DIPLOMA PLC

Annual Report & Accounts 2012

Our Business

Our Sectors

Diploma PLC is an international group of businesses supplying specialised technical products and services. We operate globally in three distinct sectors:

Life Sciences Suppliers of consumables, instrumentation and related services to the healthcare and environmental industries.

Seals Suppliers of hydraulic seals, gaskets, cylinders, components and kits for heavy mobile machinery and industrial equipment.

Controls Suppliers of specialised wiring, connectors, fasteners and control devices for technically demanding applications.

Sections 1–3 make up the Directors' Report in accordance with the Companies Act 2006.

Another year of strong growth

Financial Highlights

Year ended 30 September

	2012 £m	2011 £m	
Revenue	**260.2**	230.6	13%
Adjusted operating profit[1]	**52.8**	45.2	17%
Adjusted operating margin[1]	**20.3%**	19.6%	
Adjusted profit before tax[1,2]	**52.6**	44.9	17%
Profit before tax	**46.0**	39.2	17%
Free cash flow	**32.7**	25.0	31%
	Pence	Pence	
Adjusted earnings per share[1,2]	**33.1**	27.9	19%
Basic earnings per share	**27.9**	24.0	16%
Total dividends per share	**14.4**	12.0	20%
Free cash flow per share	**28.9**	22.1	31%

1 Before acquisition related charges.
2 Before fair value remeasurements.

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

Chairman's Statement

John Rennocks
Chairman

Investing for Growth

Over the last five years, against a backdrop of uncertain global markets, the Group has achieved 20% pa compound growth in earnings by a combination of good organic growth and selective, value-enhancing acquisitions. Market capitalisation has more than doubled over the five year period and early in the financial year, the Group entered the FTSE 250 index.

I am pleased to report that the Group has made further progress during this financial year and has delivered substantial value to shareholders with another year of strong double-digit growth in earnings and dividends.

The ability of the Group to continue to deliver these strong returns to shareholders over the next five year period, requires a commitment to invest strongly in establishing a firm foundation for growth. As I indicated last year, the Board has approved significant investment across the Group's businesses, designed to ensure that the Group will continue to deliver strong growth.

By the end of the 2013 financial year, the Group will have invested ca. £3m in new and enlarged facilities for several businesses in the Group. Substantial investment has also now commenced on large ERP IT projects in three businesses and another project is planned to commence later in 2013 with an aggregate investment of ca. £2m. We have also invested in broadening the skill base across the Group, through a combination of recruiting additional senior management and new training programmes, at an additional annual cost of ca. £1m.

The Board is confident that with these investments and with further value-enhancing acquisitions, the momentum of growth in the Group will be sustained over the next five years.

Performance

Group revenue increased in 2012 by 13% to £260.2m (2011: £230.6m) with the continued strong performance in the Seals businesses being the main driver to growth and with good contributions from the Life Sciences and the Controls businesses.

Adjusted operating margins increased further during the year to 20.3% (2011: 19.6%) reflecting the operational leverage in the North American Seals businesses and as a result, adjusted operating profit increased by 17% to £52.8m (2011: £45.2m).

Underlying Group revenues and adjusted operating profit increased by 6% and 11% respectively, after adjusting for the impact from acquisitions, the divestment of a small business in Switzerland and currency movements on the translation of overseas results.

Adjusted profit before tax increased by 17% to £52.6m (2011: £44.9m) and adjusted earnings per share, helped by the purchase of minority interests last year, increased by 19% to 33.1p (2011: 27.9p).

The Group's continuing ability to generate excellent cash flow was demonstrated by an increase in free cash flow of over 30% to £32.7m (2011: £25.0m). This was after increasing capital investment to £3.5m (2011: £1.7m) which included £1.3m to upgrade facilities and other infrastructure assets.

After investing £22.3m on acquiring businesses and making dividend distributions to shareholders of £14.2m, the Group had net cash funds of £7.9m at 30 September 2012. This demonstrates the continuing strength of the Group's balance sheet and provides confidence in the Group's ability to continue to invest strongly for future growth.

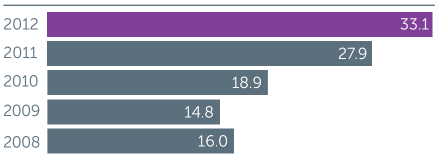
Acquisitions

The Board's strategy to accelerate growth through carefully selected, value enhancing acquisitions remains a key factor in providing outstanding returns to shareholders. Once acquisitions are completed, the Group looks to make appropriate investment in the newly acquired businesses to build a solid platform for future growth.

Five Year Performance

EPS growth

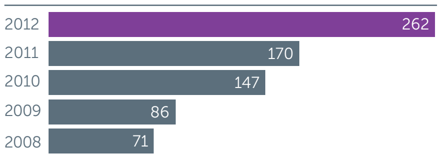
+20% p.a.



Adjusted EPS in pence

TSR growth

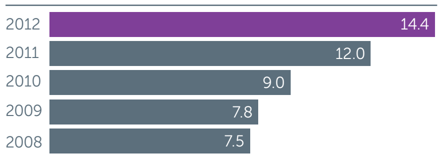
+21% p.a.



TSR index, end September 2007 = 100

Dividend growth

+22% p.a.



Dividends in pence per share

The Board has continued to pursue this growth strategy during the year by investing over £22m in acquiring new businesses, with all three sectors of the Group benefiting from this investment. Each of these acquisitions has provided our existing businesses with opportunities to expand into new and related product and geographic markets.

We will continue to invest sensibly in broadening our businesses through a combination of organic investment and by acquisition. We have made good progress during the year in adding experienced resources which are designed to accelerate and broaden the acquisition programme over the coming years.

Dividends

With another year of good progress and in light of the strong balance sheet and free cash flow, the Board is recommending an increase in the final dividend of 20% to 10.2p per share (2011: 8.5p) which, subject to shareholder approval at the Annual General Meeting, will be paid on 23 January 2013 to shareholders on the register at 30 November 2012.

The total dividend per share for the year will be 14.4p which also represents a 20% increase on 2011. This is well covered by Adjusted EPS at 2.3 times and remains in line with our objective of targeting towards a 2 times cover.

Governance

I am delighted to welcome Marie-Louise Clayton to the Board following her appointment as a non-Executive Director on 13 November 2012. As I indicated last year, this appointment represents the initial stage of developing the Board to meet the higher governance standards required of larger companies and we look forward to advancing this process over the next year with a further new addition. We have also made good progress during the year with updating our Board processes and policies to meet the UK Corporate Governance Code requirements. In September 2012, the Board separated the role of Company Secretary from the Group Finance Director with the appointment of Anthony Gallagher as Group Company Secretary.

Employees

We have continued to invest this year in developing our management group through the appointment of external resource and through new internal promotions across the Group. We continue to foster an entrepreneurial culture within our businesses which encourages all our staff to take responsibility for their own businesses. I wish to send my sincere thanks to everyone in the Group, whose exceptional efforts and dedication to deliver outstanding value to our customers, has allowed the Group to continue to make further progress.

Current Trading

The Life Sciences businesses have begun the year well, benefiting from the investments made last year in consolidating the Healthcare businesses in Canada and from expanding further in Australia. The Seals businesses are continuing to enjoy robust underlying growth in their key markets in North America. The Controls businesses are benefiting from the acquisitions completed in the UK last year, but Continental European markets continue to show little sign of underlying growth.

The Group has a resilient business model with a good geographic spread of businesses which are supported by a strong Group balance sheet and robust cash flow. The investments made this year will provide a platform to drive underlying growth and intensify the search for good quality acquisitions. These factors provide the Board with confidence that, despite the background of weak global economic market conditions, the Group is well placed to make further progress in the new financial year.

John Rennocks
Chairman
19 November 2012

Our Business Model

The Group comprises a number of high quality, specialised businesses which design their individual business models to make them essential to their customers.

Essential Products

= recurring income and stable revenue growth

Our businesses focus on supplying essential products and services funded by customers' operating rather than capital budgets and supplied across a range of specialised industry segments.

The majority of the Group's revenues are generated from consumable products. In many cases, the products will be used in repair and maintenance applications and refurbishment and upgrade programmes, rather than supplied to original equipment manufacturers.

These characteristics all contribute to the Group's record of stable revenue growth over the business cycle.

Essential Solutions

= sustainable and attractive margins

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

The solutions can be in the form of:

- Highly responsive customer service, such as the next day delivery from stock of essential, but low value items;
- Deep technical support, where we work closely with our customers in designing our products into their specific applications;
- Added value services which, if we did not provide these services, customers would have to pay others to provide them or would require them to invest in additional resources of their own.

By supplying solutions, not just products, we build strong long term relationships with our customers and suppliers, supporting sustainable and attractive margins.

Essential Values

= agility and responsiveness

We encourage an entrepreneurial culture across our businesses, through a decentralised management structure.

We want the managers to feel that they have the freedom to run their own businesses, while being able to draw upon the support and resources of a larger group where this is beneficial.

Within our businesses we have strong, self-standing management teams who are committed to and rewarded according to the success of their businesses. This ensures that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

Our Growth Strategy

The Group's "Acquire, Build, Grow" strategy is designed to deliver strong, double-digit growth by building larger, broader-based businesses in the three Group sectors.

Acquire

Clear business criteria have been established to guide the Group's acquisition programme:

- Fit with the Group's business model of essential products, solutions and values;
- Marketing led with strong customer relationships;
- Secure supply of high quality, differentiated products;
- Capable management.

The principal financial criteria are:

- Track record of stable, profitable growth and cash generation;
- Exceed IRR threshold of 13% to ensure 20%+ pre-tax ROI.

Build

Acquisitions are intended to give entry into new but related markets and thereby extend the reach of the existing businesses and bring new growth opportunities.

The acquisitions we make are of companies which are already successful and with a good track record. However, these businesses have typically reached the point where additional resources are needed to take them to the next level of growth.

Working with the management, we provide the investment required to build a solid foundation to allow the company to move to a new level of growth. The investment will normally be in new facilities and IT systems, increased but better managed working capital and additional management resource.

Grow

Once the acquisition is integrated into the Group, with a solid platform established, the focus is on delivering stable, profitable growth.

Except in the case of smaller, bolt-on acquisitions, the acquisitions will maintain their distinct sales and marketing identity and will be managed as independent business units. However, where there are opportunities for synergies with other Group businesses, these will be managed within larger business clusters.

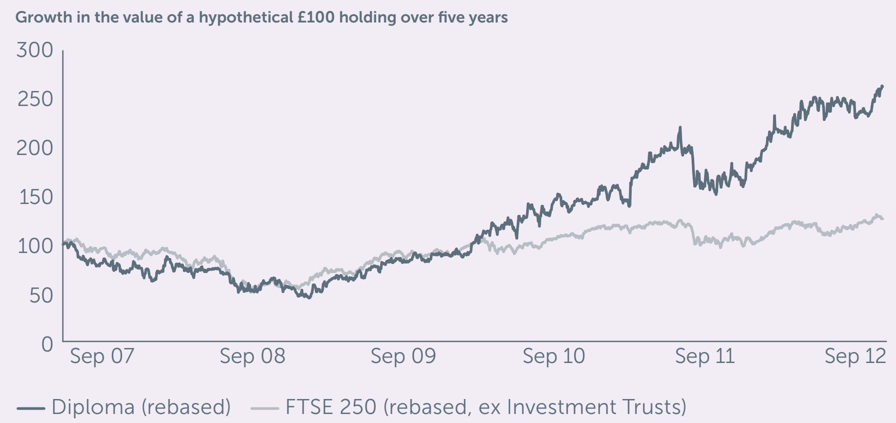
Typically synergies come in the following areas:

- Cross-selling between the businesses;
- Joint purchasing between the businesses;
- Common back-office functions for finance and administration.

Chief Executive's Review

Bruce Thompson
Chief Executive Officer

"In 2012 the Group has continued the growth trend with Adjusted EPS increasing by 19% and TSR by over 50%."



Principal corporate objectives

Achieve double digit growth in adjusted EPS over the business cycle
Adjusted earnings per share ("EPS"), measured over the business cycle, provides an absolute benchmark of the Company's performance. Over the last five years, adjusted EPS has grown at a compound growth rate of 20% p.a. through a combination of steady organic growth and carefully targeted acquisitions.

Generate TSR growth in the upper quartile of the FTSE 250
Total shareholder return ("TSR") 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. This is measured against the TSR growth of the FTSE mid-250 index (excluding investment trusts) ("FTSE 250"). The last five years have seen a compound TSR growth for Diploma of 21% p.a., which represents upper quartile performance as compared with the FTSE 250, where median TSR growth has been 5% p.a.

Deliver progressive dividend growth with two times dividend cover
Diploma follows a progressive dividend policy with a target cover of two times on an adjusted EPS basis. Over the last five years, dividends have steadily grown at the rate of 22% p.a. and this continues the trend of increasing dividends in each of the last 13 years.

“Continuing strong performance delivers long term value to shareholders.”

Next level objectives

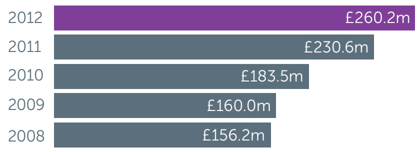
Key performance indicators

Generate stable “GDP plus” organic revenue growth over the business cycle

The businesses target organic revenue growth, over the economic cycle, at a rate of 5–6% p.a. (“GDP plus” growth), with higher growth rates achieved at the Group level through carefully selected value enhancing acquisitions.

Total revenue growth: % p.a.

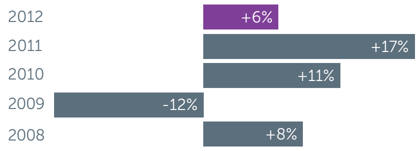
16% p.a. compound



Total revenue £m

Underlying organic revenue growth: % p.a.

+6% p.a. average



Underlying organic revenue growth % p.a.

Maintain stable attractive margins

Operating margin is an important measure of the success of the businesses in achieving superior margins by offering strongly differentiated products and customer focused solutions, as well as by running efficient operations.

Operating margins: % of revenue

18% average

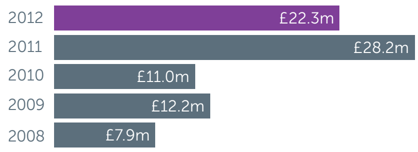
Operating margin as % of revenue

Accelerate growth through carefully selected value enhancing acquisitions

To complement the Group’s organic growth strategy, the Group has an ongoing acquisition programme, designed to accelerate growth and to facilitate entry into related strategic markets.

Acquisition spend: £m

>20% ROI



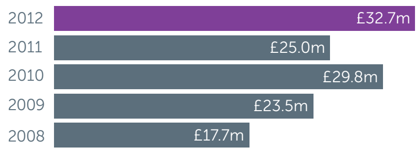
Acquisition spend £m

Generate consistently strong cash flow to fund growth strategy and dividends

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

Free cash flow: £m

£26m p.a. average



Free cash flow £m

Working capital as % of revenue

16-17% average

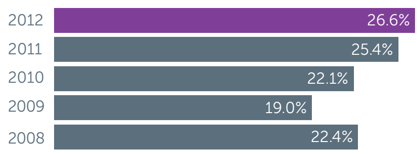
Working capital as % of revenue

Create value by consistently exceeding 20% ROTCE

Return on trading capital employed (“ROTCE”) is defined as adjusted operating profit as a percentage of trading capital employed (“TCE”). TCE excludes net cash and non-operating assets and liabilities, but includes all goodwill and acquired intangible assets.

ROTCE: %

23% average



ROTCE %

Chief Executive's Review
2012 Year in Review

Proven Strategy for Growth
The Group's strategy is designed to generate strong, double-digit growth in earnings and value over the business cycle, by building larger, broader-based businesses in the three Diploma sectors of Life Sciences, Seals and Controls. Over the last five years, adjusted earnings per share ("EPS") and total shareholder return ("TSR") have grown at compound growth rates of 20% pa and 21% pa, respectively.

In 2012, the Group has continued this growth trend, with adjusted EPS growing by 19% and TSR by over 50%. In addition, the Group has made significant progress in making the investments needed to lay the robust foundation for continued growth in the next five year period.

Good Operating Performance
In 2012, revenues increased by 13% to £260.2m (2011: £230.6m) with underlying growth of 6% after adjusting for currency effects, acquisitions and a small divestment. Adjusted operating margins for the year have increased to 20.3% of revenue (2011: 19.6%), though margins have reduced from the record high of 20.8% at the Half Year mainly due to the investment programmes which have been initiated during the year.

Significant progress has been made since the Half Year with the planned investments designed to support the future growth of the business. Two of the Industrial OEM Seals businesses in the US, RT Dygert and All Seals, both completed moves to larger new facilities. IS-Rayfast, the UK Controls business and Vantage, the Canadian Healthcare business, have also completed major facility moves in the first quarter of the new financial year. Three new IT projects have been started in the businesses, with further projects planned for later in the year. Finally, investment has been made in additional management resource within the major businesses and in the Diploma corporate group. In total, £2.1m of the planned £6.0m cash investment was made in the second half of the year, leading to additional operating costs of ca. £1.0m being added this year to support future growth.

Even after these additional investments, free cash flow in 2012 has again been strong at £32.7m (2011: £25.0m), with working capital as a percentage of revenue at 16.5%, in line with the longer term average of 16–17%.

During the year, £20.8m was invested in the acquisition of DSL in Life Sciences, J Royal in Seals and Abbeychart and Amfast in Controls and a 10% minority interest in JRPP purchased for £0.7m. Return on trading capital employed ("ROTCE") has increased to 26.6% (2011: 25.4%) driven by the growth in profits and strong management of working capital across the businesses.

Resilient Business Model
The Group comprises a number of high quality, specialised businesses which design their individual business models to make them essential to their customers. Our businesses are focused on supplying ***essential products*** and services which are funded by the customers' operating rather than their capital budgets, providing recurring income and stable revenue growth. By supplying ***essential solutions***, not just products, we build strong long term relationships with our customers and suppliers, which support sustainable and attractive margins. Finally we encourage an entrepreneurial culture in our businesses through our decentralised management structure and these ***essential values*** ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

Acquire, Build, Grow Strategy to Drive Double Digit Growth
Our businesses target organic revenue growth over the business cycle at the rate of 5–6% pa ("GDP plus" growth). Growth is then accelerated through carefully selected, value-enhancing acquisitions which fit the business model and offer entry into new strategic markets. These acquisitions form an integral part of our sector growth strategies, designed to deliver strong double digit growth.

In general, when we ***acquire*** businesses, the acquisitions we make are of companies which fit our business model and which are already successful, with a good track record. They will be marketing led with strong customer relationships and will have a secure supply of high quality, differentiated products. They will have capable management and a track record of stable, profitable growth and cash generation. The objective is to generate a pre-tax return on investment ("ROI") of at least 20% on each acquisition and hence support our Group objective of consistently exceeding 20% ROTCE.

The acquired businesses have often reached the point where additional resources are needed to take them to the next level of growth. Working with management, we provide the investment required to ***build*** a firm foundation to allow the business to move to a new level of growth. The investment will normally be in new facilities and IT systems, increased but carefully managed working capital and additional management resource.

Once the acquisition is integrated into the Group and a solid platform has been established, the priority is to ***grow*** the business. The acquired companies (other than small bolt-on acquisitions) maintain their distinct sales and marketing identity and are managed as independent business units. Where there are opportunities for real synergies, typically in cross-selling, purchasing and back office operations, the businesses are managed within larger business clusters.

Sector Developments

Good progress was made during the year in executing the Acquire, Build, Grow strategy in each of the three sectors and the key developments and results this year are summarised below.

Life Sciences

	2012 £m	2011 £m	
Revenue	**78.4**	74.4	+5%
Adjusted operating profit	**18.0**	17.1	+5%
Adjusted operating margin	**23.0%**	23.0%	

- Underlying revenue growth of 5%.
- Investment in newly formed Vantage business – integrated sales team, strengthened service and operations management, new facility.
- Investment in new Minimally Invasive Surgery business within AMT.
- Acquisition of DSL business in Australia – major new supplier added shortly after acquisition.

The Life Sciences businesses increased revenues in 2012 by 5% on a UK sterling basis, with a similar level of growth on a constant currency basis. Sector revenues benefited from the contribution from the DSL business in Australia, acquired in June 2012 and a full year contribution from the CMI business, acquired in December 2010. In May 2012, the small Environmental operation in Switzerland was sold to its management thus reducing revenues. After adjusting for these acquisitions and the divestment, for minor currency effects and for the exceptional sale of face shields in the prior year, underlying sector revenues increased by 5%.

The Group's ***Healthcare*** businesses in Canada and Australia ("Diploma Healthcare Group" or "DHG") account for over 80% of the Life Sciences sector revenues. The DHG business model is built on the supply, on an exclusive basis, of high quality, manufacturer branded products secured by long term distribution agreements. Strong customer relationships are forged through high levels of customer service with highly qualified and experienced technical sales and product application staff working closely with the surgeons, Operating Room ("OR") nurses and laboratory technologists. A large proportion (over 60%) of DHG's revenues are secured under multi-year customer contracts.

