption of the exchange rates prevailing at the time the payment is made. Any changes to the estimated profitability of the relevant business and/or changes to the assumption of the relevant exchange rate, will change the estimate of this financial liability.

Parent Company Balance Sheet

As at 30 September 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investments	c	**70.2**	70.2
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(41.0)**	(43.0)
Total assets less current liabilities		**29.2**	27.2
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account		**23.5**	21.5
		29.2	27.2

The financial statements were approved by the Board of Directors on 16 November 2009 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on page 69 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2009

	Share capital £m	Profit and loss account £m	Total £m
At 1 October 2008	5.7	21.5	27.2
Retained profit for the year	–	1.3	1.3
Transfer of own shares	–	0.7	0.7
At 30 September 2009	**5.7**	**23.5**	**29.2**

Notes to the Parent Company Financial Statements

a) Accounting Policies

a.1 Basis of accounting

These financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and applicable UK accounting standards. A summary of the accounting policies of the Parent company ("the Company") is set out below. As permitted by section 404 of the Companies Act 2006, no separate profit and loss account is presented for the Company.

a.2 Investments and dividends

Investments are stated at cost less provision for impairment. Dividend income is recognised when received. Dividend distributions are recognised in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

a.3 Employment Benefit Trust and Employee Share Schemes

Shares held by the Diploma Employee Benefit Trust ("the Trust") are stated at cost and accounted for as a deduction from shareholders' funds in accordance with UITF 38. Shares that are held by the Trust are not eligible for dividends until such time as they vest unconditionally to the employees.

b) Directors' Remuneration

No emoluments are paid directly by the Company; information on the Directors' remuneration and interests in the share capital of the Company are set out in the Remuneration Report on pages 33 to 37.

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2009 and 1 October 2008	**70.2**

Details of the principal subsidiaries are set out on page 72.

d) Share Capital

	2009 Number	2008 Number	2009 £m	2008 £m
Authorised ordinary shares of 5p each				
At 30 September	**135,000,000**	135,000,000	**6.7**	6.7
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 413,557 shares were transferred from the Diploma Employee Benefit Trust to participants in connection with vesting of awards under the Long Term Incentive Plan. In accordance with UITF 38, the purchase cost of own shares has been deducted from shareholders' funds.

At 30 September 2009 the Trust held 868,263 (2008: 1,281,820) ordinary shares in the Company representing 0.8% of the called up share capital. The market value of the shares at 30 September 2009 was £1.5m (2008: £2.0m).

Following the implementation of the final tranche of the Companies Act 2006 on 1 October 2009, a company is no longer required to have an authorised share capital. The Directors intend to update the Company's Articles of Association at the forthcoming AGM which will thereafter remove the requirement to obtain shareholders' consent to increase the authorised share capital if it would otherwise have been required to do so when issuing new shares in the Company.

Independent Auditors' Reports

Independent Auditors' Report on the Group financial statements to the Members of Diploma PLC

We have audited the Group financial statements of Diploma PLC for the year ended 30 September 2009 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the Group accounting policies and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent company financial statements of Diploma PLC for the year ended and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London
16 November 2009

Independent Auditors' Report on the Parent Company financial statements to the Members of Diploma PLC

We have audited the Parent company financial statements of Diploma PLC for the year ended 30 September 2009 which comprise the Parent company balance sheet, the reconciliation of movement in shareholders' funds and the related notes a) to d). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent company financial statements:

- give a true and fair view of the state of the Parent company's affairs as at 30 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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
- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Diploma PLC for the year ended 30 September 2009.

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London
16 November 2009

Principal Subsidiaries

	Group percentage of equity capital	Country of incorporation or registration
Life Sciences		
Anachem Limited	100%	England
a1-envirosciences Limited	100%	England
a1-technologies GmbH	100%	Germany
a1-safetech AG	100%	Switzerland
Somagen Diagnostics Inc	91.8%	Canada
AMT Vantage Holdings Inc	75%	Canada
Seals		
Hercules Sealing Products Inc	100%	USA
HKX Inc	100%	USA
Hercules Europe BV	100%	Netherlands
M Seals A/S	90%	Denmark
FPE Limited	100%	England
Controls		
IS Rayfast Limited	100%	England
IS Motorport Inc	100%	USA
Clarendon Engineering Supplies Limited	100%	England
Cabletec Interconnect Components Systems Limited	100%	England
Sommer GmbH	100%	Germany
Filcon GmbH	100%	Germany
HA Wainwright (Group) Limited	100%	England
Hitek Limited	100%	England
Other Companies		
Diploma Holdings PLC	100%	England
Diploma Holdings Inc	100%	USA

A full list of subsidiaries will be annexed to the next Annual Return of Diploma PLC filed with the Registrar of Companies.