In Canada, DHG comprises three similar sized businesses focused on Electrosurgery (AMT), GI Endoscopy (Vantage) and Clinical Diagnostics (Somagen), each with good growth potential. During the year, the main investment has been in the new Vantage business, which from the start of the year brought together CMI, acquired in 2010, with AMT's Endoscopy division. Vantage now operates under a single management team and offers a complete product range, taken to market by an integrated, fully trained sales team. Investment has been made in strengthening the management of the operational and service teams and shortly after the year end, the business relocated to a new larger facility close to the existing location in Markham, Ontario. After a year of consolidation, Vantage is now well positioned, with a strong management team, a solid operational foundation and a complete product range, to exploit opportunities for growth in the GI Endoscopy market.

Investment has also been made during the year in building a new Surgical business to supply specialised surgical instruments and devices used in laparoscopic and other minimally invasive surgical procedures. Exclusive distribution agreements have been signed with a number of leading suppliers in this area and several new suppliers are in the process of being added. This business will be developed as a distinct division within AMT, but using the existing infrastructure. As with AMT's former GI Endoscopy division, this division has the potential of growing into a separate business when it has achieved critical mass through organic growth and/or acquisition.

The DHG business extended geographically in 2010 into Australia with the acquisition of BGS, a smaller version of the AMT business in Canada. In June 2012, DHG expanded its presence in Australia through the acquisition of 80% of DSL, which supplies in-vitro diagnostic products to hospitals and private laboratories and shares a number of common suppliers with Somagen. DSL and BGS serve different customer segments and will be managed as separate business units with their own distinct sales and marketing identities. There will however be good opportunities for efficiencies between the businesses in the areas of operations and back office functions.

The remaining ca. 15% of sector revenues are generated by the Group's ***Environmental*** businesses in Europe, which supply a range of products used in Environmental Testing and Health & Safety applications. CBISS has experienced another strong year of trading, supplying continuous emissions monitoring systems and gas detection instruments. a1-envirosciences has fully consolidated its operations in Dusseldorf, Germany following the sale to management of the small operation in Switzerland. Northern European markets outside Germany are serviced by local sales and service resources.

Seals

	2012 £m	2011 £m	
Revenue	**99.9**	80.0	+25%
Adjusted operating profit	**20.4**	14.9	+37%
Adjusted operating margin	**20.4%**	18.6%	

- Underlying revenue growth of 13%; particularly strong in North American Aftermarket.
- Acquisition of J Royal in the US and minority interest in JRPP, a related supplier in China.
- Investment in new modern facilities for RT Dygert and All Seals.
- New IT system in development at M Seals – to go live in 2013.

Chief Executive's Review
2012 Year in Review continued

The Seals sector revenues increased, in UK sterling terms, by 25% to £99.9m which included a contribution from J Royal, acquired in December 2011. After adjusting for this acquisition and for modest currency translation effects, underlying sector revenues increased by 13%, reflecting particularly strong growth in the North American Aftermarket businesses. Adjusted operating profits increased by 37% with adjusted operating margins increasing by 180bps to 20.4%, driven by operational leverage from the strong increase in revenues.

Currently, just under 60% of Seals sector revenues are generated from the ***Aftermarket*** seals businesses of HFPG (Hercules, Bulldog and HKX) and FPE. The core Aftermarket business in North America supplies own-brand sealing products (often sourced from the same seal manufacturers who supply to the OEMs) across a broad range of mobile machinery applications. The key to success in this business is the ability to provide a next day delivery service from inventory, for seals and seal kits used in a broad range of different manufacturers' machinery and different applications. Typically the first three years of equipment life is controlled by the OEMs through product warranty and lease terms. However, after the equipment is sold into the pre-used market or moves out of warranty, we have a very compelling offering to customers by providing a responsive, next day delivery service for these time critical items.

Over a number of business cycles, the Aftermarket seals businesses have demonstrated their resilience, but have also delivered strong underlying growth by taking market share. This has been achieved by maintaining high levels of customer service and product availability and continuing investment in IT systems and warehouse automation. The steady revenue growth over many years has delivered increased operational gearing with operating margins increasing substantially to the current levels, which are well in excess of 20% of revenues.

During the year, the Aftermarket businesses continued to benefit from investments made in earlier years and succeeded in growing revenues by 14% on an underlying basis. This growth was achieved through a combination of new product introductions (new kits and metric seals in HFPG, broader range of cylinder parts in FPE) and various segment specific marketing initiatives. Selective price increases were also introduced to cover supplier cost increases and maintain margins. HKX in particular had an exceptional year, benefiting from the strong rebound in the excavator market in North America and making good progress in penetrating international markets.

The ***Industrial OEM*** businesses now account for just over 40% of Seal sector revenues. These businesses supply seals, O-rings and custom moulded and machined parts to a range of specialised Industrial OEM customers. Our businesses work closely with customers to select the best seal manufacturer for the application, remain close at hand during the product development process and provide the logistics capabilities to support from inventory, small to medium sized production runs.

During the year, significant investment was made in the US businesses to establish a solid foundation for future growth. RT Dygert consolidated its Minneapolis and Chicago operations into a single, modern facility in Minneapolis, while retaining a sales office in Chicago. All Seals invested in new sales resource and improved quality and purchasing processes. All Seals also moved into a more appropriate modern facility just before the end of the financial year.

The acquisition of J Royal was completed in December 2011 and this has proved a very complementary business to RT Dygert and All Seals. J Royal's strength in the Eastern United States fits well with RT Dygert (strong in the North and North West) and All Seals (strong in the West and South West). J Royal also brings its specialist experience in selling metal and glass components and assemblies that complement the more traditional sealing products. The investment in a 10% shareholding in JRPP, a key supplier to J Royal and based in China, reinforced this position.

With the investment this year in new facilities and strengthened management resources and with clear regional sales territories now agreed, these three Industrial OEM businesses in the US will now focus on delivering growth in the new financial year. M Seals in Denmark is also focused on growth with a fast developing business in Sweden and the operation in China having delivered a solid first year. The Industrial OEM seal businesses will be managed independently by their management teams, but they will continue to look for synergies by cross-selling (taking advantage of different product and end-user specialisations) and through coordinated purchasing.

Controls

	2012 £m	2011 £m	
Revenue	**81.9**	76.2	+7%
Adjusted operating profit	**14.4**	13.2	+9%
Adjusted operating margin	**17.6%**	17.3%	

- Underlying revenue growth of 2% driven by Aerospace & Defence, Motorsport, Energy and Industrial sectors; reduced activity in Continental Europe and Food & Beverage.
- Acquisition of Amfast extends Motorsport fastener business into Aerospace.
- Acquisition of Abbeychart extends involvement in Food & Beverage sector.
- New Swindon facility will be central management and operational hub for IS-Group businesses in the UK.

The Controls businesses increased revenues in 2012 by 7% on a UK sterling basis. After adjusting for currency effects and for the acquisitions of Amfast and Abbeychart, underlying growth was 2%. Adjusted operating profits increased by 9% to £14.4m with operating margins remaining stable at 17.6%.

The major end-use segments served by the IS-Group and Filcon businesses (together ca. 70% of sector revenues) are Aerospace & Defence, Motorsport, Energy, Medical and Industrial. The businesses supply a range of high performance products used in technically demanding applications often in harsh environments. Here the business model is focused on providing product for refurbishment, upgrade and maintenance programmes for equipment in service. Support to major new build programmes is mostly limited to prototype and initial build stages and niche OEM markets. The businesses offer high quality, manufacturer branded products sourced under the terms of long term exclusive distribution agreements. Strong customer relationships are based on ex-stock availability of product, responsiveness, technical advice on product applications and a range of value added services.

Plans were finalised during the year, for the relocation of the IS-Rayfast business into a new modern facility close to the existing location in Swindon; the move was successfully completed in early November of the new financial year. This facility will accommodate the core IS-Rayfast business and will also act as the central management and operational hub for the IS-Group businesses in the UK.

Investment was also made in the acquisition in May 2012 of Amfast, a specialist distributor of fasteners supplied to the manufacturers of passenger seats, galleys and other interior cabin equipment for civil aircraft. Amfast shares a number of suppliers with Clarendon, which supplies similar fastener products into Motorsport applications. Clarendon and Amfast will be managed together by a single management team and plans will be developed this year to integrate operational and back office functions. In early November 2012, after the year end, Sommer completed the acquisition of the assets and goodwill of Rayquick, a small distributor of specialist wiring components supplied to the electricity distribution sector in Germany. Sommer will integrate this business within its main operations in Stuttgart.

The Hawco Group accounts for ca. 30% of sector revenues and supplies products principally to the Food & Beverage industry. Hawco supplies a range of control devices used in the sensing, measurement and control of temperature and pressure in applications such as chilled cabinets in food retail chains, bars and restaurants. In March 2012, the Hawco Group extended its involvement in the sector by investing in the acquisition of Abbeychart. This business is a specialised component distributor supplying to applications including hot drinks and vending machines, pure water and water cooling systems, soft drinks dispensing equipment and catering equipment. Abbeychart's broad range of specialised components are used by both the original equipment manufacturers and by contractors and operators for the subsequent repair and maintenance of the equipment.

Summary and Outlook

The Group's resilient business model, supplying essential products and solutions to specialised market segments, supports steady organic growth in revenues and sustainable attractive margins. With a good geographic and end-use spread of activities, agile and responsive management and a strong balance sheet, the Group is well placed to withstand the effects of the general economic uncertainty. This has been demonstrated over the last five year business cycle with a resilient performance during the downturn, followed by strong growth in the recent period of slow recovery.

The investments made during the past financial year, along with the new investment programme in the years ahead, are key to the Acquire, Build, Grow strategy in our major businesses. These investments are designed to provide the solid foundation for the growth of the Group over the next five year period.

Bruce Thompson
Chief Executive Officer
19 November 2012

Finance Review

Nigel Lingwood
Group Finance Director

Good Progress in 2012

Diploma made further good progress in this financial year achieving record levels of operating margin, free cash flow and return on trading capital employed. The Group also spent £22.3m on acquiring good quality businesses to further broaden its product and geographic reach. Revenue increased by 13% to £260.2m (2011: £230.6m) and adjusted operating profit, which is before acquisition related charges, increased by 17% to £52.8m (2011: £45.2m). The adjusted operating margin increased to 20.3% (2011: 19.6%) benefiting from the high degree of operational leverage from the strong increase in revenues in the Group's North American Seals businesses. On an underlying basis, revenues and adjusted operating profits increased by 6% and 11%, respectively; this is after adjusting for the contribution from acquired businesses, the disposal of a controlling interest in the small Swiss Environmental business and for changes in overseas exchange rates.

The underlying growth rate in Group revenues was 4% in the second half of the year, trending back to "GDP plus" growth rates after the stronger 8% growth in the first half. As anticipated, the second half of the year also saw a reduction in adjusted operating margins to 19.8%, compared to the record level of 20.8% reported in the first half, following the commencement of the investment programme described below.

The contribution to revenues and adjusted operating profits from acquired business (which includes the incremental impact of the CMI business acquired in December 2010), before allocation of Head Office costs, was £18.4m and £2.7m, respectively. In May 2012, the Group disposed of the small Environmental business, located in Switzerland, to management for negligible consideration. The incremental reduction in underlying revenue and adjusted operating profit from this disposal was £1.9m and £0.4m, respectively.

There was a small net impact on the Group's results this year from the translation of the results of the overseas businesses to UK sterling. Group revenues were reduced by £0.7m, but there was no impact on adjusted operating profit in 2012. The weaker Euro more than offset the impact of a slightly stronger US dollar, while the Canadian dollar exchange rate remained unchanged from last year. On a transaction basis, there was a gain to gross margin of £0.5m which arose in the DHG businesses from the impact of their US dollar and Euro hedging programmes. There was a negligible impact on the rest of the Group on a transaction basis from the movement in exchange rates.

Investing for the Future

As indicated last year, the Board has approved a programme of investment of ca. £6m across the Group to secure a platform to sustain the strong growth in earnings for the next five years. This investment programme comprises the following initiatives:

	Cash Investment			
Financial year	**2012 £m**	**2013 £m**	**2014 £m**	**Total £m**
Office & warehouse facilities	1.5	1.6	–	**3.1**
IT infrastructure upgrades	0.2	0.9	0.8	**1.9**
	1.7	2.5	0.8	**5.0**
Additional management resources	0.4	0.9	**1.0**	
Estimate of impact on adjusted operating profit	1.0	1.5	1.7	

Good progress has been made in 2012 with four facility moves being completed by early November 2012 and three major IT ERP upgrades having commenced before the end of this financial year. Investment in recruiting additional management resources has also been substantially completed.

With this new investment the Group will be well placed to take advantage of opportunities which will arise as the global economy begins to recover. However, as indicated at the Half Year, the scale of this investment is likely to lead to average operating margins reducing by 50–100 bps over the next 2–3 years, at the current level of activity.

Increase in Adjusted Operating Profit, Earnings per Share and Dividends

Adjusted profit before tax increased by 17% to £52.6m (2011: £44.9m), after net interest expense of £0.2m (2011: £0.3m). IFRS profit before tax, which is after acquisition related charges of £6.4m (2011: £4.8m) and fair value remeasurements of £0.2m (2011: £0.9m), was £46.0m (2011: £39.2m).

The Group's adjusted effective accounting tax charge remained unchanged at 28.7% (2011: 28.7%) of adjusted profit before tax which was slightly higher than the cash tax rate of 26.0%. This year's effective rate benefited from a reduction in statutory corporation tax rates in the UK to 25% (2011: 27%), although this was largely offset by the higher proportion of profits contributed by HFPG in the US, where the effective tax rate is ca. 38%.

Adjusted earnings per share increased by 19% to 33.1p, compared with 27.9p last year, with the benefit of buying out certain minorities in 2011 continuing to have a small impact on adjusted earnings per share. IFRS basic earnings per share increased to 27.9p (2011: 24.0p).

The Board's policy on dividends is to pursue a progressive dividend, while targeting dividend cover (the ratio of Adjusted EPS to total dividends paid and proposed for the year) towards 2.0 times.

Following this policy and recognising the continuing strength of the Group balance sheet and strong free cash flow, the Directors have recommended an increase in the final dividend to 10.2p per share; this gives a total dividend per share for the year of 14.4p per share which represents a 20% increase on the prior year. The dividend cover remains unchanged at 2.3 times.

Strong Free Cash Flow

The Group again generated excellent free cash flow of £32.7m in 2012 (2011: £25.0m) representing 87% of Adjusted profit after tax (2011: 78%); free cash flow is before expenditure on acquisitions or returns to shareholders.

Operating cash flow increased to £50.2m (2011: £40.3m) after investing £5.2m (2011: £7.4m) in working capital which, at 30 September 2012, was broadly stable at 16.5% (2011: 16.1%) of annual revenues, adjusted for the timing of acquisitions. The increase in working capital principally comprised an increase in inventories in the Seals businesses. Group tax payments increased to £13.7m (2011: £12.4m) and benefited favourably from quarterly tax payments in certain businesses being deferred into next year. Capital expenditure increased to £3.5m (2011: £1.7m) because of capital investment of £1.1m in the new office/warehouse facilities, described above, as well as higher funding of field equipment in the Healthcare businesses. The Healthcare businesses in Canada and Australia spent £1.6m (2011: £0.8m) on acquiring field equipment in support of their customer contracts with hospitals; this included £1.0m on funding endoscopes for cost per procedure ("CPP") contracts in Vantage. The remaining capital expenditure of £0.8m was spent on warehouse and testing equipment in the Seals businesses and on general upgrades to the IT infrastructure across the Group.

The rate of capital expenditure is currently running well ahead of depreciation of £2.1m (2011: £2.1m) and this trend is likely to continue over the next two years as the Group completes its current investment programme, described above.

The Group spent £22.3m (2011: £28.2m) of the free cash flow on acquiring new businesses, including deferred consideration of £0.8m (2011: £0.9m), and £14.3m (2011: £14.8m) on paying dividends to both Company and minority shareholders.

Accelerating Growth through Acquisitions

The Group spent £21.5m of cash (2011: £27.3m) on the acquisition of new businesses during the year, the largest of which was the acquisition in December 2011 of J Royal, a supplier of seals to Industrial OEMs, for £12.0m; related to this acquisition the Group also purchased a 10% interest in JRPP, a Chinese manufacturer and key supplier to J Royal, for £0.7m. The 10% shareholding in JRPP is being held as a long term investment as the Group plays no part in the day-to-day operations of this business.

In the middle of the year, the Group also acquired two smaller businesses, Abbeychart and Amfast, for an aggregate cost of £5.9m. Each of these acquisitions provide valuable product extension opportunities to existing businesses in the Controls sector. In June 2012, £2.9m was spent on acquiring an 80% shareholding in DSL; this business, which is in the Life Sciences sector, carries out similar activities to Somagen, but is based in Australia and as such represents a small, but important extension to the DHG activities.

These acquisitions, which were completed at EBIT multiples ranging from 5–7 times, have contributed in aggregate £2.3m of adjusted operating profit (before allocation of Head Office costs) and £16.2m of revenues to the current year's results.

Acquisition intangible assets of £11.0m were recognised on completion of these acquisitions, as well as goodwill of £5.6m. Total acquisition intangible assets of £32.2m (2011: £27.3m) are being amortised over periods ranging from 5–15 years and the charge against profit in FY2012 of £6.4m (2011: £4.8m) includes acquisition expenses of £0.6m (2011: £0.3m).

The goodwill of £5.6m recognised this year on these acquisitions, represented the value paid for the prospects for sales growth in the future (from both new customers and new products) and operating cost synergies. At 30 September 2012, the value of goodwill in the Group balance sheet, which is not amortised, was £79.8m (2011: £74.4m). During the year £13.1m of goodwill previously recognised in respect of the acquisition of minority interests in AMT, was transferred to shareholders' equity.

Shortly after the year end, the Group also acquired the goodwill and assets of Rayquick, a small business in Germany, for a maximum consideration of £1.3m. This acquisition will broaden the products provided by the Controls businesses to their customers in the Energy sector.

Finance Review continued

Liabilities to Minority Shareholders

At 30 September 2012, the Group had a liability of £3.2m (2011: £2.0m) to purchase the outstanding minority shareholdings in M Seals, BGS, DSL and HPS, (which is a small subsidiary of the RT Dygert seals business). These liabilities arise under put and call option contracts entered into at the time of acquisition and are based on the Directors' estimate of the Earnings Before Interest and Tax ("EBIT") of these businesses when these options crystallise. This liability was reassessed at 30 September 2012 and this led to a financial charge of £0.2m (2011: £0.9m) being made in the consolidated Income Statement.

The options to acquire the outstanding minorities in these companies, with the exception of the 20% minority interest acquired in DSL this year, are exercisable over the next 12 months and account for £2.2m of the liability at 30 September 2012.

In addition to this liability to minority shareholders, the Group also has a liability at 30 September 2012 to pay deferred consideration of up to £0.6m (2011: £1.1m) to the vendors of recently acquired businesses, which will be paid during the next 12 months. During the year, deferred consideration of £0.8m was paid to the vendors of CMI, a Canadian Healthcare business acquired last year.

Record Return on Trading Capital and Strong Balance Sheet

The Group achieved a record return on trading capital employed ("ROTCE") of 26.6% in 2012 (2011: 25.4%). ROTCE, is a pre-tax measure and includes all gross historical goodwill and gross intangible assets and represents an indication of the profitability of the Group. This improved return arose from a combination of the growth in profits and from strong management of working capital across the businesses. In absolute terms, trading capital employed ("TCE"), which represents the amount of operational assets held by the businesses, increased by £19.2m to £159.4m (2011: £140.2m). The majority of this increase arose from the acquisition of goodwill and intangible assets, with the balance being contributed by investment in working capital to meet current trading activity.

The Group also continues to maintain a strong balance sheet, which at 30 September 2012 had net cash funds of £7.9m, comprising £11.4m of cash balances, offset by £3.5m of borrowings.

The Group has a £20m revolving credit facility which is generally utilised to provide short term funding of acquisitions. During the year, up to £15.0m was drawn down for this purpose of which £11.5m had been repaid from trading cash flow by 30 September 2012. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group's bank facility of £20m can, subject to market pricing, be extended to £40m at the option of the Company. The Group will be renegotiating the bank facility again, early in 2013, prior to expiration of the facility in November 2013.

Employee Pension Obligations

Pension benefits to existing employees, both in the UK and Overseas, are provided through defined contribution schemes at an aggregate cost in 2012 of £1.1m (2011: £0.8m).

The Group also maintains a legacy defined benefit pension scheme in the UK which has been closed to new entrants and further accruals for many years. The Group continues to make regular annual cash contributions to the scheme at a rate of £0.3m, as agreed with the scheme actuary, with the objective of eliminating the funding deficit of £2.7m (as at the last formal actuarial valuation) over ten years. The next formal actuarial valuation of the scheme is due as at 30 September 2013 at which time it is likely, given current market factors, that the funding deficit will have increased substantially. This increase in deficit is likely to lead to a requirement to increase the Group's cash contribution to the scheme.

On an accounting basis, the deficit in this defined benefit pension scheme remained unchanged at £5.4m, before the related deferred tax asset. Scheme assets increased sufficiently to offset the increase in pension liabilities which also increased, principally because of a further reduction in the market discount rate. There have been no other material changes in underlying valuation assumptions.

Measuring Financial Performance

The Group continues to use a number of specific measures to assess the performance of the Group and these are referred to throughout this Annual Report & Accounts in the discussion of the performance of the businesses. These measures are not defined in International Financial Reporting Standards ("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 & Accounts, 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 IFRS, as adopted by the European Union.

There have been no new accounting or disclosure requirements this year that have impacted the Group's consolidated financial statements.

Sector Review

Life Sciences	Seals	Controls
30% of revenues	38% of revenues	32% of revenues

Life Sciences

30%
of revenues

Geography[1]
- 75% Canada
- 17% Europe
- 8% ROW

Customers
- 82% Clinical
- 10% Utilities
- 5% Chemical & Petrochemical
- 2% Life Sciences Research
- 1% Other Life Sciences

Products
- 68% Consumables
- 23% Instrumentation
- 9% Service

270 employees worldwide

Seals

38%
of revenues

Geography[1]
- 76% North America
- 12% Europe
- 12% ROW

Customers
- 43% Industrial OEMs
- 38% Heavy Construction
- 10% Other Industrial
- 4% Industrial Aftermarket
- 4% Dump & Refuse trucks
- 1% Logging & Agriculture

Products
- 62% Seals & Seal Kits
- 12% O-rings
- 11% Attachment Kits
- 9% Gaskets
- 6% Cylinders & Other

489 employees worldwide

Controls

32%
of revenues

Geography[1]
- 58% UK
- 35% Continental Europe
- 7% ROW

Customers
- 29% Industrial
- 28% Aerospace & Defence
- 19% Food & Beverage
- 15% Motorsport
- 6% Energy & Utilities
- 3% Medical & Scientific

Products
- 44% Wire & Cable
- 14% Connectors
- 14% Control Devices
- 12% Equipment & Components
- 10% Fasteners
- 6% Other Controls

292 employees worldwide

1 By destination.

Geography[1]

Europe
39%
- 22% UK
- 17% Continental Europe

North America
54%
- 27% US
- 27% Canada

Rest of World
7%

1 By destination.

Sector Review continued
Life Sciences

Sector Definition and Scope

The Life Sciences sector businesses supply a range of consumables, instrumentation and related services to the healthcare and environmental industries.

The *Diploma Healthcare Group* ("DHG") in Canada comprises three principal operating businesses which supply to the 500–600 public hospitals across the country as well as to private clinics. Somagen Diagnostics ("Somagen"), based in Edmonton, Alberta supplies a range of consumables and instruments used in the diagnostic testing of blood, tissue and other samples in hospital pathology laboratories. It is also a leading supplier to the growing, assisted reproductive technology ("ART") market. AMT Electrosurgery ("AMT"), based in Kitchener, Ontario, supplies specialised electrosurgery equipment and consumables for use in hospital operating rooms. AMT is also building a portfolio of specialised surgical instruments and devices used in minimally invasive surgery. Vantage Endoscopy ("Vantage") combines the former AMT Endoscopy and CMI businesses and supplies medical devices and related consumables and services to GI Endoscopy suites in hospitals and private clinics.

DHG also operates in Australia and New Zealand through Big Green Surgical ("BGS"), located near Sydney and Diagnostic Solutions Pty Ltd, acquired in June 2012 and located in Melbourne. BGS and DSL are respectively smaller versions of the AMT and Somagen businesses in Canada and share a number of common suppliers.

The ***a1-group*** is a supplier to Environmental testing laboratories and to Health & Safety engineers. The a1-envirosciences business is located in Dusseldorf, Germany and also has sales and service resources in the UK, France and Benelux. It supplies a range of specialised environmental analysers and a range of containment enclosures for potent powder handling. The CBISS business, located in Tranmere in the UK, supplies equipment and services for the monitoring and control of environmental emissions, as well as a range of gas detection devices.

Market Drivers

The DHG businesses in Canada supply into the *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	2007	2008	2009	2010	2011
Public sector healthcare expenditure in Canada	112.5	121.4	129.1	136.9	141.0
Total healthcare expenditure in Canada	161.6	171.8	182.1	192.9	200.5
Total health expenditure as a % of GDP	n.a.	10.7%	11.9%	11.9%	11.6%

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 population demands high standards of service delivery, helping to ensure ongoing growing demand; per capita healthcare spending in Canada is in the top 20% of OECD countries. 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 Provinces are responsible for the delivery of the healthcare services, but the Federal Government controls 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 with annual variations mostly dependant on the periodic additional tranches of funding provided by individual Provinces.

The Healthcare market in Australia shares with Canada, many of the same attractive characteristics for specialised distribution. While privately funded healthcare is more prevalent, public sector healthcare funding is still large and supported by a stable, resource based economy. As with Canada, there is a large geography to be covered, low population density and purchasing processes that vary by State. These characteristics necessarily demand a significant investment by manufacturers in technical sales and service resource which makes the specialised distribution model more attractive as an efficient way to serve the market.

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. Since market demand is driven by regulation, this ensures reasonably steady demand for essential consumable products and service, though customers may defer capital expenditure during significant downturns in the economy.

Sector Performance

Life Sciences statistics

	2012	2011
Revenue	**£78.4m**	£74.4m
Adjusted operating profit	**£18.0m**	£17.1m
Operating margin	**23.0%**	23.0%
Free cash flow	**£13.3m**	£11.6m
Trading capital employed	**£68.2m**	£64.8m
ROTCE	**27.4%**	27.8%

The Life Sciences businesses increased revenues in 2012 by 5% on a UK sterling basis to £78.4m (2011: £74.4m), with a similar level of growth on a constant currency basis. Sector revenues benefited with the contribution from the DSL business in Australia, acquired in June 2012 and a full year contribution from the CMI business, acquired in December 2010. After adjusting for these acquisitions, for the divestment of a small Swiss business, for minor currency effects and for the exceptional sale of face shields in the prior year, underlying sector revenues increased by 5%.

Adjusted operating profits increased by 5% to £18.0m (2011: £17.1m), with operating margins stable at 23.0% of revenue (2011: 23.0%). Capital expenditure in the sector was £2.3m, which included £1.6m invested in field equipment for placement by the Canadian and Australian Healthcare businesses, a further £0.3m invested in the new Vantage facility in Toronto and the balance in upgrades to the IT environment. Free cash flow of £13.3m (2011: £11.6m) increased by £1.7m with lower tax payments largely funding the increase in capital investment.

Healthcare

Revenues from the DHG businesses increased by 10% in UK sterling terms and by 9% in Canadian dollar terms. After adjusting for the DSL and CMI acquisitions and for the face shield revenues in the prior year, underlying revenues increased by 5%.

AMT increased revenues in its electrosurgery and surgical products business by 8%, after adjusting for the one-off face shield revenues in the prior year. In the core electrosurgery market, the focus remains on increasing the number of hospitals using smoke evacuation and increasing utilisation rates in existing installations; the launch in October 2012 of the new Penevac 1 product (combined electrode and smoke evacuation device) will provide a boost to this initiative. AMT is also successfully building a business supplying specialised surgical instruments and devices used in laparoscopic procedures and other minimally invasive surgical procedures. Products range from traditional surgical instruments, to leading edge interventional radiology and oncology products for use in the treatment of cancer and cancer related disorders. AMT has signed exclusive distribution agreements with a number of leading suppliers in this area and is in the process of adding several new suppliers to the portfolio.

The newly formed Vantage business, combining AMT Endoscopy with CMI, has operated as an independent business within DHG from the beginning of the financial year. Combined revenues for Vantage increased by 8% over the prior year, but this represented a relatively flat performance on a like-for-like basis, after taking account of CMI's pre-acquisition revenues. The prior year had seen an exceptional level of capital equipment sales which gave a very strong comparative. In addition, Vantage is seeing a trend towards useage based contracts for its endoscopes, with revenues generated on a cost per procedure ("CPP") basis, rather than as a single large capital sale combined with a smaller follow-on stream of consumable revenues. One such major contract awarded to Vantage during the year will generate nearly C$3m of CPP based revenues over a five year period, but required an up-front investment by Vantage of C$1.6m in capital equipment and contributed only C$0.5m to this year's revenues. At the end of October 2012, Vantage relocated its operations to a new 16,300 square foot facility close to the existing facility in Markham, Ontario. Following a year of consolidation, Vantage is now well positioned to supply and technically support a complete range of products for the growing GI Endoscopy market.

Somagen increased revenues by 6%, with strong sales of capital equipment adding to the steady growth in the contracted supply of consumable products and service. New technologies recently introduced by each of Somagen's core suppliers has driven growth across a range of market segments, including electrophoresis, diabetes and allergy testing, cellular pathology and microbiology. Further progress has also been made in penetrating the target growth markets of assisted reproductive technology, fecal immunochemical testing (to test for colorectal cancer) and immunohistochemistry (used in cancer diagnostics).

In Australia and New Zealand, BGS increased revenues by more than 20% following its investment in direct sales staff to replace sub-distributors. There has also been a significant investment in smoke evacuation trials at hospital groups and private health companies and the emphasis now is on developing these trials into full implementation programmes. In June 2012, the acquisition was completed of 80% of DSL, which supplies in-vitro diagnostic products to hospitals and private laboratories. DSL is a close equivalent to Somagen in Canada and operates with 20 staff from a facility in Melbourne, Australia. DSL shares several common suppliers with Somagen, including a major new supplier added shortly after acquisition which will add significantly to DSL's growth potential.

Environmental

a1-envirosciences revenues increased marginally on an underlying basis, which is on a constant currency basis and after excluding the results of the small operation in Switzerland which was sold to its management in May 2012. Continuing Eurozone uncertainty, combined with the impact from a strong Japanese Yen on imported analytical instruments, impacted sales of mid-priced analytical instruments to commercial laboratories. However, the sales of higher end analytical instruments supplied into the petrochemical industry remained robust and sales of the a1-safetech laboratory enclosures held up well. A targeted campaign to encourage customers to sign-up to annual maintenance contracts was successful and delivered strong service income growth.

CBISS experienced another strong year of trading, with revenues growing by 9%. Orders for continuous emissions monitoring systems ("CEMS") were comparable with the prior year, although sales were marginally lower, with delays partly caused by a lack of certainty in the UK Government's alternative energy policies. CBISS's success in recent years has increased the installed base of instruments which has given the opportunity to increase service revenues from both its own supplied CEMS equipment, as well as from that supplied by competitors. CBISS also has seen good growth in selling its focused range of competitively priced instruments and consumables used to detect or measure gases in factories, offices, oil and gas plants, storage facilities and ships.

Sector Review continued
Seals

Sector Definition and Scope

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

The *Hercules Fluid Power Group* ("HFPG") supplies to the Aftermarket through the Hercules, Bulldog and HKX businesses and to Industrial OEM's ("Original Equipment Manufacturers") through the RT Dygert, All Seals and J Royal businesses.

Hercules is the core Aftermarket business based in Clearwater, Florida and provides a next day delivery service throughout the US, for seals, seal kits and cylinders used in a range of heavy mobile machinery applications. The US business also services Central and South American and other selected markets through in-country sub-distributors. 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, based in Reno, supplies a range of gasket and seal kits for heavy duty diesel engines, transmissions and hydraulic cylinders used in off road and marine applications. HKX is based near Seattle and supplies hydraulic kits used in the installation of attachments on excavators.

HFPG also has three Industrial OEM businesses in North America which supply seals, O-rings and custom moulded and machined parts to a range of Industrial OEM customers, cylinder manufacturers and sub-distributors. RT Dygert has facilities in Minneapolis, Chicago and Seattle and All Seals is located in Lake Forest, California. J Royal, acquired in December 2011, has facilities in North Carolina, Rhode Island and Alabama. In April 2012, HFPG also acquired 10% of J Royal Precision Products Inc. ("JRPP"), a related supplier to J Royal located near Shanghai in China.

FPE is based in the UK, with operations in Darlington and Doncaster, and supplies a range of Aftermarket 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, supplied to a range of specialised Industrial OEM customers. Products range from the finest precision seals for hearing aids to large heavy duty seals for turbines. M Seals has operations in Espergaerde in Denmark, Halmstad in Sweden and Tianjin in China.

Market Drivers

The *Aftermarket* businesses supply sealing products to support a broad range of mobile machinery in applications including 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 rebuilders and other heavy equipment parts distributors. The principal market driver is the growth in the general industrial economy and in particular, heavy construction.

	2007	2008	2009	2010	2011
US real GDP growth[1]	+1.9%	+0.0%	-3.1%	+2.4%	+1.8%
Annual US construction spending $bn[2]	763	532	316	308	317
Purchasing Managers' Index[3]	51.2	45.5	46.4	57.3	55.2

Source:
1 Bureau of Economic Analysis – US Department of Commerce.
2 Cyclecast Intercast
3 Institute for Supply Management.

In the United States, total construction spending increased in 2011 following four years of decline. The infrastructure sector, which includes road building and other Federal and State initiatives, was positive as stimulus dollars began to feed through into actual projects. The residential housing sector appeared to bottom-out in 2010 as new housing starts, although still significantly below their historic peak, returned to an upward trend in 2011 which has accelerated in 2012.

In Canada, there was sustained economic growth in 2011 resulting in a 2.6% increase in GDP which is likely to be broadly maintained throughout 2012. In Europe in 2011, many governments have implemented austerity programs, but are also looking at ways to stimulate the economies and the call for more substantial infrastructure projects is growing louder. It is not yet clear how these programs will impact on future construction spending.

The customers of the ***Industrial OEM*** businesses are manufacturers of a wide range of specialised industrial (and some consumer) products. The principal market driver in this sector is therefore general growth in the industrial economy. The markets served by the Industrial OEM businesses in the US turned positive in 2010 and continued to grow in 2011 and the first quarter of 2012. At that point, concerns over a potential fall in global demand and growing uncertainty caused confidence to waver. The US industrial sector, however, should continue to benefit from the relative weakness of the US dollar and the impetus to "Re-shore" or "On-shore" the US manufacturing base. The European industrial sector is likely to remain stagnant until the Eurozone crisis is resolved or diminishes.

Sector Performance

Seals statistics

	2012	2011
Revenue	**£99.9m**	£80.0m
Adjusted operating profit	**£20.4m**	£14.9m
Operating margin	**20.4%**	18.6%
Free cash flow	**£13.7m**	£6.9m
Trading capital employed	**£56.8m**	£46.8m
ROTCE	**37.4%**	31.8%

The Seals sector revenues increased on a UK sterling basis by 25% to £99.9m (2011: £80.0m) which included a contribution of £9.1m from J Royal, acquired in December 2011. After adjusting for this acquisition and for modest currency translation effects, underlying sector revenues increased by 13%, reflecting particularly strong growth in the North American Aftermarket businesses. Adjusted operating profits increased by 37% to £20.4m (2011: £14.9m) with adjusted operating margins increasing to 20.4% (2011: 18.6%), driven by operational leverage from the strong increase in revenues.

Capital expenditure in the sector was £0.6m with the major elements comprising a £0.2m investment in two facility relocations, a further £0.2m in new warehouse equipment and £0.2m in upgrading the IT infrastructure. Free cash flow of £13.7m was generated compared with £6.9m in 2011 and reflected the strong growth in after tax profits and tight control over working capital.

Aftermarket
The HFPG Aftermarket businesses continued to benefit from investments made in earlier years and grew revenues by 14% in US dollar terms. In the US, against a background of robust growth in heavy Construction and Infrastructure projects, Hercules delivered strong revenue growth of 18% and increased its market share. The increase in revenues has been driven by continuing strength in the core cylinder repair sector, growing demand for the Hercules products from larger sub-distributors and the introduction of new seal kit products. Revenues have also benefited from further product line extension (in particular metric seals) and the continued success of the Seals-on-Demand service, offering same day service for custom machined seals. Hercules also implemented price increases in response to supplier cost increases, following a period of raw material shortages in 2011; this has now stabilised in 2012. Exports to South America and to other countries grew by 13% as Hercules continued to increase its penetration through in-country product representatives and expansion of the sub-distributor base.

Hercules Canada and Hercules Europe together increased revenues by 16%, while Bulldog revenues fell by 19% against a strong comparative in 2011. Hercules Canada had another excellent year and delivered sales growth in both the resource rich western Provinces and in the more industrial central Provinces. Hercules Europe, based in the Netherlands, continued to build its domestic business servicing local repair shops and added to its network of sub-distributors, which extended its reach into mainland European countries. Bulldog has faced tougher market conditions with its traditional strong markets in the Middle East and North Africa suffering from sharply lower demand following the Arab Spring, with only Saudi Arabia continuing to purchase larger quantities of product.

HKX had another exceptional year, growing revenues by 34%. HKX's traditional customers are the North American franchised dealers of the leading excavator manufacturers. Sales of new excavators have steadily recovered since 2010 and grew again in 2012. HKX also benefited from excavator manufacturers having to focus their engineering resource on the urgent need to comply with the new Tier 4i emissions legislation. As a result, the manufacturers delivered fewer excavators with factory-fitted attachment kits to the dealers. Further progress was also made in penetrating international markets with good sales to South America and Saudi Arabia.

In the UK, FPE, revenues increased by 15% with particularly strong demand for standard seals in the first half of the year. Sales of the expanded range of cylinder parts were very positive throughout 2012 and export sales were also strong as sub-distributors in mainland Europe and Saudi Arabia continued to purchase in larger quantities.

Industrial OEMs
The HFPG Industrial OEM businesses, after adjusting for the acquisition of J Royal, increased revenues by 9% in US dollar terms. RT Dygert and All Seals both delivered robust performances, although margins came under pressure as it proved harder to pass on product cost increases to customers. In the first half of 2012, the revenue momentum of the prior year was maintained but by the spring, manufacturing output in the US appeared to soften, before stabilising again by the year end. RT Dygert also benefited from the diversity of its customer base, with demand from OEM cylinder manufacturers increasing, as growth in its general industrial customer base slowed. Investment of £0.3m was made by RT Dygert in consolidating its Minneapolis and Chicago warehousing operations into a single, modern facility in Minneapolis, while retaining a sales office in Chicago. All Seals also continued to grow as it developed further its sales reach, upgraded its supplier base and invested in significantly improved quality control processes. In September 2012, All Seals moved into a more appropriate modern facility and is now well positioned to further build its business.

J Royal was acquired in December 2011 and delivered good sales growth in 2012 as new projects from existing customers began to come on-line. J Royal has built its business on supplying a broad range of related products to a number of key customers. This is based on the general concept that if a seal is part of an assembly, J Royal will seek to supply the metal parts as well as the rubber or plastic parts, and in some cases, deliver the whole assembly to the customer. J Royal also invested in additional resources to expand its customer base and ensure wider geographical penetration of the Eastern United States; further development plans will be rolled out in 2013. Related to this acquisition a 10% shareholding in JRPP was acquired in April 2012. JRPP based in Kunshan, near Shanghai in China is a key supplier to J Royal and manufactures a range of metal and glass components and assemblies that complement J Royal's traditional rubber and plastic sealing range.

In Europe, M Seals increased revenues by 14% as sales in Sweden moved strongly ahead throughout the period due to a combination of new business and the general strength of the Swedish economy. In China, the wholly owned foreign entity established in 2011 to serve the developing Chinese wind power market, delivered a robust first year. Revenues in Denmark saw some strength in the first half of the year, before its traditional industrial customer base became more cautious in the second half of the year.

Sector Review continued
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 and Filcon* businesses supply high performance wiring, interconnect, electro-mechanical and fastener products for use in industries including Defence & Aerospace, Motorsport, Energy, Medical and Industrial. A range of value adding activities enhances the customer offering, including marking of protective sleeves, cut-to-length tubing, kitting, connector assembly and prototype quantities of customised multi-core cables. The IS-Group also supplies a range of its own manufactured products, including flexible braided products for earthing and lightning protection, power shunt connectors, and multi-core cables.

The IS-Rayfast, Cabletec, Clarendon and Amfast businesses are located in the UK in Swindon, Weston-Super-Mare, Leicester and Harpenden, respectively. These businesses serve customers direct in the UK market, as well as supplying to sub-distributors across Continental Europe. In Germany, the Sommer business is located in Stuttgart and Filcon is located in Munich. IS-Connect is located in Indianapolis to serve the Motorsport market in the US, as well as other specialised technical applications. A representative office has also been established in Beijing, China with an initial focus on Aftermarket requirements in the Commercial Aerospace and Industrial sectors.

The *Hawco Group* businesses, with operations in Guildford, Bolton and Faringdon in the UK, supply equipment and components into the Food & Beverage and Industrial markets in the UK, Continental Europe and the US. Hawco supplies a range of 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. Abbeychart supplies a broad range of specialised components into a number of related applications such as hot drinks brewing, vending machines, pure water and water cooling systems, soft drinks dispensing and general catering equipment.