Financial Calendar and Shareholder Information

Announcements (provisional dates):

Interim Management Statement released	13 January 2010
Interim Management Statement released	5 August 2010
Interim Results announced	10 May 2010
Preliminary Results announced	15 November 2010
Annual Report posted to shareholders	29 November 2010
Annual General Meeting	12 January 2011
Dividends (provisional dates)	
Interim announced	10 May 2010
Paid	16 June 2010
Final announced	15 November 2010
Paid (if approved)	19 January 2011

Annual Report: Copies can be obtained from the Company Secretary at the address shown below.

Share Registrar – Computershare Investor Services PLC: The Company's Registrar is Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone: 0870 7020010. Their 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 Company Secretary at the address shown below.

Secretary and Registered Office:

N P Lingwood ACA, 12 Charterhouse Square, London EC1M 6AX. Telephone: 020 7549 5700. Fax: 020 7549 5715.
Registered in England and Wales, number 3899848.

Web site: Diploma's web site is www.diplomaplc.com

Five Year Record

For the year ended 30 September 2009

Continuing businesses	**2009 £m**	**2008 £m**	**2007 £m**	**2006 £m**	**2005 £m**
Revenue	**160.0**	156.2	124.5	112.1	95.3
Operating profit	**25.6**	26.6	20.7	18.1	15.0
Finance (expense)/income	**(0.1)**	0.2	1.2	1.0	0.7
Adjusted profit before tax	**25.5**	26.8	21.9	19.1	15.7
Amortisation of acquisition intangibles and goodwill	**(3.1)**	(2.7)	(1.0)	(0.3)	–
Property profits and restructuring costs, net	–	–	–	11.1	–
Fair value remeasurements	**(1.9)**	(3.0)	–	–	–
Profit before tax	**20.5**	21.1	20.9	29.9	15.7
Tax expense	**(7.1)**	(7.2)	(7.1)	(6.6)	(4.6)
Profit for the year from continuing businesses	**13.4**	13.9	13.8	23.3	11.1
Profit from discontinuing business	**0.9**	0.5	1.0	0.9	1.1
Profit for the year	**14.3**	14.4	14.8	24.2	12.2
Capital structure					
Equity shareholders' funds	**121.4**	108.1	90.7	92.9	75.4
Minority interest	**2.7**	1.9	1.8	1.6	1.7
Add/(less): cash and cash equivalents	**(21.3)**	(15.7)	(12.4)	(36.7)	(25.7)
retirement benefit obligations	**4.7**	1.7	1.6	4.7	4.4
future purchases of minority interests	**13.1**	11.2	11.8	–	–
deferred tax, net	**2.0**	3.3	3.6	(3.4)	(3.1)
adjustment to goodwill in respect of deferred tax	**(6.5)**	(6.0)	(5.6)	–	–
Trading capital employed	**116.1**	104.5	91.5	59.1	52.7
Net increase/(decrease) in cash	**2.2**	2.0	(25.3)	9.8	7.3
Add: dividends paid	**9.1**	7.8	5.7	5.0	4.1
acquisition of businesses	**12.2**	7.9	31.6	8.0	0.3
Free cash flow	**23.5**	17.7	12.0	22.8	11.7
Per ordinary share (pence)					
Basic earnings	**10.8**	11.4	11.8	20.3	9.5
Adjusted earnings	**14.8**	16.0	13.1	11.8	9.7
Dividends	**7.8**	7.5	5.4	4.6	4.0
Total shareholders' equity	**107**	95	80	82	67
Dividend cover	**1.9**	2.1	2.4	2.6	2.4
Ratios	**%**	**%**	**%**	**%**	**%**
Return on trading capital employed	**19.0**	22.4	25.5	25.1	23.0
Operating margin	**16.0**	17.0	16.6	16.1	15.7
Continuing and discontinuing businesses	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue	**175.7**	172.3	140.7	128.2	111.3
Adjusted profit before tax	**26.7**	27.5	23.3	20.4	17.2
Adjusted earnings per ordinary share (pence)	**15.6**	16.4	14.0	12.6	10.7

Notes

1 Return on trading capital employed represents operating profit, before amortisation of acquisition intangible assets, as a percentage of trading capital employed (as adjusted for the effect of the timing of major acquisitions and disposals). Trading capital employed is calculated as defined in note 2 to the consolidated financial statements.

2 Adjusted earnings per share is calculated in accordance with note 9 to the consolidated financial statements.

3 Total shareholders' equity per share have been calculated by dividing equity shareholders' funds by the number of ordinary shares in issue at the year end.

4 Dividend cover is calculated on adjusted earnings as defined in note 2 to the financial statements.

5 On 21 January 2008 the Company undertook a bonus issue of four new ordinary shares of 5 pence each for each ordinary share held by shareholders of the Company. The comparative amounts stated above have been restated to reflect this bonus issue.

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