Market Drivers

The Controls sector businesses focus on specialised, technical applications in a range of industries, with over 90% of sector revenues generated in the UK and Continental Europe (principally Germany). The background market drivers are therefore the growth of the industrial economies in the major markets served by the Controls sector businesses.

	2007	2008	2009	2010	2011
UK real GDP growth[1]	+2.7%	-0.1%	-4.9%	+1.8%	+0.9%
UK production index[2]	113	110	100	103	106
Germany real GDP growth[1]	+2.8%	+0.8%	-5.1%	+3.6%	+3.1%

Sources:
1 Organisation for Economic Co-operation and Development (OECD).
2 The Office of National Statistics – Index of Production for Manufacturing, n.b. the ONS has re-calibrated the base year index to 2009.

In the UK, manufacturing demand remained relatively stable through 2011 and into the first half of 2012 but has since weakened. In Germany, there was a sharp recovery in 2010 which was broadly sustained in 2011, but the continuing Eurozone crisis continues to hold back business confidence during 2012.

Although influenced by the general industrial economic cycles, there are also more specific drivers within individual market segments. In the Aerospace & Defence segment, the main drivers are defence budgets and civil aviation growth:

	2007	2008	2009	2010	2011
Defence equipment budgets:					
UK – £bn[1]	7.2	7.9	8.7	9.0	9.3
Germany – €bn[2]	8.6	9.5	10.3	10.4	10.4
Civil aviation growth[3]	+8.2%	+2.0%	-1.1%	+8.0%	+6.5%

Sources:
1 MOD UK Defence Statistics.
2 Federal Ministry of Finance – Germany.
3 International Civil Aviation Organization – revenue passenger kilometres

In Defence markets, the IS-Group businesses focus primarily on refurbishment, upgrade and maintenance programmes, as well as supplying to Tier 2 electronics suppliers. The businesses typically only supply to OEMs and the Tier 1 suppliers when ex-stock availability and responsiveness are important; they have therefore been less exposed to cutbacks and postponements in major defence programmes. Filcon has a greater involvement in the major capital projects, but its products are designed-in to a broad range of air, sea and land applications and it is therefore not overexposed to individual projects. Although defence spending remained high in 2011, defence budget reviews in the UK and Germany are expected to gradually reduce real levels of spend by 2015. In Civil Aerospace, the businesses supply products principally for the initial fit-out of aircraft interiors and their subsequent upgrade and refurbishment. The market has recovered quickly from the 2009 downturn and long term growth of ca. 5% p.a. continues to be forecast.

In Motorsport, activity in the US increased sharply due to technology changes in the Nascar series and a chassis change in the IndyCar racing series. The F1 grid remained competitive whilst the German DTM series benefited from the return of BMW and regulation changes. The Medical Equipment market remained relatively stable and, in Germany, the Energy market benefited from increased spending on the repair and upgrade of electricity distribution equipment.

The Hawco Group revenues are dependent on activity in the Food and Beverage sector and in particular the pace at which the major food retailers invest in opening new stores and refurbishing existing outlets. In 2010 and 2011, the investment in new, conventional stores was high but in 2012, the focus moved to smaller convenience store openings with a subsequent fall in the volume of equipment required.

Sector Performance
Controls statistics

	2012	2011
Revenue	**£81.9m**	£76.2m
Adjusted operating profit	**£14.4m**	£13.2m
Operating margin	**17.6%**	17.3%
Free cash flow	**£10.0m**	£9.8m
Trading capital employed	**£35.7m**	£30.0m
ROTCE	**44.2%**	44.0%

The Controls businesses increased revenues in 2012 by 7% to £81.9m (2011: £76.2m) on a UK sterling basis. After adjusting for currency effects and for the acquisitions of Amfast and Abbeychart, underlying growth was 2%. Adjusted operating profits increased by 9% to £14.4m (2011: £13.2m), with adjusted operating margins remaining stable at 17.6% (2011: 17.3%).

Capital expenditure in the sector was £0.6m, the largest part being £0.4m of initial investment in the new IS-Rayfast facility in Swindon. Free cash flow of £10.0m (2011: £9.8m) remained broadly unchanged, with the increase in after tax cash flow being invested in the new facility.

The principal markets for the IS-Group and Filcon businesses are Aerospace & Defence, Motorsport, Energy, Medical and Industrial. Revenues increased by 7% in UK sterling terms; underlying revenues increased by 6% after adjusting for currency effects and the acquisition of Amfast.

Aerospace, Defence and Motorsport
In the UK, the IS-Group's revenues from the Aerospace & Defence sector were up 10% on the prior year, boosted by the introduction of new products, with specialist relays leading the way. Defence sales recovered to 2010 levels through continued supply to a wide range of customers that build or repair ground vehicles, large field guns and military systems; the military marine sector also benefited from the sale of cables for submarine communications antennae. Civil Aerospace sales in the UK were positive and were boosted by the acquisition in May 2012 of Amfast, a specialist distributor of fasteners primarily used in aircraft seating, galleys and other interior systems. Amfast is now managed by our Clarendon fastener business and has performed well since acquisition.

In Germany, Sommer's sales to the Defence sector were also ahead of the prior year and Aerospace sales held up reasonably well, with good demand from the satellite sector. Filcon's sales were comparable to the prior year, even though spending on some Defence equipment supply programmes has been delayed and demand from the Eurofighter programme continued to weaken, as expected. Filcon's resilient performance was achieved by supplying across a range of individual helicopter, tank, missile, radio and engine projects.

In the Motorsport sector in the UK and the US, the IS-Group had another exceptionally strong year with revenues up over 20%, partly reflecting increased sales to the two key US racing series, IndyCar and Nascar, where changes were made to the chassis and engine technology. Revenues also benefited from continued growth of fastener sales to F1 teams based in mainland Europe. In Germany, Filcon had another good year supplying its specialised connectors to the Motorsport sector, where the buoyant F1, DTM and Le Mans racing series ensured strong revenues throughout the year. Sommer's revenues also moved ahead in Motorsport as the key players invested in new engines and cars.

Energy and Industrial
The Energy sector delivered revenue growth of 10% over the prior year. In the UK, a slowdown in sales to portable generator manufacturers was more than offset by strong demand for sub-sea cables from oil and gas service providers. The demand for Cabletec's cables, power shunts and components for batteries used in Uninterruptible Power Supply ("UPS") applications was also positive. In Germany, Sommer consolidated its position in the buoyant Energy market by leveraging a strong relationship with key suppliers combined with excellent customer service.

The Industrial sector delivered revenue growth of 1% over the prior year. In the UK, revenue growth was strong as additional value added services were taken up by key customers; there was also positive demand across multiple sub-sectors including rail, specialist automotive, leisure marine, mining equipment and lighting. However, in Germany, revenues to the Industrial segment were negatively affected by a slowing in the pace of project enquires, reflecting a general softening in business confidence across the broad commercial electronics and industrial customer base.

Food and Beverage
The Hawco Group supplies products principally to the Food & Beverage industry (including equipment and components supplied to major food retailers) and this sector accounts for ca. 70% of Hawco Group revenues. The balance of revenues comes from a range of specialised temperature and pressure control applications in the Industrial sector.

Hawco's revenues fell by 9% against a strong prior year comparative, as the major food retailers reduced the number of larger store openings in favour of the local convenience store model. However, the energy efficiency product package supplied by Hawco remains the solution of choice to many of the main food retailers and during the year the company introduced a low profile, high efficiency condenser pack for convenience stores. The maintenance and repair of existing products was a major focus in 2012 and Hawco enjoyed good growth from the supply of components through its 'quick-pick service' offering.

The acquisition of Abbeychart in March 2012 extended the Hawco Group into other segments of the Food and Beverage market, including hot drinks and vending machines, pure water and cooling systems, soft drinks dispensing and catering equipment. Since acquisition, Abbeychart has performed well against expectations and there are already significant cross selling opportunities within the extended Hawco Group to supply a fuller range of products to both equipment manufacturers and service organisations in the UK, Europe and the US.

Principal Risks and Uncertainties

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 annual budgeting process.

Each operating business is required each year to identify and document the significant strategic, operational and financial and accounting 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 principal risks and uncertainties which are currently judged to have the largest potential impact on the Group's long term performance are set out below.

Risk: Strategic

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.

A number of characteristics of the Group's businesses 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, as set out on page 15.
- The businesses offer specialised products and services; this offers a degree of protection against customers quickly switching business to achieve a better price.
- A high proportion of the Group's revenues comprise consumable products which are purchased as part of customers' operating expenditure, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

Mitigation

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.

Loss of key supplier(s)

For manufacturer-branded products, there are risks to the business if a major supplier decides to cancel a 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 appointing another distributor.

In times of rapid economic expansion in activity, such as after a global recession, there is also a risk that the lead times to supply key product can become very long.

Currently no single supplier represents more than 15% of Group revenue and only five single 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 interdependence has been established. The average length of the principal supplier relationships in each of the sectors is over ten years.

The strength of the relationship with each supplier and the volume of activity generally ensures continuity of supply, when there is shortage of product.

Mitigation

Actions to mitigate the risks include:

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

Risk: Strategic

Loss of major customer(s)

The loss of one or more major customers can be a material risk.

The nature of the Group's businesses is such that there is not a high level of dependence on any individual customers and no single customer represents more than 5% of sector revenue or more than 2% of Group revenue.

Mitigation

Specific large customers are important to individual operating businesses and a high level of effort is invested in ensuring that these customers are retained and encouraged not to switch to another supplier.

In addition to providing high levels of customer service, close integration is established where possible with customers' systems and processes.

Product liability

There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. The businesses, in their Terms and Conditions of sale with customers, will typically mirror the Terms and Conditions of purchase from the suppliers. In this way the liability can be limited and subrogated to the supplier.

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 potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. Product liability insurance can be limited in terms of its scope of insurable events, such as product recall.

Mitigation

Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £10m in all sectors.

The Group's businesses may also elect not to supply products if they are not fully confident that the products will meet the demands of the operating environment.

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.

The average age of our senior managers making up the self-standing management teams in the operating businesses is 44 with an average length of service of eleven years.

As set out on page 45, the average length of service for all personnel in the Group is over five years.

Mitigation

Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term. However, 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 for key managers in the operating businesses including:

- Ensuring a challenging working environment where managers feel they have control over, and responsibility for their businesses.
- 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 cash incentive plans targeted at the individual business level.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Principal Risks and Uncertainties continued

Risk: Operational

Major damage to premises

The Group's businesses mostly operate from combined office/warehouse facilities which are dedicated to each business and not shared with other Group businesses.

Major damage to the facilities from fire, malicious damage or natural disaster would impact the businesses for a period until the damage is repaired or alternative facilities have been established.

However, the Group has not suffered any major damage to premises in recent years and in Clearwater, Florida there has been no significant hurricane activity for at least the last four years.

Mitigation

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, electricity generators have been installed on site and a specific disaster plan has been drawn up and is regularly reviewed.

Contingency plans include:
- Backup power generators.
- Materials on hand to secure the facility.
- Communications rerouted to other branches or interim locations.
- IT recovery plan using backup server in separate location.
- Regular building inspection and weather monitoring.
- Plans to drop-ship product from suppliers direct to customers.

The other businesses have also 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 fully operational as quickly as possible so as to minimise disruption to customers. Plans to ensure a quick and orderly recovery have been developed by the businesses and are periodically reviewed.

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.

Mitigation

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 backups as a matter of routine are automatically taken on a regular basis each week and stored online.
- Backup servers identified and communication reroute options identified.
- Service contracts with IT providers with access to replacement servers.
- Uninterruptible power sources and backup generators where required.
- Virus checkers and firewalls.

Risk: Financial and Accounting

The Group's activities expose it to a variety of financial and accounting risks, including foreign currency, liquidity, interest rate and credit. The policies for managing these financial risks, as well as the management of capital risks, are set out in note 19 to the consolidated financial statements. The principal financial and accounting risks are summarised below. The Group's overall management of the financial risks is carried out by a central treasury team under policies and procedures which are reviewed and approved by the Board. The treasury team identifies, evaluates and where appropriate, hedges financial risks in close co-operation with the Group's operating businesses. The treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The principal accounting risk is that of inventory obsolescence which is managed by the operating business.

Foreign currency risk – Translational exposure

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, the Canadian dollar and the Australian dollar. The net assets of the Group's operations outside the UK are also exposed to foreign currency translation risk.

During the year ended 30 September 2012, ca. 75% of the Group's revenue and adjusted operating profits were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to reduce revenue by £0.7m, but with only a negligible impact or adjusted operating profit. It is estimated that a strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit, before tax by approximately £4.0m (8%), due to currency translation.

Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2012, the Group's non-UK sterling trading capital employed in overseas businesses was £131.9m (2011: £118.2m), which represented 83% of the Group's trading capital employed. It is estimated that a strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £12.2m.

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 28 to the consolidated financial statements.

Mitigation

The Group does not hedge translational exposure.

Foreign currency – Transactional exposure

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. The Group's Canadian and Australian businesses are also exposed to a similar risk as the majority of their purchases are denominated in US dollars and Euros.

Mitigation

The Group's businesses may hedge up to 80% of forecast (being a maximum of eighteen months) foreign currency exposures using forward foreign exchange contracts. The Group classifies its forward foreign exchange contracts, which hedge forecasted transactions, as cash flow hedges and states them at fair value.

Inventory obsolescence

Working capital management is critical to success in specialised industrial business as this has a major impact on cash flow. The principal risk to working capital, is in inventory obsolescence and write-off.

The charge against operating profit in respect of old or surplus inventory is generally ca. £0.5m pa, but inventories are generally not subject to technological obsolescence.

Mitigation

Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover both excess inventory and potential obsolescence.

Board of Directors and Advisors

John Rennocks (67) [1, 3]
Non-Executive Chairman

Appointed: Joined the Board in July 2002 and appointed Chairman in January 2004.

Skills and experience: John is a Chartered Accountant with over 40 years of experience in commerce and industry, including nearly 20 years as the Finance Director of FTSE 100 companies. He has been a Non-Executive Director of many companies in the past 17 years, including as Chairman of six other public or private companies across several industrial or support service sectors.

External appointments: John is currently a Non-Executive Director of Intelligent Energy PLC and Deputy Chairman of Inmarsat PLC.

Bruce Thompson (57)
Chief Executive Officer

Appointed: Joined the Board in 1994 as a Group Director and appointed Chief Executive Officer in 1996.

Skills and experience: Bruce started his career in the automotive industry, first as a design engineer and then in product marketing. He then spent three years in international marketing with a construction materials company, developing new markets in Europe, the Middle East and North Africa. Prior to joining Diploma, he was a Director with Arthur D Little Inc., the technology and management consulting firm, initially in the UK and then as Director of the firm's Technology Management Practice based in Cambridge, Massachusetts.

External appointments: None.

Marie-Louise Clayton (52) [2]
Non-Executive Director

Appointed: Joined the Board in November 2012.

Skills and experience: Marie-Louise is a Chartered Certified Accountant who has held senior positions in Alstom (formerly, Alsthom GEC) and was previously Group Finance Director of Venture Production PLC. She has also been a Non-Executive Director of Forth Ports PLC and Ocean Rig ASA.

External appointments: Marie-Louise is a Non-Executive Director of Zotefoams plc and of two private companies.

Nigel Lingwood (53)
Group Finance Director

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

Skills and experience: Prior to joining the Company, Nigel was the Group Financial Controller at Unigate PLC where he gained experience of working in a large multi-national environment and on a number of large corporate transactions. Nigel qualified as a Chartered Accountant with Price Waterhouse, London.

External appointments: None.

Member of:
1 the Remuneration Committee
2 the Audit Committee
3 the Nomination Committee

Ian Grice (59) [1,2,3]
Non-Executive Director

Appointed: Joined the Board in January 2007.

Skills and experience: A Chartered Engineer with over 35 years' experience in the Support Services and Construction sectors, in the UK and International markets. Ian held senior roles in several industrial groups before joining the board of Alfred McAlpine plc in 1995 where he was Chief Executive Officer from 2003 to 2008.

External appointments: Ian is currently a member of the Supervisory Board of Arcadis NV, and a Non-Executive Director of three private companies.

Iain Henderson (56)
Chief Operating Officer

Appointed: Joined the Board as a Director in 1998 and appointed Chief Operating Officer in 2005.

Skills and experience: Iain qualified as a Chartered Management Accountant and began his career in the food industry, progressing to be an operations general manager with H J Heinz. Since 1988, Iain has specialised in the acquisition and development of small to medium sized enterprises within group structures. This was firstly within the privately owned Bricom MBO, where he ran ANC Holdings and from 1994 in a public company environment as a Director of Glenchewton plc.

External appointments: None.

John Matthews (68) [1,2,3]
Non-Executive Director

Appointed: Joined the Board in 2003.

Skills and experience: John is a Chartered Accountant and a former Managing Director and Head of Corporate Finance at County NatWest. Subsequent to this he was Deputy Chairman and Deputy Chief Executive at Beazer plc, an international civil engineering, construction, house building and aggregates group. He has also been Chairman of Crest Nicholson plc and Regus plc and a non-Executive Director of a number of listed and private companies.

External appointments: John is currently a member of the Board of Aurelian Oil & Gas plc and an advisor to the Board of SDL plc and Chairman of two private companies.

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Corporate Governance

John Rennocks
Chairman

This section of the Annual Report & Accounts sets out how the Board and its Committees discharge their duties and how we apply the principles of good governance set out in the UK Corporate Governance Code (the "Code").

The Board is committed to the highest standards of corporate governance appropriate to the size and complexity of Diploma PLC. The Company complied with the Code during its transitional year of entry into the FTSE 250 and has made good progress in developing its policies and processes, including our decision last year to adopt annual re-elections of all Directors and our commitment to undertake periodic external facilitation of Board evaluation, once we have completed the additions to the Board, described below. I remain confident that we will be in full compliance with the Code, as it applies to larger companies, by September next year.

I referred last year to the long service of John Matthews and myself and my commitment to focus on developing the Board with a blend of skills so that we continue to have a Board where the overall strength is greater than the "sum of the parts". We have made a good start this year and have recently appointed as a non-Executive Director, Marie-Louise Clayton whose strong financial background and experience will make an excellent addition to the Audit Committee. We hope to make a further appointment of another non-Executive Director in 2013 as part of an orderly succession plan. I believe that through these changes the Board will continue to have the appropriate balance of skills, experience, independence and knowledge of the Company to enable the Directors to discharge their duties and responsibilities effectively.

The Code was updated again in September 2012 with the addition of a limited, but important number of new Provisions, including a requirement to report on policies on Boardroom diversity. We remain fully committed to Boardroom diversity but do not believe that for a Company of our size that it is appropriate to set measurable targets for diversity. A further addition to the Code is a requirement to put the external audit contract out to tender at least every ten years, which we support and is in line with our current policy. Other amendments to the Code will be addressed in next year's Annual Report & Accounts, once reporting practice has developed further.

Number of Board Meetings:

Directors and attendance	2012
John Rennocks (Chairman)	6/6
John Matthews	6/6
Ian Grice	5/6
Marie-Louise Clayton (appointed 13 November 2012)	1/1
Bruce Thompson	6/6
Iain Henderson	6/6
Nigel Lingwood	6/6

In October 2012 the Board reviewed the Group's strategy for the next five years and used the opportunity to visit the UK Controls business in Swindon. Management provided presentations on their businesses and their proposed development strategies and the Board visited the new facility in Swindon. The review of the Group's strategy provides an opportunity for the Board to reflect on progress achieved in recent years and set plans and targets for the direction of future development of the Group.

Finally, I would like to encourage all shareholders to join us at our AGM on 16 January 2013, as it provides an excellent opportunity to meet all members of the Board.

John Rennocks
Chairman

Compliance Statement

The Corporate Governance report on pages 29 to 43 is designed to provide shareholders with a clear summary of the Group's governance arrangements by reference to the UK Corporate Governance Code ("the Code") as it applied to the Company in 2012. Throughout the accounting period to which this report relates, the Directors believe that the Company has complied with all of the relevant Provisions set out in Sections A to E of the Code.

Report on Corporate Governance

Compliance with the UK Corporate Governance Code

As a UK-listed company, Diploma PLC is required to state whether it has complied with the Main Principles of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council ("FRC") in June 2010, throughout the year in review and, where the provisions have not been complied with, to provide an explanation. Diploma PLC is also required to explain how it has applied the Main Principles of the Code and this is set out below.

The FRC published a new edition of the Code on 28 September 2012 which contains further amendments to the 2010 Code. Compliance with the new edition of the Code will not be mandatory for the Company until 2013.

Leadership

The Company's governance structure is based on the leadership principles set out in the Code. The core activities of the Board and its Committees are planned on an annual basis and this forms the basic structure within which the Board operates. The Board has adopted formal terms of reference which reflect the principles contained in the Code, and cover the following:

- Strategy – reviewing and agreeing strategy;
- Performance – monitoring the performance of the Group and also evaluating its own performance;
- Standards and values – setting standards and values to guide the affairs of the Group;
- Oversight – ensuring an effective system of internal controls is in place, ensuring that the Board receives timely and accurate information on the performance of the Group and the proper delegation of authority; and
- People – ensuring the Group is managed by individuals with the necessary skills and experience and that appointments to the Board are managed effectively.

The terms of reference also sets out the separate and distinct roles of the Chairman and the Chief Executive.

The Board appoints the Chief Executive and monitors his performance in leading the Company and providing operational and performance management in delivering the agreed strategy. Specifically, he is responsible for developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Company.

The approval of acquisitions, for the most part, is a matter reserved for the Board, save that it delegates to the Chief Executive 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. Beyond these levels of authority, projects are referred to the Board for approval.

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

To ensure that non-Executive Directors can constructively challenge and help proposals on strategy, the Board has adopted a process of reviewing and approving the agreed strategy for the Company on a two/three yearly basis. In October 2012, the Board undertook a strategy development review at the Group's business in Swindon, UK. The next strategy meeting is likely to be held in 2014.

Effectiveness

The Board

The Company was promoted to the FTSE 250 in October 2011 with a Board comprising the Chairman, two independent non-Executive Directors, and three Executive Directors, providing an appropriate range of skill and experience.

On 13 November 2012 the Board appointed Marie-Louise Clayton as a non-Executive Director and member of the Audit Committee. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Report on page 43. The biographical details of the Board members are set out on pages 26 and 27.

The Board has six scheduled meetings each year and meets more frequently as required. It met on six occasions during the year under review and attendance at these meetings is set out in the chart opposite. During the year Ian Grice missed one meeting due to unforeseen circumstances and the Group Company Secretary ensured that he was fully briefed on the business of the meeting.

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. The Chairman, John Rennocks was considered independent by the Board both at the time of his appointment as Director on 12 July 2002 and as Chairman on 7 January 2004 and in accordance with the Code, the ongoing test of independence for the Chairman is not appropriate. The Board also recognises the long service of John Matthews, who is the Senior Independent Director and who will at the time of the next Annual General Meeting on 16 January 2013, have served nine years as a non-Executive Director, having been first elected by shareholders in January 2004. The Board remains satisfied that John continues to be a strong and independent contributor, who both demonstrates commitment to the role and possesses in-depth knowledge of the Group. The Board believe that it is in the best interests of the Company that John Matthews remains as a non-Executive Director to assist the ongoing refreshment of the Board over the next twelve months.

Corporate Governance continued
Report on Corporate Governance continued

All non-Executive Directors are advised of the likely time commitments at appointment. The ability of individual Directors to allocate sufficient time to the discharge of their responsibilities is considered as part of the Directors' annual evaluation process overseen by the Chairman. Any issues concerning the Chairman's time commitment are dealt with by the Nomination Committee, chaired for this purpose by the Senior Independent Director.

Non-Executive Directors are required to inform the Board of any changes to their other appointments.

There are three standing Committees of the Board to which various matters are delegated. Membership of the Committees is set out on pages 26 and 27 and terms of reference of each the Committees are set out on the Company's website (www.diplomaplc.com). In compliance with the Code, the Nomination, Remuneration and Audit Committees are comprised exclusively of independent non-Executive Directors.

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

Diversity
The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Company. In that culture, diversity across a range of criteria is valued, primarily in relation to skills, knowledge and experience and also in other criteria such as gender and ethnicity. The Board has considered setting objectives in relation to diversity, but does not believe that such objectives are appropriate at this juncture, given the relatively small Board. The Board will however keep this matter under review, particularly in light of Board succession and development.

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 John Rennocks, who is the Chairman, together with John Matthews and Ian Grice. The Committee would be chaired by the Senior Independent Director on any matter concerning the chairmanship of the Company. The Group Company Secretary is the Secretary to the Committee.

The Nomination Committee has written terms of reference which are available on the Company's website, covering the authority delegated to it by the Board. In carrying out its duties, the Committee will:

- Take responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Before making an appointment, 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.
- In identifying suitable candidates, consider candidates on merit and against objective criteria and will take care that appointees have enough time available to devote to the position.
- Consider candidates from a range of backgrounds, both internally and externally and may use the services of external advisors to facilitate the search.

During the year the Nomination Committee met five times at which proposals for development of the Board were discussed.

As part of this process, the Committee determined the selection criteria for new independent non-Executive Directors, which set out particular skills, knowledge, independence, experience and diversity, including gender.

The Committee, having agreed the selection criteria, decided to appoint Norman Broadbent LLP, an external search agency, to assist with the identification of suitable candidates. Norman Broadbent LLP has no other connection with the Company. Norman Broadbent LLP drew up a list of candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist of suitable candidates, that met the search and selection criteria, was prepared and these candidates were interviewed by the Nomination Committee. Following these interviews, the Nomination Committee recommended to the Board the appointment of Marie-Louise Clayton as a non-Executive Director.

Marie-Louise Clayton will be appointed for an initial period of three years, subject to election by shareholders at the Annual General Meeting on 16 January 2013 and annually thereafter. Thereafter, and subject to her election, her appointment will be for a term of three years unless terminated earlier by, and at the discretion of, either party, upon three months' notice.

Information and professional development
An induction programme is agreed for all new Directors aimed at ensuring that they are able to develop an understanding and awareness of the Company's core processes, its people and businesses. The non-Executive Directors' awareness of the businesses is further developed through periodic visits to the principal business locations and presentations to the Board by senior management of the businesses.

The Chairman, with the assistance of the Chief Executive and the Group Company Secretary, is responsible for ensuring that Directors are supplied with information in a timely manner that is in a form and of a quality appropriate to enable them to discharge their duties. In the normal course of business, the Chief Executive makes an oral report to the Board at each meeting and information is provided and reported through formal Board reports that include information on operational matters and strategic developments. There are also reports on the performance of Group operations, financial performance relative to the Budget, business development and investor relations.

The training needs of the Directors are periodically discussed at Board meetings and where appropriate, briefings as necessary are provided on various elements of corporate governance and other regulatory issues.

The Group Company Secretary acts as an advisor to the Board on matters concerning governance and regulatory issues and ensures compliance with Board procedures. 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 Group Company Secretary and his remuneration are matters for the Board as a whole.

As indicated last year, the Board reviewed the combined role of Company Secretary and Group Finance Director, and concluded that following promotion to the FTSE 250, it was now appropriate to separate the two roles. Anthony Gallagher was appointed as Group Company Secretary with effect from 21 September 2012.

Board evaluation

The Board's annual evaluation of effectiveness are completed internally using specifically designed evaluation forms and under the direction of the Chairman. This exercise encompasses an evaluation of the performance of the Board as a whole, as well as of the Committees and individuals. Feedback on Board performance is presented to a meeting of the Board which agrees actions and objectives for the following year.

The Board intends to introduce periodic external evaluations of the Board in the future.

Re-election

All Directors to the Board are subject to election by the shareholders at the first Annual General Meeting following their appointment by the Board. The Board has adopted the provision of the Code, whereby all Directors are subject to re-election annually.

Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing remuneration policy and the remuneration of the Executive Directors. The Committee is formed exclusively of non-Executive Directors and the Report of the Remuneration Committee is set out on pages 34 to 43.

Accountability

The Board is committed to providing shareholders with a clear assessment of the Company's financial position and prospects. This is achieved through this Annual Report & Accounts, the Annual Review and through other periodic financial statements and announcements.

The arrangements established by the Board for the application of risk management and internal control principles are set out on page 33. The Board has delegated to the Audit Committee oversight of the Group's corporate reporting, management of the relationship with the auditor and review of the Company's risk management and internal control procedures, further details of which can be found in the Audit Committee report on page 32.

Relations with Shareholders

The Company has a well developed investor relations programme managed by the Chief Executive and Group Finance Director. Through this programme the Company maintains regular contact with major shareholders to communicate clearly the Group's objectives and monitors movements in significant shareholdings.

Most shareholder contact is with the Chief Executive Officer and Group Finance Director through presentations made twice a year on the operating and financial performance of the Group and its longer term strategy. The Chief Executive Officer and Group Finance Director generally deal with questions from individual shareholders.

All financial and trading announcements are published immediately on the Company's website, www.diplomaplc.com, including copies of the presentations made to analysts and key shareholders.

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 and 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 20 working days prior to the meeting and includes a separate resolution on each substantially separate issue. 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.

The Board has resolved, in line with emerging best practice, to conduct a poll on each resolution proposed at the Annual General Meeting. The results of the Annual General Meeting resolutions, including details of votes cast, are published on the Company's website.

Corporate Governance continued
Audit Committee

John Matthews
Chairman of the Audit Committee

Number of Committee Meetings:

Directors and attendance	2012
John Matthews (Chairman)	6/6
John Rennocks	5/5
Ian Grice	5/6
Marie-Louise Clayton (appointed 13 November 2012)	1/1

The Audit Committee comprises John Matthews (Chairman), Ian Grice and Marie-Louise Clayton, who was appointed to the Committee on joining the Board on 13 November 2012. John Rennocks was a member of the Audit Committee until his resignation from the Committee on 13 November 2012; however John Rennocks will continue to attend meetings of the Committee at the invitation of the Chairman. John Matthews and Marie-Louise Clayton are both qualified accountants who have recent and relevant financial experience.

The meetings of the Committee are normally attended by the Executive Directors and the external auditor. In addition, the Chairman of the Committee meets privately with the external auditor at least twice each year. The Group Company Secretary is Secretary to the Committee.

Role of the Committee
The main roles and responsibilities of the Committee are set out in written terms of reference which are available on the Company's website (www.diplomaplc.com). They 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 control systems and risk management procedures;
- 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 auditor and to approve the terms of engagement of the external auditor;
- to review and monitor the external auditor's 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 the external auditor;
- to report to the Board, on any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken; and
- to consider annually 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 reviewed the audit engagement in 2008 and following an audit tender process, recommended to the Board the appointment of Deloitte LLP as auditor to the Company and Group. The Committee supports recent guidance in the Code that the external audit engagement should be put out to tender at least every ten years.

The Committee has also established a set of guidelines covering the type of non-audit work that can be assigned to the external auditor. These relate to further assurance services where the auditor's 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 auditor, but is placed with other firms.

Taxation services are generally not provided by the auditor; a separate firm is retained to provide tax advice, including any assistance with tax compliance matters generally.

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 auditor in addition to their normal audit work, and these are reviewed against the above guidelines.

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

Activities During the Year
The Audit Committee assists the Board in assuring the integrity of the financial statements and related disclosures.

During the current year, the Committee carried out the following work:

- at its meetings in May and November, the Committee reviewed the Interim Report and the Annual Report & Accounts, respectively. On both occasions, the Committee received reports from the Group Finance Director and from the external auditor identifying any accounting or judgemental issues requiring its attention. At its November meeting, the Committee also received reports from the Group Internal Audit Manager;
- in September the Committee met with the external auditor to discuss their audit plan process;
- in January and July the Committee met to approve formal Interim Management Statements which were released to the market, in accordance with the Disclosure and Transparency Rules; and
- the Committee met on one further occasion during the year to review a Trading Update which the Company issued to the market.

In the November meeting, the Committee reviews the information included in the Annual Report & Accounts to ensure that the information provides a fair review of the Group's business. It also reviews the external audit management letter and the procedures designed to ensure that the external auditor was aware of all "relevant audit information", as required by the Companies Act 2006.

In May, the Committee also assesses the effectiveness of the external audit process and receives a report on the external auditor's own quality control procedures. This assessment covers all aspects of the audit service provided by the Company's external auditor.

Risk Management and Internal Control

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The 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 half year reforecasts which have been approved and reviewed by the Board. On an annual basis, each business unit is required to prepare a risk assessment process on the key strategic, operational, financial and accounting risks to identify, evaluate and manage the significant risks to the Group's business. They include 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. These assessments are supplemented by a detailed evaluation of the key financial controls of the business units which are critically reviewed by the Group's Internal Audit Manager. The Committee will annually review the results of these assessments and identify the key strategic and operating risks of 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 on pages 22 to 25.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. Taking into account the processes that have been designed and implemented for 2012, the Board, with the advice of the Committee, has reviewed the effectiveness of the risk management and internal control systems for the period from 1 October 2011 to the date of this report and is satisfied that the Group has in place effective risk management and internal control systems.

Internal Audit

The Group's finance department includes a separate internal audit function. This was expanded in September by the appointment of a second qualified internal auditor who will be based in Toronto, Canada and reports to the Group Internal Audit Manager in London. A full programme of internal audit visits has been completed during the year. The scope of work carried out by internal audit generally focuses on the internal financial controls and risk management procedures operating within each business. Written reports are prepared on the results of each visit which sets out weaknesses identified during the work, together with recommendations to improve the control environment. These reports are reviewed and discussed with the Executive Directors.

At the conclusion of the financial year, the Group Internal Audit Manager reports to the Committee on the results of the audit work carried out in the year and agrees an Audit Plan for the following financial year. There were no significant weaknesses identified in the audits undertaken during the current year, but a number of recommendations were made to improve internal review processes and risk management procedures, particularly in the newly acquired businesses and where the opportunity to segregate duties was limited.

The Committee continues to keep under review the need for a more independent internal audit function in the Group. The Committee remains satisfied that the Group's system of internal control is appropriate for a group of the size and nature of Diploma PLC and the Committee's current view is that a separate formal independent internal audit function is not necessary.

Corporate Governance continued
Remuneration Report

Ian Grice
Chairman of the Remuneration Committee

I am pleased to present the Remuneration Report for 2012 on which the Board will be seeking approval from shareholders at the Annual General Meeting. The Report, while similar to last year, includes some new and additional information which I hope shareholders will find informative.

Our remuneration policy continues to be focused on attracting, retaining and motivating a strong and talented management team which, as shown in the chart below, has delivered a substantial increase in value to shareholders over the past five years. The Committee remains confident that this policy will ensure that the management team continues to focus on delivering the Group's growth strategy in an increasingly competitive international market. As importantly, this policy aligns the rewards of management with the returns to shareholders by ensuring that the largest element of remuneration remains firmly linked to the long term share performance of the Company.

The Committee has made no substantive changes to the remuneration arrangements this year as it remains satisfied that they remain appropriate and that rewards made under the Company's incentive plans appropriately reflect performance delivered. The salary awards to the Executive Directors approved by the Committee recognise the increasing size and complexity of the Group, following a period in which the Group grew substantially and entered the FTSE 250. The Committee also agreed that all employees, including Executive Directors, could take pension contributions in the form of additional salary, where changes to the taxation of personal pensions made pension contributions unattractive.

Number of Committee Meetings:

Directors and attendance	2012
Ian Grice (Chairman)	6/6
John Rennocks	6/6
John Matthews	6/6

During the year the Committee updated the rules for the Annual Performance Bonus Plan and introduced clawback provisions for malus that now apply to all awards granted under the Company's share incentive and annual bonus plans. These are designed to allow the Committee to cancel or reduce unvested share awards, or (in the case of the Annual Performance Bonus Plan) cash payments, in the event of material misstatement of the Company's financial results.

Remuneration issues have continued to attract significant media and Government attention during the year. This led to the announcement by the Department for Business, Innovation and Skills ("BIS") to announce measures to increase transparency in reporting of executive remuneration and to give shareholders more power through binding votes. The Committee, with the help of advisers, has started a review of the implications on both the Company's remuneration policy and the additional reporting requirements.

The Committee expects to spend a large proportion of its time in 2013 developing an appropriate approach to these new proposals on remuneration, once legislation has been finalised.

I hope you will find this report of the Committee's work comprehensive and understandable and that you will join me in supporting the resolution to vote for this year's Remuneration Report at the Company's AGM on 16 January 2013.

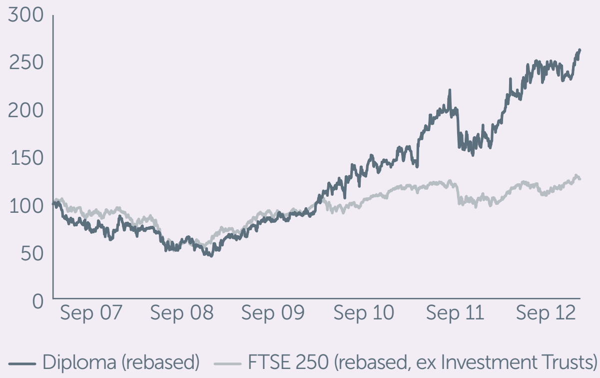
Ian Grice
Chairman

Historical TSR performance

The graph opposite shows the TSR performance of Diploma PLC for the five year period ended 30 September 2012 (calculated in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations")) against the FTSE 250 index.

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and other payments to or by shareholders within the period.

Growth in the value of a hypothetical £100 holding over five years



Remuneration Committee

The Committee's principal responsibilities are:

- setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- setting, reviewing and approving individual remuneration arrangements for the Chief Executive and Executive Directors, including terms and conditions of employment and any policy changes;
- reviewing and monitoring remuneration arrangements for the senior managers of the operating businesses, including terms and conditions of employment and any policy changes; and
- approving the rules and launch of any Group share-based incentive plans, and the granting of awards under any such plans.

The full terms of reference of the Committee can be found on the Diploma PLC website (www.diplomaplc.com) and copies are available on request.

Bruce Thompson, Chief Executive, attends meetings by the invitation of the Committee to provide advice to the Committee to help it to make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

The Committee also holds meetings without management and receives information and independent advice as appropriate. The Committee retains Kepler Associates as advisers on remuneration matters and in 2010 Kepler Associates provided advice to the Committee on remuneration issues including in particular, the design and implementation in 2010 of the new incentive schemes. Kepler Associates has not provided any further advice to the Committee since 2010.

Stephenson Harwood LLP (and previously Ashurst) provide legal advice to the Remuneration Committee on remuneration matters; during the current year this advice largely related to the implications of the Government's proposals to improve corporate communication on executive pay. Stephenson Harwood LLP does not advise the Group on other issues.

Executive Directors

Remuneration policy

In defining the Group's remuneration policy, the Committee takes into account advice received from external consultants and also the principles and best practice guidelines set by regulators and institutional shareholder bodies, including the Association of British Insurers ("ABI"). The Committee has also followed the principles of Section D of the UK Corporate Governance Code that relate to remuneration.

The current intention is that the framework of this remuneration policy will apply for future years.

Performance based rewards

The Company has a well-developed, Group-wide performance management system which ensures that senior managers are rewarded based on performance. For Executive Directors, the Company operated the following performance-related incentive arrangements in 2012:

- an Annual Performance Bonus Plan – designed to focus Executives on the business priorities for the financial year and to reinforce individual and Group performance objectives; and
- Long Term Incentives – designed to reward and retain Executives over the longer term while also aligning their interests with those of the Company's shareholders. Executive Directors receive grants of the Diploma PLC 2011 Performance Share Plan ("PSP") and the Diploma PLC 2011 Share Matching Plan ("SMP") share awards which aim to motivate participants to maximise Adjusted EPS and TSR, as measured against the FTSE mid-250 Index, excluding Investment Trusts (the "FTSE 250 index").

The two incentive arrangements complement each other and enable the measurement and reward of both short and long term performance. In particular, the Committee considers that these complementary incentive arrangements take appropriate account of business risk and align the reward arrangements of the Executive Directors with the delivery of sustained returns to shareholders. The Committee continues to consider that the three-year vesting period for its long term incentives is appropriate.

The FTSE 250 index was chosen because this is a recognised broad equity market index of which the Company is a member.

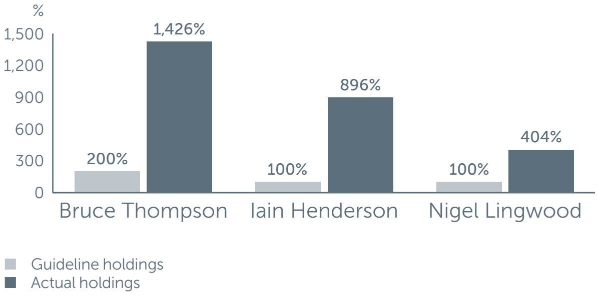
Shareholding guidelines

The Committee has adopted guidelines for Executive Directors, to encourage substantial long term share ownership. These specify that, over a period of five years from the date of appointment, the Chief Executive should build up, and then retain, a holding of shares with a value equivalent to 200% of base salary. The guideline holding for other Executive Directors

Corporate Governance continued
Remuneration Report continued

should be 100% of base salary. The guidelines also require that, in relation to the long term incentive awards, vested shares (net of tax) should be retained by the individual until the required shareholding level is reached.

Shareholdings at 30 September 2012 against guidelines



The chart above sets out the percentage of base salary held in shares by each of the Executive Directors, as compared with the guidelines.

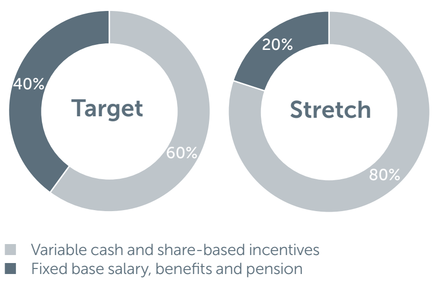
Components of remuneration

The table on page 37 summarises the components of reward for Executive Directors of Diploma PLC.

The current remuneration package for Executive Directors comprises fixed and variable components. The variable components are the incentive arrangements referred to above and the fixed components are base salary and benefits (including pensions entitlements).

The average proportion of total remuneration that was performance-related in 2012 is illustrated by the chart shown below. This shows that a significant proportion of each Executive Director's total remuneration is performance-related at the target performance level. For stretch performance, the proportion of total remuneration that is performance-related is higher still. In estimating the relative contribution of those elements of remuneration that are performance related and those that are not (as required by Regulations), it has been assumed that 50% of performance related awards vest under target performance and 100% under stretch performance. A number of assumptions have had to be made about the Company's share price growth over the next three years and TSR performance relative to the FTSE 250 index.

Composition of remuneration package for Executive Directors
As an average % of total remuneration at target and stretch performance



Senior executives below the Executive Directors

The policies and practices with regard to the remuneration of senior executives below the Executive Directors are generally treated consistently with the Executive Directors. These senior executives all have a significant portion of their reward package linked to performance. Annual bonuses are linked to short term financial targets which are similar to the targets for the Executive Directors. They also participate in cash based long term incentive plans which are focused on the operating profit growth of their businesses over rolling three year periods. The Committee reviews and monitors the senior executive remuneration arrangements.

Executive Directors' base salaries

Executive Directors' salaries are reviewed each year, with any changes normally taking effect from 1 October. This review takes into account market competitiveness, individual performance and experience.

The base salary increases for the Executive Directors which took effect from 1 October 2011 are summarised in the table below.

Executive Director	Base salary at 30 Sep 2012 £000	Base salary at 30 Sep 2011 £000	% increase
Bruce Thompson	**385**	360	6.9
Iain Henderson	**240**	220	9.1
Nigel Lingwood	**250**	230	8.7

The Committee has regard to a range of relevant factors, including reward levels and practices in the Company's businesses when determining remuneration levels for Executive Directors. In determining the annual base salary increases which applied from 1 October 2011, the Committee considered the range of remuneration increases applying across the Group, which reflected the increasing size and complexity of the underlying businesses. On 13 November 2012, the Committee approved an increase of 4% in base salaries for the Executive Directors in respect of the year beginning 1 October 2012.

Annual performance bonus

The Diploma PLC Annual Performance Bonus Plan is a cash based scheme designed to reward Executive Directors for meeting stretching shorter term performance targets. At the start of the financial year (1 October), the Board sets a financial performance target principally focused on achievement of an increase in Adjusted EPS, which is significantly ahead of both internal annual budgets and market consensus. This target is also underpinned by a requirement that the results for the year achieve a minimum target for operating margins, free cash flow and return on trading capital employed ("ROTCE"). In the year ended 30 September 2012, the financial performance required to meet the maximum annual bonus payable was based on a 20% increase in Adjusted earnings per share. The amount of bonus payable in respect of performance below this level was calculated on a pro-rata basis.

Components of Remuneration

Set out below is a summary of reward components of Executive Directors for 2012 and which remains unchanged from 2011:

Component	Aim	Description	Further detail
Fixed Base Salary	Attract and retain talent by ensuring that salaries are competitive. Reflect the individual's experience and role within the Group.	Benchmarked against levels of pay awarded elsewhere in sector and FTSE index.	Paid monthly in cash. Reviewed annually, with increases taking effect from 1 October.
Benefits Core	Designed to be competitive within the market.	Core benefits include pension contributions (or cash alternative), life assurance, annual leave and medical insurance.	Pension contributions paid at 20% (2011: 20%) of base salary which are either paid into personal savings schemes or paid as additional salary.
Additional	–	These include cash in lieu of a company car and cash bonuses in lieu of dividends forgone on unexercised, but vested LTIP awards.	–
Annual Performance Bonus Plan	Designed to focus Executive Directors on achievement of the annual budget and other business priorities for the financial year.	Maximum 100% of salary for the Chief Executive Officer and 80% for other Executive Directors. On target bonus is 60% for the Chief Executive Officer and 50% for the other Executive Directors.	Dependent on targeted improvement in Adjusted EPS and other financial metrics of the Group for the Chief Executive Officer. For other Executive Directors 75% is based on the same criteria as the Chief Executive Officer, with the remaining 25% subject to achievement of specific personal objectives.
Long Term Incentives – Share Awards	Incentivise Executive Directors to achieve superior returns and long term value growth. Align the interests of the Executive Directors with those of Diploma PLC shareholders through building a shareholding in the Company. Performance assessed over rolling three-year performance periods.	An award under the Diploma PLC 2011 Performance Share Plan and the Diploma PLC 2011 Share Matching Plan was made to the Executive Directors on 16 and 19 December 2011, respectively. On 30 September 2012, the final awards made under the 2004 LTIP made on 18 November 2009, vested, as set out on page 41.	Awards are discretionary. Awards do not vest until the third anniversary of the date of grant. If employment ceases during three-year vesting period, awards will normally lapse.

Corporate Governance continued
Remuneration Report continued

Individual objectives are also set for the Chief Operating Officer and the Group Finance Director relating to factors including operating performance and business development activities. At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the financial and individual objectives. Bonuses are normally paid in cash in December.

Long term incentive plans
The Company operates long term incentive arrangements for Executive Directors. These are designed to reward and retain Executive Directors over the longer term, while also aligning their interests with those of Diploma PLC shareholders. These arrangements comprise two incentive schemes; the Diploma PLC 2011 Performance Share Plan ("PSP") and the Diploma PLC 2011 Share Matching Plan ("SMP").

The PSP, in which the Executive Directors of the Company participate, provides for a grant of conditional awards of a specified number of ordinary shares in the Company, or an option to acquire a specified number of shares at an exercise price determined by the Committee (which may be nil or a nominal amount). No payment is required for the grant of an award.

The SMP also operates for Executive Directors of the Company, as a form of deferred reward and again provides for a grant of conditional awards of a specified number of ordinary shares in the Company. In the case of the SMP however, an Executive Director must accept an invitation from the Committee to personally acquire or pledge shares for a period of three years. These acquired or pledged shares are held by a nominee for the Executive Director and are released at the end of the three year performance period applying to the awards.

Awards, which are normally granted annually, must generally be made within 42 days after the announcement of the Company's annual results. When making the decision on the level of award, the Committee takes into consideration a number of factors, including the face value of the award and plan dilution limits.

The face value of an award is equal to the number of shares, or shares under option, multiplied by the relevant share price. The relevant share price will be the mid-market closing share price on the day before the award. A face value limit of 100% of base salary applies to each PSP award to Executive Directors in normal circumstances. A face value limit of up to 100% of base salary applies to each SMP award in respect of which the Executive Director must pledge shares equal to 50% of base salary after tax.

All awards will normally vest three years after the date of grant. The vesting of awards is conditional on:
- continued employment;
- the Company's growth in Adjusted EPS over a three year performance period; and
- the Company's TSR performance over a three year performance period.

The latter two performance conditions apply to each award so that the vesting of 50% of the award is based on growth in Adjusted EPS and 50% of the award is based on the relative TSR performance. Each performance condition is measured over a three year period commencing on the first day of the financial year in which the award is made. There is no retesting of either performance metric.

The first performance condition is that the average annual compound growth in the Company's Adjusted 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") over the same period as set out below.

	% of awards vesting	
Adjusted EPS growth (over 3 years)	PSP	SMP
RPI + 15% p.a. or above		100
RPI + 12% p.a.	100	50
RPI + 3% p.a.	30	15
Below RPI + 3% p.a.	NIL	NIL

Under the 2004 LTIP, at below RPI +3%, no awards vest, at RPI +3%, 30% of awards vest and at RPI +5% or more, 100% of awards vest (representing 50% of the total award).

Where the Company's Adjusted EPS performance is between these percentage bands, vesting of the award is on a straight line basis.

For the purposes of this condition, EPS 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.

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 250 Index (excluding Investment Trusts) as set out below:

	% of awards vesting	
	PSP	SMP
Median + 15% p.a. or greater		100
Median + 12% p.a.	100	50
Median	30	15
Below Median	NIL	NIL

Under the 2004 LTIP, the TSR condition is based on the ranking of the Company's performance in the FTSE 250 (excluding Investment Trusts) ("the comparator group"), rather than on absolute performance. Where the Company's TSR performance ranks below median of the comparator group, no awards vest, at median, 30% of the awards vest and in the top quartile of the comparator group, 100% of awards will vest (representing 50% of the total award).

Where the Company's relative TSR performance is between the median and the maximum performance condition, vesting of the award is on a straight line basis.

Awards under the PSP and SMP were made on 16 and 19 December 2011 respectively, to Bruce Thompson, Iain Henderson and Nigel Lingwood. The amount of shares that vest under these Awards will be determined at the completion of the three year performance period at 30 September 2014. Full details of all of these awards are set out on page 40.

At 30 September 2012, the final award made on 18 November 2009 under the previous long term incentive scheme ("the 2004 LTIP") crystallised at the end of the performance period and 100% of the award vested as nil paid options. These options are exercisable by each individual at a price of £1 up until 18 November 2019. Further details of these awards and their performance conditions are set out on page 41. There are no further awards outstanding under the 2004 LTIP and this incentive scheme is now closed.

Dilution
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 aggregate number of shares which may be issued or placed under option, under all share plans established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

Change of control
In the event of a change in control, vesting of award shares under the Company's long term incentive plans is not automatic and would depend on the extent to which performance conditions had been met at that time. Time pro-rating will apply if the Committee considers it appropriate, given the circumstances of the change of control.

Dividend accrual
The Committee may decide, on or before the grant of an award, that on exercise of the award, the participant may receive, in addition to the shares to which he then becomes entitled, a payment equal in value to the aggregate amount of the dividends (excluding any tax credit) which would have been paid to the participant in respect of those shares between the date on which the award vests and the option period commences and the date on which the option is exercised, as if they had been beneficially owned by him over that period. The payment may be made in cash or in an equivalent number of shares.

Pensions
The pension arrangements for Executive Directors are set out on page 42.

Service contracts
The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate directors of the quality required to manage the Company. The Committee considers that a rolling contract with a notice period of one year is appropriate.

The Executive Directors' service contracts, which were drafted in accordance with best practice at the relevant time, contain provisions for compensation in the event of early termination or change of control, equal to the value of salary and contractual benefits for the notice period. However when calculating termination payments, the Committee takes into account a variety of factors, including individual and Company performance, the obligation for the Director to mitigate his or her own loss (for example, by gaining new employment) and the Director's length of service. Further details of the Executive Directors' service contracts are set out on page 42.

The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

Clawback
Clawback provisions are to apply to awards made under the Company's share incentive and annual bonus plans which give the Committee the right to cancel or reduce unvested share awards, or (in the case of the Annual Performance Bonus Plan) cash payments, in the event of material misstatement of the Company's financial results, miscalculation of a participant's entitlement or individual gross misconduct.

Corporate Governance continued
Remuneration Report continued

The following section of this Report provides details of the remuneration, service contracts or letters of appointment and share interests of all the Directors for the year ended 30 September 2012.

Executive Directors' remuneration
Individual remuneration for the year ended 30 September 2012.

	Fixed emoluments			Annual performance bonus[c] £000	2012 Total £000	2011 Total £000
	Base salary £000	Additional salary [a] £000	Taxable benefits[b] £000			
Bruce Thompson	**385**	**77**	**20**	**367**	**849**	739
Iain Henderson	**240**	**–**	**15**	**186**	**441**	410
Nigel Lingwood	**250**	**21**	**16**	**193**	**480**	430

(a) Additional salary may be taken in lieu of pension contributions as explained on page 42.
(b) Taxable benefits include medical insurance, life assurance, cash allowance in lieu of a car and a dividend equivalent on 2004 LTIP shares which have vested, but remain unexercised.
(c) The performance based bonus represent amounts payable only in respect of the 2012 incentive year and will be paid in December 2012.

Executive Directors' interests in shares under the Diploma PLC 2011 Performance Share Plan

	Market price at date of award	Shares over which awards held at 1 Oct 2011	Shares over which awards granted during the year	End of performance period	Vesting date	Shares over which awards held as at 30 Sep 2012
Bruce Thompson						
24 January 2011	292.5p	123,077		30 Sep 2013	24 Jan 2014	**123,077**
16 December 2011[a]	332.0p		116,314	30 Sep 2014	16 Dec 2014	**116,314**
Iain Henderson						
24 January 2011	292.5p	75,214		30 Sep 2013	24 Jan 2014	**75,214**
16 December 2011[a]	332.0p		72,508	30 Sep 2014	16 Dec 2014	**72,508**
Nigel Lingwood						
24 January 2011	292.5p	78,632		30 Sep 2013	24 Jan 2014	**78,632**
16 December 2011[a]	332.0p		75,529	30 Sep 2014	16 Dec 2014	**75,529**

(a) Executive Directors received grants of Performance Share Plan awards on 16 December 2011 in the form of nil-cost options. Under normal circumstances, the options will not become exercisable until the third anniversary of their date of grant and following assessment of the performance conditions after the end of the three-year vesting period which began on the first day of the financial year in which the award is made, and provided the Director remains in employment. Options are exercisable until the tenth anniversary of the award date. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year performance period. The performance conditions for these awards are set out on page 38.

Executive Directors' interests in shares under the Diploma PLC 2011 Share Matching Plan

	Market price at date of award	Pledged investment shares[b]	Shares over which awards held at 1 Oct 2011	Shares over which awards granted during the year	End of performance period	Vesting date	Shares over which awards held as at 30 Sep 2012
Bruce Thompson							
27 January 2011	292.5p	30,154	123,077		30 Sep 2013	27 Jan 2014	**123,077**
19 December 2011[a]	332.0p	27,915		116,314	30 Sep 2014	19 Dec 2014	**116,314**
Iain Henderson							
27 January 2011	292.5p	18,427	75,214		30 Sep 2013	27 Jan 2014	**75,214**
19 December 2011[a]	332.0p	17,402		72,508	30 Sep 2014	19 Dec 2014	**72,508**
Nigel Lingwood							
27 January 2011	292.5p	19,265	78,632		30 Sep 2013	27 Jan 2014	**78,623**
19 December 2011[a]	332.0p	18,127		75,529	30 Sep 2014	19 Dec 2014	**75,529**

(a) Executive Directors received grants of Share Matching Plan awards on 19 December 2011 in the form of nil-cost options. Under normal circumstances, the options will not become exercisable until the third anniversary of their date of grant and following assessment of the performance conditions after the end of the three-year vesting period which began on the first day of the financial year in which the award is made, and provided the Director remains in employment. Options are exercisable until the tenth anniversary of the award date. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year performance period. The performance conditions for these awards are set out on page 38.
(b) Under the Share Matching Plan, Executive Directors are required to pledge shares for a minimum period of three years. These shares are pledged on an after tax basis; awards are made on a pre-tax basis.

Executive Directors' interests in shares under the Diploma PLC 2004 Long Term Incentive Plan

	Market price at date of award	Shares over which awards held as at 1 Oct 2011	Shares in respect of which awards vested at 30 Sep 2012[b],[c]	End of performance period	Vesting date	Shares over which awards held as at 30 Sep 2012
Bruce Thompson						
18 November 2009[a]	168.5p	204,748	**204,748**	30 Sep 2012	Nov 2012	–
Iain Henderson						
18 November 2009[a]	168.5p	124,629	**124,629**	30 Sep 2012	Nov 2012	–
Nigel Lingwood						
18 November 2009[a]	168.5p	130,564	**130,564**	30 Sep 2012	Nov 2012	–

(a) Executive Directors were granted 2004 LTIP awards on 18 November 2009 in the form of nil-cost options. Under normal circumstances, the awards will not vest and the options will not become exercisable until after the end of the three-year vesting period which began on the first day of the financial year in which the award is made, following assessment of the performance conditions and provided the Director remains in employment. Options are exercisable until the tenth anniversary of the Award provided the Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year performance period. The performance conditions for the 2009 awards are set out on page 38.

(b) The award which vested as at 30 September 2012 represented 100% of the LTIP award which was granted on 18 November 2009.
- Under the first performance condition, the average annual compound growth rate in the Company's adjusted EPS (as defined on page 52) over the three year period ended 30 September 2012 was 30.8% pa; this compares with an annual compound growth rate in RPI +5.0% over the same period of 9.3% pa. Accordingly 100% 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 227.2% over the three year period ended 30 September 2012; this growth gave the Company a ranking of 10 in the comparator group and put the Company in the 95 percentile. The median TSR was 40.9% and the lower threshold of the upper quartile was 93.4%. Accordingly 100% of the shares relating to this part of the award (representing 50% of the total award) vested unconditionally.

(c) Awards vest in the form of nil paid options to acquire shares in the Company for aggregate consideration of £1. Options are exercisable until the tenth anniversary of the Award provided the Director remains in employment. Set out in the table below are the number of options held by each Director which have not yet been exercised. The closing price of an ordinary share at 30 September 2012, which is the date the performance conditions were satisfied, was 475.3p.

Executive Directors' interests in options over shares which have vested under the Diploma PLC 2004 Long Term Incentive Plan

	Options as at 1 Oct 2011	Exercised in year	Vested in year	Options as at 30 Sep 2012	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	116,686			**116,686**	£1	Nov 2010	Nov 2017
	276,423	(58,157)[a]		**218,266**	£1	Nov 2011	Dec 2018
			204,748	**204,748**	£1	Nov 2012	Dec 2019
Iain Henderson	69,109			**69,109**	£1	Nov 2010	Nov 2017
	168,293	(36,254)[b]		**132,039**	£1	Nov 2011	Dec 2018
			124,629	**124,629**	£1	Nov 2012	Dec 2019
Nigel Lingwood	67,399			**67,399**	£1	Nov 2010	Nov 2017
	168,293	(37,764)[c]		**130,529**	£1	Nov 2011	Dec 2018
			130,564	**130,564**	£1	Nov 2012	Dec 2019

(a) The market price on 19 December 2011, the date of exercise, was 332.0p, the total proceeds before tax was £193,080.
(b) The market price on 19 December 2011, the date of exercise, was 332.0p, the total proceeds before tax was £120,362.
(c) The market price on 19 December 2011, the date of exercise, was 332.0p, the total proceeds before tax was £125,375.
(d) The closing price of an ordinary share on 30 September 2012 was 475.3p (2011: 319.0p)
(e) On 19 December 2011, a total of 68,731 shares which were subject to these exercises were sold to cover the tax liability (together with associated dealing costs) due on exercise. The market price at that time was 332.0p.

The closing price of an ordinary share on 30 September 2012 was 475.3p (2011: 319.0p) and the share price ranged during the year from 475.3p (high) to 258.0p (low). All market price figures are derived from the Daily Official List of the London Stock Exchange.

Executive Directors' interests in ordinary shares

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

	Interest in ordinary shares	
	As at 30 Sep 2012	As at 30 Sep 2011
Bruce Thompson	**1,120,569**	1,155,154
Iain Henderson	**452,433**	470,031
Nigel Lingwood	**212,392**	194,265

(a) Interests include investment shares pledged under the Company's 2011 Share Matching Plan and shares held through personal saving vehicles.

As of 19 November 2012 there have been no changes to these interests in ordinary shares of the Company.

Corporate Governance continued
Remuneration Report continued

Pensions
The Executive Directors receive pension contributions from the Company which they may pay into personal savings vehicles or may take as additional salary, subject to income tax.

Pension contributions, which are equivalent to 20% (2011: 20%) of base salary were applied as follows:

	2012			2011		
	Paid as additional salary £000	Paid as pension contribution £000	Total payable £000	Paid as additional salary £000	Paid as pension contribution £000	Total payable £000
Bruce Thompson	**77**	**–**	**77**	–	72	72
Iain Henderson	**–**	**48**	**48**	–	44	44
Nigel Lingwood	**21**	**29**	**50**	–	46	46

In September 2010, the Company established an unregistered retirement benefits scheme, known as the Diploma Holdings PLC Employer-Financed Retirement Benefits Scheme (the "Scheme"). The Scheme was established for Executive Directors and higher paid UK employees in the Group as an alternative to the employees' current pension arrangements and contained all the key features of a conventional registered pension plan. During 2011, £111,000 of pension contributions received from the Company in respect of 2011 and earlier years were paid into the Scheme. No contributions have been paid into the Scheme since 5 April 2011.

Executive Directors' service contracts
Details of the service contracts of the Executive Directors who served during the year are set out below:

Executive Directors	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Bruce Thompson	13 July 2000	Rolling 1yr	1yr	1yr
Iain Henderson	1 August 2000	Rolling 1yr	1yr	1yr
Nigel Lingwood	3 July 2001	Rolling 1yr	1yr	1yr

Non-Executive Directors

The Board aims to recruit non-Executive Directors of a high calibre, with broad commercial, international or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. Their appointment is for an initial term of three years, subject to election by shareholders at the first general meeting following their appointment and commencing from 2012, subject to annual re-election thereafter. The terms of engagement of the non-Executive Directors are set out in a letter of appointment.

The non-Executive Directors receive a basic annual fee and there are no additional fees payable for membership of, or chairing, a Committee of the Board or for acting as Senior Independent Director. The fees for non-Executive Directors are reviewed every two years by the Board, taking into account their responsibilities and required time commitment. Following a review undertaken in November 2011, the Board approved an increase in the Chairman's fees to £125,000 per annum (2011: £70,000) and in the annual fees paid to non-Executive Directors to £43,000 (2011: £35,000); both to take effect from 1 October 2011.

In carrying out this review the Board recognised that additional responsibilities and time commitment that would be required of the non-Executive Directors, following the Company's promotion to the FTSE 250 in October 2011. The Board is satisfied that the annual fees paid to non-Executive Directors and to the Chairman are now competitive.

The Chairman and the non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

Chairman
John Rennocks was appointed as a non-Executive Director of the Company with effect from 12 July 2002 and as Chairman with effect from 7 January 2004. John Rennocks was re-appointed at the Annual General Meeting held on 18 January 2012 and John Rennock's appointment will continue to be subject to annual re-election by shareholders at the Annual General Meeting. There is no notice period and no provision for payment in the event of early termination.

Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of re-election	Expiry of term
John Rennocks	12 Jul 02	18 Jan 12	July 14
John Matthews	24 Jul 03	18 Jan 12	July 13
Ian Grice	24 Jan 07	18 Jan 12	Jan 13
Marie-Louise Clayton	13 Nov 12	–	Nov 15

The non-Executive Directors' letters of appointment do not contain any provision for compensation in the event of early termination of their appointment.

Non-Executive Directors' remuneration

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

	Salary/fees	
	2012 £000	2011 £000
John Rennocks	**125**	70
John Matthews	**43**	35
Ian Grice	**43**	35
Marie-Louise Clayton[(a)]	**–**	–

(a) appointed on 13 November 2012

Non-Executive Directors' interests in ordinary shares

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

	Interests in ordinary shares	
	As at 30 Sep 2012	As at 1 Oct 2011
John Rennocks	**103,766**	103,766
John Matthews	**12,420**	12,420
Ian Grice	**20,000**	20,000
Marie-Louise Clayton	**–**	–

Audit notes

In accordance with Section 421 of the Companies Act 2006 and the Regulations, the following sections of the Report have been audited: Executive Directors' remuneration; Executive Directors' interests in the Diploma PLC 2011 Performance Share Plan; Executive Directors' interests in the Diploma PLC 2011 Share Matching Plan; Executive Directors' interests in the Diploma PLC 2004 Long Term Incentive Plan; Executive Directors' interests in options over shares which have vested under the Diploma PLC 2004 Long Term Incentive Plan; Executive Directors' interests in ordinary shares; non-Executive Directors' remuneration; non-Executive Directors' interests in ordinary shares; and the tables and notes in the Pensions section of the report. The remaining sections are not subject to audit.

By order of the Board

Ian Grice
Chairman of the Remuneration Committee
19 November 2012

Other Statutory Information

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report & Accounts.

Shareholders

Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England & Wales under Company Number 3899848. At the date of this Report there were 113,239,555 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year and an indication of future developments is set out on pages 4 to 25; the Review of Group Performance incorporates the requirements of the Companies Act 2006 (the "Act").

Annual General Meeting

The Annual General Meeting will be held at midday on 16 January 2013 in the Brewers Hall, Aldermanbury Square, London EC2V 7HR. A Circular setting out the proposed resolutions, including a resolution to re-appoint Deloitte LLP as the auditor, will be set out in the Notice of the Annual General Meeting which is a separate document which will be sent to all shareholders and published on the Group's website.

Substantial shareholdings

At 16 November 2012 the Company had been notified of the following interests amounting to 3% or more of the voting rights in its ordinary share capital:

	Percentage of ordinary share capital
Mondrian Investment Partners Limited	7.51
F&C Asset Management plc	7.48
Ameriprise Financial Inc	5.54
Power Financial Corporation	5.09
Legal & General Investment Management Limited	3.33
Schroders PLC	3.28
Invesco PLC	3.25

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

Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from the Group Company Secretary and are available on the Company's website at www.diplomaplc.com.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights, other than those relating to the Company's Share Matching Plan, described further below. 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.

In accordance with the Listing Rules of the Financial Services Authority, all employees are required to seek approval of the Company before dealing in its shares.

Restrictions on transfer of shares

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis, or where the Company has a lien over that share. The Directors may also refuse to register a transfer of a certificated share, unless the instrument of transfer is: (i) lodged, duly stamped (if necessary), at the registered office of the Company or any other place as the Board may decide accompanied by the certificate for the share(s) to be transferred and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; (iii) in favour of a person who is not a minor, infant, bankrupt or a person of unsound mind; or (iv) in favour of not more than four persons jointly.

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

Participants in the Company's Share Matching Plan pledge investment shares to a nominee for a period of three years, during which period these shares cannot be transferred. There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certified shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. Other than shares held by participants of the Company's Share Matching Plan, the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Shares held by the Diploma Employee Benefit Trust

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. The Trustees of the Diploma Employee Benefit Trust also waives dividends on all shares held for the purposes of the Company's long term incentive arrangements.

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the Annual General Meeting of the Company held on 18 January 2012. In the year ended 30 September 2012, the Company has not allotted any shares. These powers will expire at the conclusion of the 2013 Annual General Meeting and resolutions to renew the Directors' powers are therefore included within the Notice of the Annual General Meeting in 2013.

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 18 January 2012. In the year to 30 September 2012 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2013 Annual General Meeting and a resolution to renew the authority is therefore included within the Notice of the Annual General Meeting in 2013.

Employees

Employees

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 which has remained stable at six years as shown in the chart below. In addition the number of working days lost to sickness is less than 1% a year. These measures remain consistent across each of the Group's sectors.

Key employee statistics

	2012	2011	2010
Average number of employees in year	**1,062**	910	814
Females as % of total	**33%**	32%	34%
Length of service (years)	**6.0**	6.3	6.4
Average staff turnover	**16.7%**	16.3%	15.0%
Sick days lost per person	**0.9**	1.9	2.8

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 Review and Annual Report & Accounts 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 2012 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 2012, 21 employees (2011: 16) were reported as having suffered minor injuries at work; none of these injuries resulted in absence from work for more than three days. There were two employees (2011: one) who suffered a serious injury during the year and were absent from work for more than three days, but both have since returned to work with their respective businesses.

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.

Other Statutory Information continued

Community

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 2012 the amount of trade creditors shown in the Group balance sheet represents 46 days (2011: 51 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.

The Group made donations for charitable purposes during the year which amounted to £28,285 (2011: £26,050). No political donations were made.

Directors

Conflicts of interest

From 1 October 2008, the Directors became subject to a statutory duty under the Act to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles of Association contain a provision to this effect. The Act also allows the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. At the 2009 AGM, revised Articles that contained such provisions were adopted.

Procedures adopted to deal with conflicts of interest continue to operate effectively and the Board's authorisation powers are being exercised properly in accordance with the Company's Articles of Association.

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 provides cover where the Director or Officer has acted fraudulently or dishonestly.

Statement of disclosure of information to the auditor

Each of the Directors has reviewed this Annual Report & Accounts and confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware and that he has taken all the 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 auditor is aware of that information.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £31.3m (2011: £27.0m). The Directors recommend a final dividend of 10.2p per ordinary share (2011: 8.5p), to be paid, if approved, on 23 January 2013. This, together with the interim dividend of 4.2p per ordinary share paid on 20 June 2012, amounts to 14.4p for the year (2011: 12.0p).

The results are shown more fully in the consolidated financial statements on pages 48 to 74 and summarised in the Finance Review on pages 12 to 14.

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 section of the Report that deals with Group Performance on pages 4 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 12 to 14. In addition pages 60 to 62 of the Annual Report & Accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully, despite the continuing uncertain economic outlook.

The Group also has a committed revolving bank facility of £20m which expires on 18 November 2013. The Directors are confident that this facility will be successfully renegotiated prior to expiry on 18 November 2013. At 30 September 2012, the Group had net cash funds of £7.9m.

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

Statement of Directors' responsibilities for preparing the financial statements

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with 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.

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 & Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group.

This responsibility statement was approved by the Board of Directors on 19 November 2012 and is signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

Registered office:
12 Charterhouse Square
London
EC1M 6AX

Consolidated Income Statement
For the year ended 30 September 2012

	Note	2012 £m	2011 £m
Revenue	3,4	**260.2**	230.6
Cost of sales		**(161.0)**	(142.7)
Gross profit		**99.2**	87.9
Distribution costs		**(5.4)**	(5.5)
Administration costs		**(47.4)**	(42.0)
Operating profit	3	**46.4**	40.4
Financial expense, net	6	**(0.4)**	(1.2)
Profit before tax		**46.0**	39.2
Tax expense	7	**(14.4)**	(11.6)
Profit for the year		**31.6**	27.6
Attributable to:			
Shareholders of the Company		**31.3**	27.0
Minority interests	21	**0.3**	0.6
		31.6	27.6
Earnings per share			
Basic and diluted earnings	9	**27.9p**	24.0p

Alternative Performance Measures (note 2)

	Note	2012 £m	2011 £m
Operating profit		**46.4**	40.4
Add: Acquisition related charges	11	**6.4**	4.8
Adjusted operating profit	3,4	**52.8**	45.2
Deduct: Net interest expense	6	**(0.2)**	(0.3)
Adjusted profit before tax		**52.6**	44.9
Adjusted earnings per share	9	**33.1p**	27.9p

The notes on pages 52 to 74 form part of these financial statements.

Consolidated Statement of Income and Other Comprehensive Income
For the year ended 30 September 2012

	Note	2012 £m	2011 (Restated) £m
Profit for the year		**31.6**	27.6
Exchange rate adjustments on foreign currency net investments		**(2.1)**	0.3
(Losses)/gains on fair value of cash flow hedges	19	**(0.4)**	0.6
Net changes to fair value of cash flow hedges transferred to consolidated Income Statement	19	**(0.5)**	0.6
Actuarial losses on defined benefit pension schemes	25	**(0.4)**	(0.6)
Deferred tax on items recognised in other comprehensive income	7	**0.3**	0.3
Other comprehensive (loss)/income for the year		**(3.1)**	1.2
Total comprehensive income for the year		**28.5**	28.8
Attributable to:			
Shareholders of the Company		**28.2**	28.2
Minority interests		**0.3**	0.6
		28.5	28.8

Consolidated Statement of Changes in Equity
For the year ended 30 September 2012

	Note	Share capital £m	Translation reserve (Restated) £m	Hedging reserve £m	Retained earnings (Restated) £m	Shareholders' equity (Restated) £m	Minority interests £m	Total equity (Restated) £m
At 1 October 2010		5.7	20.6	(0.1)	109.9	136.1	3.1	139.2
Total comprehensive income		–	0.3	1.2	26.7	28.2	0.6	28.8
Share-based payments	5	–	–	–	0.7	0.7	–	0.7
Minority interests acquired	21	–	–	–	–	–	0.7	0.7
Release of minority interest put options	20	–	–	–	12.1	12.1	–	12.1
Purchase of own shares		–	–	–	(1.6)	(1.6)	–	(1.6)
Dividends	8, 21	–	–	–	(10.9)	(10.9)	(3.9)	(14.8)
At 30 September 2011		5.7	20.9	1.1	136.9	164.6	0.5	165.1
Goodwill on purchase of minority interests	10	–	(0.1)	–	(13.1)	(13.2)	–	(13.2)
At 30 September 2011 – Restated		5.7	20.8	1.1	123.8	151.4	0.5	151.9
Total comprehensive income		–	(2.1)	(0.9)	31.2	28.2	0.3	28.5
Share-based payments	5	–	–	–	0.8	0.8	–	0.8
Acquisition of subsidiary	21	–	–	–	–	–	0.7	0.7
Deferred tax on items recognised directly in equity	7	–	–	–	0.6	0.6	–	0.6
Recognition of minority interest put options	20	–	–	–	(1.0)	(1.0)	–	(1.0)
Dividends	8, 21	–	–	–	(14.2)	(14.2)	(0.1)	(14.3)
At 30 September 2012		**5.7**	**18.7**	**0.2**	**141.2**	**165.8**	**1.4**	**167.2**

The notes on pages 52 to 74 form part of these financial statements.

Consolidated Statement of Financial Position
As at 30 September 2012

	Note	2012 £m	2011 (Restated) £m
Non-current assets			
Goodwill	10	**79.8**	74.4
Acquisition intangible assets	11	**32.2**	27.3
Other intangible assets	11	**0.7**	0.7
Investment	12	**0.7**	–
Property, plant and equipment	13	**12.3**	10.7
Deferred tax assets	14	**2.9**	2.8
		128.6	115.9
Current assets			
Inventories	15	**45.8**	38.4
Trade and other receivables	16	**40.6**	36.3
Cash and cash equivalents	18	**11.4**	17.8
		97.8	92.5
Current liabilities			
Trade and other payables	17	**(38.5)**	(35.2)
Current tax liabilities		**(3.5)**	(2.4)
Other liabilities	20	**(2.8)**	(0.8)
Borrowings	24	**(3.5)**	(5.6)
		(48.3)	(44.0)
Net current assets		**49.5**	48.5
Total assets less current liabilities		**178.1**	164.4
Non-current liabilities			
Retirement benefit obligations	25	**(5.4)**	(5.4)
Other liabilities	20	**(1.0)**	(2.3)
Deferred tax liabilities	14	**(4.5)**	(4.8)
Net assets		**167.2**	151.9
Equity			
Share capital		**5.7**	5.7
Translation reserve		**18.7**	20.8
Hedging reserve		**0.2**	1.1
Retained earnings		**141.2**	123.8
Total shareholders' equity		**165.8**	151.4
Minority interests	21	**1.4**	0.5
Total equity		**167.2**	151.9

The consolidated financial statements were approved by the Board of Directors on 19 November 2012 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on pages 52 to 74 form part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 30 September 2012

	Note	2012 £m	2011 £m
Cash flow from operating activities			
Cash flow from operations	23	**50.2**	40.3
Interest paid, net		**(0.3)**	(0.5)
Tax paid		**(13.7)**	(12.4)
Net cash from operating activities		**36.2**	27.4
Cash flow from investing activities			
Acquisition of subsidiaries (net of cash acquired)	22	**(20.8)**	(14.8)
Acquisition of investment	12	**(0.7)**	–
Disposal of subsidiaries (net of cash disposed)		**–**	0.9
Deferred consideration paid	20	**(0.8)**	(0.9)
Purchase of property, plant and equipment	13	**(3.3)**	(1.3)
Purchase of other intangible assets	11	**(0.2)**	(0.4)
Net cash used in investing activities		**(25.8)**	(16.5)
Cash flow from financing activities			
Acquisition of minority interests		**–**	(12.5)
Dividends paid to shareholders	8	**(14.2)**	(10.9)
Dividends paid to minority interests	21	**(0.1)**	(3.9)
Purchase of own shares		**–**	(1.6)
(Repayments)/proceeds from borrowings	24	**(2.2)**	5.4
Net cash used in financing activities		**(16.5)**	(23.5)
Net decrease in cash and cash equivalents		**(6.1)**	(12.6)
Cash and cash equivalents at beginning of year		**17.8**	30.1
Effect of exchange rates on cash and cash equivalents		**(0.3)**	0.3
Cash and cash equivalents at end of year	18	**11.4**	17.8

Alternative Performance Measures (note 2)

	2012 £m	2011 £m
Free cash flow		
Net decrease in cash and cash equivalents	**(6.1)**	(12.6)
Add/(deduct): Dividends paid to shareholders	**14.2**	10.9
Dividends paid to minority interests	**0.1**	3.9
Acquisition of subsidiaries/minority interests/investment	**21.5**	27.3
Deferred consideration paid	**0.8**	0.9
Repayments/(proceeds) from borrowings	**2.2**	(5.4)
Free cash flow	**32.7**	25.0
Net funds		
Cash and cash equivalents	**11.4**	17.8
Borrowings	**(3.5)**	(5.6)
Net funds	**7.9**	12.2

The notes on pages 52 to 74 form part of these financial statements.

Notes to the Consolidated Financial Statements
For the year ended 30 September 2012

1. General Information
Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and were authorised by the Directors for publication on 19 November 2012. 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 & Accounts on page 75.

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 & Accounts.

2.1 Adjusted operating profit
At the foot of the consolidated Income Statement, "adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets, acquisition expenses and adjustments to deferred consideration (collectively, "acquisition related charges"). The Directors believe that adjusted operating profit is an important measure of the underlying operational performance of the Group.

2.2 Adjusted profit before tax
At the foot of the consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as 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 39 in respect of future purchases of minority interests, and acquisition related charges. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

2.3 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.

2.4 Free cash flow
At the foot of the consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on fixed assets and including proceeds received from business disposals, but before expenditure on business combinations/investments and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment.

2.5 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 borrowings, retirement benefit obligations, deferred tax, amounts in respect of future purchases of minority interests and adjusting for goodwill in respect of the recognition of deferred tax on acquisition intangible assets. Return on trading capital employed is defined as the adjusted operating profit, divided by trading capital employed plus all historical goodwill and adjusted for the timing effect of major acquisitions and disposals. Return on trading capital employed at the sector level does not include historical 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
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 review of Group Performance on pages 4 to 21. 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.

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 borrowings, 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.

3. Business Segment Analysis continued

	Life Sciences 2012 £m	Life Sciences 2011 £m	Seals 2012 £m	Seals 2011 £m	Controls 2012 £m	Controls 2011 £m	Total 2012 £m	Total 2011 £m
Revenue – existing businesses	**76.4**	74.4	**90.8**	80.0	**76.8**	76.2	**244.0**	230.6
– acquisitions	**2.0**	–	**9.1**	–	**5.1**	–	**16.2**	–
Revenue	**78.4**	74.4	**99.9**	80.0	**81.9**	76.2	**260.2**	230.6
Adjusted operating profit – existing businesses	**17.9**	17.1	**19.1**	14.9	**13.8**	13.2	**50.8**	45.2
– acquisitions	**0.1**	–	**1.3**	–	**0.6**	–	**2.0**	–
Adjusted operating profit	**18.0**	17.1	**20.4**	14.9	**14.4**	13.2	**52.8**	45.2
Acquisition related charges (note 11)	**(2.7)**	(2.7)	**(2.5)**	(1.7)	**(1.2)**	(0.4)	**(6.4)**	(4.8)
Operating profit	**15.3**	14.4	**17.9**	13.2	**13.2**	12.8	**46.4**	40.4

	Life Sciences 2012 £m	Life Sciences 2011 £m	Seals 2012 £m	Seals 2011 £m	Controls 2012 £m	Controls 2011 £m	Total 2012 £m	Total 2011 £m
Operating assets	**25.9**	21.8	**37.9**	33.0	**32.1**	27.8	**95.9**	82.6
Investment	**–**	–	**0.7**	–	**–**	–	**0.7**	–
Goodwill	**47.6**	45.3	**16.5**	14.2	**15.7**	14.9	**79.8**	74.4
Acquisition intangible assets	**16.4**	16.6	**13.2**	9.8	**2.6**	0.9	**32.2**	27.3
	89.9	83.7	**68.3**	57.0	**50.4**	43.6	**208.6**	184.3
Unallocated assets:								
– Deferred tax assets							**2.9**	2.8
– Cash and cash equivalents							**11.4**	17.8
– Corporate assets							**3.5**	3.5
Total assets							**226.4**	208.4
Operating liabilities	**(14.0)**	(11.9)	**(10.3)**	(8.9)	**(13.5)**	(13.0)	**(37.8)**	(33.8)
Unallocated liabilities:								
– Deferred tax liabilities							**(4.5)**	(4.8)
– Retirement benefit obligations							**(5.4)**	(5.4)
– Future purchases of minority interests							**(3.2)**	(2.0)
– Borrowings							**(3.5)**	(5.6)
– Corporate liabilities							**(4.8)**	(4.9)
Total liabilities							**(59.2)**	(56.5)
Net assets							**167.2**	151.9
Other segment information								
Capital expenditure	**2.3**	0.8	**0.6**	0.6	**0.6**	0.3	**3.5**	1.7
Depreciation/amortisation	**1.2**	1.0	**0.6**	0.8	**0.3**	0.3	**2.1**	2.1

Alternative Performance Measures (note 2)

	Life Sciences 2012 £m	Life Sciences 2011 £m	Seals 2012 £m	Seals 2011 £m	Controls 2012 £m	Controls 2011 £m	Total 2012 £m	Total 2011 £m
Net assets							**167.2**	151.9
Add/(less):								
– Deferred tax, net							**1.6**	2.0
– Retirement benefit obligations							**5.4**	5.4
– Future purchases of minority interests							**3.2**	2.0
– Cash and cash equivalents							**(11.4)**	(17.8)
– Borrowings							**3.5**	5.6
– Adjustment to goodwill	**(7.7)**	(7.0)	**(1.2)**	(1.3)	**(1.2)**	(0.6)	**(10.1)**	(8.9)
Group trading capital employed							**159.4**	140.2
Corporate liabilities, net							**1.3**	1.4
Segment trading capital employed	**68.2**	64.8	**56.8**	46.8	**35.7**	30.0	**160.7**	141.6

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2012

4. Geographic Segment Analysis by Origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
United Kingdom	**69.8**	61.8	**12.5**	10.9	**21.6**	18.2	**27.5**	22.0	**0.6**	0.2
Rest of Europe	**37.6**	40.8	**5.3**	5.8	**11.6**	13.5	**19.3**	19.8	**0.2**	0.3
North America	**152.8**	128.0	**35.0**	28.5	**91.8**	81.4	**112.6**	98.4	**2.7**	1.2
	260.2	230.6	**52.8**	45.2	**125.0**	113.1	**159.4**	140.2	**3.5**	1.7

1 Non-current assets exclude the investment and deferred tax assets.

5. Group Employee Costs

The key management of the Group are the Executive and non-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 34 to 43 and amounted in total to £2.1m (2011: £1.9m). The charge for share-based payments of £0.8m (2011: £0.7m) 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 £0.3m (2011: £0.2m).

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

	2012 £m	2011 £m
Wages and salaries	**42.8**	38.3
Social security costs	**3.8**	3.4
Pension costs – defined contribution	**1.1**	0.8
Share-based payments	**0.8**	0.7
	48.5	43.2

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

	2012 Number	2011 Number
Life Sciences	**270**	223
Seals	**489**	432
Controls	**292**	245
Corporate	**11**	10
Number of employees – average	**1,062**	910
Number of employees – year end	**1,117**	954

6. Financial Expense, net

	2012 £m	2011 £m
Interest and similar income		
– interest receivable on short term deposits	**0.1**	0.1
– net finance income from defined benefit pension scheme (note 25)	**0.1**	0.2
	0.2	0.3
Interest expense and similar charges		
– bank commitment and facility fees	**(0.1)**	(0.3)
– interest payable on bank borrowings	**(0.3)**	(0.3)
	(0.4)	(0.6)
Net interest expense	**(0.2)**	(0.3)
– fair value remeasurement of put options (note 20)	**(0.2)**	(0.9)
Financial expense, net	**(0.4)**	(1.2)

The fair value remeasurement of £0.2m (2011: £0.9m) includes £0.1m (2011: £0.1m) which relates to the unwinding of the discount on the liability for future purchases of minority interests.

7. Tax Expense

	2012 £m	2011 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**3.3**	3.1
Overseas tax	**11.8**	9.7
	15.1	12.8
Adjustments in respect of prior year:		
Overseas tax	**(0.1)**	–
Total current tax	**15.0**	12.8
Deferred tax		
The deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(0.1)**	(0.2)
Overseas	**(0.5)**	(1.0)
Total deferred tax	**(0.6)**	(1.2)
Total tax on profit for the year	**14.4**	11.6

In addition to the above credit for deferred tax included in the consolidated Income Statement, deferred tax relating to the retirement benefit scheme and cash flow hedges of £0.3m (2011: £0.3m) was credited directly to Other Comprehensive Income. A further £0.6m (2011: £nil) was credited directly to equity which related to share-based payments.

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:

	2012 £m	2011 £m
Profit before tax	**46.0**	39.2
Tax on profit at UK effective corporation tax rate of 25% (2011: 27%)	**11.5**	10.6
Effects of:		
Change in UK tax rates	**0.2**	0.2
Higher tax rates on overseas earnings	**2.7**	0.4
Adjustments to tax charge in respect of previous years	**(0.1)**	–
Fair value remeasurements	**–**	0.2
Other permanent differences	**0.1**	0.2
Total tax on profit for the year	**14.4**	11.6

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 26% to 24% on 31 March 2012; however as the Group prepares its financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2012 was 25% (2011: 27%) and this rate has been used for tax on profit in the above reconciliation. The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the USA are taxed at rates of up to 38%.

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2011) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012, respectively. The 2012 UK Budget on 21 March 2012 announced that the UK corporation tax rate will reduce further to 22% by 2014.

These further reductions in the UK corporation tax rate are likely to lead to a further reduction in the future UK current tax charge. The deferred tax asset at 30 September 2012 has been calculated based on the rate of 23% substantively enacted at 30 September 2012. The anticipated effect of the announced further 1% rate reduction on the Group's current and deferred tax is not expected to be significant.

8. Dividends

	2012 pence per share	2011 pence per share	2012 £m	2011 £m
Interim dividend, paid in June	**4.2**	3.5	**4.7**	3.9
Final dividend of the prior year, paid in January	**8.5**	6.2	**9.5**	7.0
	12.7	9.7	**14.2**	10.9

The Directors have proposed a final dividend in respect of the current year of 10.2p per share (2011: 8.5p) which will be paid on 23 January 2013, subject to approval of shareholders at the Annual General Meeting on 16 January 2013. The total dividend for the current year, subject to approval of the final dividend, will be 14.4p per share (2011: 12.0p).

The Diploma Employee Benefit Trust holds 962,337 (2011: 1,094,512) shares, which are not eligible for dividends.

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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 112,373,327 (2011: 112,423,842) and the profit for the year attributable to shareholders of £31.3m (2011: £27.0m). There are no potentially dilutive shares.

Adjusted earnings per share

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

	2012 pence per share	2011 pence per share	2012 £m	2011 £m
Profit before tax			**46.0**	39.2
Tax expense			**(14.4)**	(11.6)
Minority interests			**(0.3)**	(0.6)
Earnings for the year attributable to shareholders of the Company	**27.9**	24.0	**31.3**	27.0
Acquisition related charges	**5.6**	4.3	**6.4**	4.8
Fair value remeasurement of put options	**0.2**	0.8	**0.2**	0.9
Tax effects on goodwill, acquisition intangible assets and fair value remeasurements	**(0.6)**	(1.2)	**(0.7)**	(1.3)
Adjusted earnings	**33.1**	27.9	**37.2**	31.4

10. Goodwill

	Life Sciences (Restated) £m	Seals £m	Controls £m	Total (Restated) £m
At 1 October 2010	38.2	14.2	14.9	67.3
Acquisitions	7.3	–	–	7.3
Exchange adjustments	(0.2)	–	–	(0.2)
At 30 September 2011	45.3	14.2	14.9	74.4
Acquisitions (note 22)	1.5	3.0	1.1	5.6
Exchange adjustments	0.8	(0.7)	(0.3)	(0.2)
At 30 September 2012	**47.6**	**16.5**	**15.7**	**79.8**

The Directors carry out an impairment test on all goodwill generally twice a year. Goodwill is ascribed to a business which, for the purpose of these impairment tests, is referred to as a cash generating unit. The impairment test requires each cash generating unit to prepare "value in use" valuations from discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and on a five year strategic plan, prepared at a Group level.

The key assumptions used to prepare the cash flow forecasts relate to gross margin, growth rates and discount rates. The gross margins are assumed to remain sustainable, which is supported by historical experience; growth rates generally approximate to the long term average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts in respect of the next five years vary between 2% and 5% in each of the sectors; these annual growth rates then trend down towards 2.0% over the longer term.

The cash flow forecasts are discounted to determine a current valuation, using a pre-tax discount rate of ca. 13% (2011: 13%). This rate is based on the characteristics of lower risk, non-technically driven, distribution businesses with robust capital structures, which is broadly consistent with each of the Group's businesses.

Based on the criteria set out above, no impairment in the value of goodwill was identified.

The Directors have also carried out sensitivity analysis on the key assumptions to determine whether a "reasonably possible change" in any of these assumptions would result in an impairment of goodwill. This analysis indicates that a "reasonably possible change" in these key assumptions would be unlikely to give rise to an impairment charge to goodwill in any of the businesses in the Life Sciences or Seals segments. However, in the Controls sector a reduction of 2% in revenue growth in the medium term in one of the businesses in this sector would result in an impairment charge of up to £0.3m. Before any sensitivities and based on the original assumptions in respect of this business in the Controls sector, there is limited headroom in the cash flow valuation. In the prior year, the sensitivity analysis indicated that a reduction of 2% in revenue growth in the medium term in the Controls sector would have resulted in an impairment of £0.2m. The headroom, before sensitivities, in respect of these businesses in the Controls sector last year was £0.7m.

As described further in the Group Accounting Policies note 1.1, goodwill of £13.1m recognised in the consolidated financial statements at 30 September 2011 on acquisition of the outstanding minority interest in AMT, a business in the Life Sciences sector, has been written off directly against total shareholders' equity and the balances at 30 September 2011 have been restated accordingly.

11. Acquisition and Other Intangible Assets

	Customer relationships £m	Supplier relationships £m	Trade names and databases £m	Total acquisition intangible assets £m	Other intangible assets £m
Cost					
At 1 October 2010	20.9	10.3	2.6	33.8	2.2
Additions	–	–	–	–	0.4
Acquisitions	2.9	6.4	–	9.3	–
Exchange adjustments	–	(0.2)	–	(0.2)	–
At 30 September 2011	23.8	16.5	2.6	42.9	2.6
Additions	–	–	–	–	0.2
Acquisitions (note 22)	10.4	0.6	–	11.0	–
Disposals	–	–	–	–	(0.1)
Exchange adjustments	(0.6)	0.2	(0.1)	(0.5)	–
At 30 September 2012	**33.6**	**17.3**	**2.5**	**53.4**	**2.7**
Amortisation					
At 1 October 2010	6.3	3.9	0.9	11.1	1.6
Charge for the year	2.5	1.7	0.3	4.5	0.3
At 30 September 2011	8.8	5.6	1.2	15.6	1.9
Charge for the year	3.5	2.0	0.3	5.8	0.2
Disposals	–	–	–	–	(0.1)
Exchange adjustments	(0.2)	–	–	(0.2)	–
At 30 September 2012	**12.1**	**7.6**	**1.5**	**21.2**	**2.0**
Net book value					
At 30 September 2012	**21.5**	**9.7**	**1.0**	**32.2**	**0.7**
At 30 September 2011	15.0	10.9	1.4	27.3	0.7

Acquisition related charges are £6.4m (2011: £4.8m) and comprise £5.8m (2011: £4.5m) of amortisation of acquisition intangible assets and £0.6m (2011: £0.3m) of acquisition expenses.

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

	Economic life
Customer relationships	5–15 years
Supplier relationships	7–10 years
Databases and trade names	5–10 years

The fair value of customer relationships was assessed 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. Investment

	2012 £m	2011 £m
Investment	**0.7**	–

On 16 April 2012, and as an integral part of the acquisition of J Royal, the Group purchased a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal for £0.7m (US$1.0m). The Group has no involvement in the day-to-day operations or management of JRPP. At 30 September 2012, there was no material difference between the carrying value of the investment and its fair value.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2012

13. Property, Plant and Equipment

	Freehold properties £m	Leasehold properties £m	Plant & equipment £m	Total £m
Cost				
At 1 October 2010	8.8	1.1	16.6	26.5
Additions	–	0.1	1.2	1.3
Acquisitions	–	–	0.3	0.3
Disposals	–	(0.1)	(0.5)	(0.6)
At 30 September 2011	8.8	1.1	17.6	27.5
Additions	–	0.8	2.5	3.3
Acquisitions (note 22)	–	0.1	0.2	0.3
Disposals	–	–	(4.0)	(4.0)
At 30 September 2012	**8.8**	**2.0**	**16.3**	**27.1**
Depreciation				
At 1 October 2010	2.1	0.7	12.6	15.4
Charge for the year	0.1	0.1	1.6	1.8
Disposals	–	(0.1)	(0.3)	(0.4)
At 30 September 2011	2.2	0.7	13.9	16.8
Charge for the year	0.1	0.1	1.7	1.9
Disposals	–	–	(3.9)	(3.9)
At 30 September 2012	**2.3**	**0.8**	**11.7**	**14.8**
Net book value				
At 30 September 2012	**6.5**	**1.2**	**4.6**	**12.3**
At 30 September 2011	6.6	0.4	3.7	10.7

Land included above, but not depreciated, is £2.0m (2011: £2.0m). Capital commitments contracted, but not provided, were £1.2m (2011: £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) (2011: £0.5m and £nil, respectively).

14. Deferred Tax

The movement on deferred tax is as follows:

	2012 £m	2011 £m
At 1 October	**(2.0)**	(1.3)
Credit for the year (note 7)	**0.6**	1.2
Acquisitions (note 22)	**(0.9)**	(2.3)
Accounted for in equity	**0.6**	–
Accounted for in other comprehensive income	**0.3**	0.3
Exchange adjustments	**(0.2)**	0.1
At 30 September	**(1.6)**	(2.0)

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	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment	**0.4**	0.4	**(0.7)**	(0.6)	**(0.3)**	(0.2)
Goodwill and intangible assets	**–**	–	**(6.2)**	(5.5)	**(6.2)**	(5.5)
Retirement benefit obligations	**1.2**	1.4	**–**	–	**1.2**	1.4
Inventories	**1.0**	0.8	**–**	–	**1.0**	0.8
Share-based payments	**1.5**	0.8	**–**	–	**1.5**	0.8
Trading losses	**0.4**	0.3	**–**	–	**0.4**	0.3
Other temporary differences	**0.9**	0.6	**(0.1)**	(0.2)	**0.8**	0.4
	5.4	4.3	**(7.0)**	(6.3)	**(1.6)**	(2.0)
Set off of deferred tax	**(2.5)**	(1.5)	**2.5**	1.5	**–**	–
	2.9	2.8	**(4.5)**	(4.8)	**(1.6)**	(2.0)

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to overseas 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 £1.8m (2011: £1.2m).

15. Inventories

	2012 £m	2011 £m
Finished goods and goods held for resale	**45.8**	38.4

Inventories are stated net of impairment provisions of £4.3m (2011: £3.6m). During the year £0.5m (2011: £0.5m) was recognised as an expense relating to the write-down of inventory to net realisable value.

16. Trade and Other Receivables

	2012 £m	2011 £m
Trade receivables	**37.4**	33.0
Less: impairment provision	**(0.4)**	(0.5)
	37.0	32.5
Other receivables	**1.9**	2.2
Prepayments and accrued income	**1.7**	1.6
	40.6	36.3

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

	2012 £m	2011 £m
Sterling	**12.9**	10.4
US dollars	**9.1**	8.6
Canadian dollars	**8.9**	9.5
Euro	**4.2**	2.7
Other	**2.3**	1.8
	37.4	33.0

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

	2012 £m	2011 £m
Not past due	**30.3**	26.2
Past due, but not impaired	**6.7**	6.2
Past due, but partially impaired	**0.4**	0.6
	37.4	33.0

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

	2012 £m	2011 £m
Up to one month past due	**5.5**	4.7
Between one and two months past due	**0.8**	1.1
Between two and four months past due	**0.4**	0.3
Over four months past due	**0.1**	0.1
	6.8	6.2

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

	2012 £m	2011 £m
At 1 October	**0.5**	0.6
(Credited)/charged against profit, net	**(0.1)**	0.2
Utilised by write off	**–**	(0.3)
At 30 September	**0.4**	0.5

Notes to the Consolidated Financial Statements continued
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17. Trade and Other Payables

	2012 £m	2011 £m
Trade payables	**20.5**	19.6
Other payables	**3.1**	2.3
Other taxes and social security	**2.3**	1.5
Accruals and deferred income	**12.6**	11.8
	38.5	35.2

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

	2012 £m	2011 £m
Sterling	**5.1**	5.4
US dollars	**9.2**	8.4
Canadian dollars	**1.1**	1.2
Euro	**4.2**	3.7
Other	**0.9**	0.9
	20.5	19.6

18. Cash and Cash Equivalents

	Sterling £m	US$ £m	C$ £m	Euro £m	Other £m	2012 Total £m	Sterling £m	US$ £m	Can$ £m	Euro £m	Other £m	2011 Total £m
Cash at bank	**2.3**	**3.4**	**2.7**	**0.7**	**1.4**	**10.5**	2.7	3.3	3.8	2.2	1.0	13.0
Short term deposits	**–**	**–**	**–**	**0.9**	**–**	**0.9**	3.7	–	–	1.1	–	4.8
	2.3	**3.4**	**2.7**	**1.6**	**1.4**	**11.4**	6.4	3.3	3.8	3.3	1.0	17.8

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

19. Financial Instruments

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

The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivities is set out below, or on page 25 within Principal Risks and Uncertainties, which has been audited.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations; this arises principally from the Group's trade and other receivables from customers and from cash balances (including deposits) held with financial institutions.

The Group is exposed to customers ranging from government backed agencies and large public and private wholesalers, to small privately owned businesses and the underlying local economic risks vary throughout the world. Trade receivable exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer.

The Group establishes an allowance for impairment that represents its estimate of potential losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the receivable is deemed irrecoverable, the allowance account is written off against the underlying receivable. The Group has not had any material irrecoverable trade receivables in the past five years.

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 "AA" or better.

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

	Carrying amount	
	2012 £m	2011 £m
Trade receivables	**37.0**	32.5
Other receivables	**1.9**	2.2
Cash and cash equivalents	**11.4**	17.8
	50.3	52.5

19. Financial Instruments continued

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

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group continually monitors net funds and forecast cash flows to ensure that sufficient facilities are in place to meet the Group's requirements in the short, medium and long term and, in order to do so, arranges borrowings. Additionally, compliance with debt covenants are monitored and during 2012 all covenants have been fully complied with.

The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on deposits. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses, but the Group also has a committed £20m revolving bank facility (with an option to increase its facility to £40m, subject to market pricing) which expires in November 2013. Interest on this facility is payable at between 150 and 195 bps over LIBOR, depending on the ratio of net debt to EBITDA. At 30 September 2012, £3.5m (2011: £5.6m) of the facility had been drawn down.

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

	2012 £m	2011 £m
Expiring within one year	**–**	–
Expiring after one year but within two years	**16.5**	14.4

The Group's financial liabilities are as follows:

	Carrying amount	
	2012 £m	2011 £m
Trade payables	**20.5**	19.6
Other payables	**3.1**	2.3
Other liabilities	**3.8**	3.1
Borrowings	**3.5**	5.6
	30.9	30.6
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**26.4**	22.7
One-two years	**3.5**	7.7
Two-five years	**1.2**	0.6
	31.1	31.0
Less: Discount	**(0.2)**	(0.4)
	30.9	30.6

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's currency risk comprises translational and transactional risk from its exposure to movements in US dollars, Canadian dollars, Euros and Australian dollars. The transactional exposure arises on trade receivables, trade payables and cash and cash equivalents and these balances are analysed by currency in notes 16, 17 and 18, respectively. Net foreign exchange losses of £0.1m (2011: £0.1m gain) were recognised in profit for the year.

The Group holds forward foreign exchange contracts to hedge forecast transactional exposure in 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 2012 was a £0.3m liability (2011: £0.6m asset). The amount removed from Other Comprehensive Income and taken to the consolidated Income Statement in cost of sales during the year was £0.5m debit (2011: £0.6m credit). The fair value of cash flow hedges taken to Other Comprehensive Income during the year was £0.4m debit (2011: £0.6m credit).

The currency risk arising from both translational and transactional risks are described further on page 25 within Principal Risks and Uncertainties.

d) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's results. The Group's interest rate risk arises primarily from its cash funds and borrowings.

The Group does not undertake any hedging of interest rates. All cash deposits, held in the UK and overseas, are held on a short term basis at floating rates or overnight rates, based on the relevant UK Base Rate, or equivalent rate.

Surplus funds are deposited with commercial banks that meet the credit criteria approved by the Board, for periods of between one to six months at rates that are generally fixed by reference to the relevant UK Base Rate, or equivalent rates. It is estimated that an increase of 1% in interest rates would not have a significant impact on the Group's adjusted profit before tax.

An analysis of cash and cash equivalents at the reporting dates is set out in note 18.

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19. Financial Instruments continued

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 24 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 nominal 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.

f) Capital management risk

The Group's policy is to maintain a strong capital base so as to maintain investor, supplier and market confidence, provide strong returns to shareholders and to support the future development of the business. The capital structure of the Group consists of cash and cash equivalents, debt, which includes borrowings and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings.

The Group is not subject to externally imposed capital requirements. There were no changes in the Group's approach to capital management during the year.

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

20. Other Liabilities

	2012 £m	2011 £m
Future purchases of minority interests	**3.2**	2.0
Deferred consideration	**0.6**	1.1
	3.8	3.1
Analysed as:		
Due within one year	**2.8**	0.8
Due after one year	**1.0**	2.3

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

	2012 £m	2011 £m
At 1 October	**2.0**	13.2
Released to retained earnings on acquisition	**–**	(12.1)
Put options entered into during the year	**1.0**	–
Unwinding of discount	**0.1**	0.1
Fair value remeasurements	**0.1**	0.8
At 30 September	**3.2**	2.0

The Group retains put options to acquire the outstanding minority interests. On 6 June 2012, as part of the acquisition of Diagnostic Solutions Pty Limited ("DSL"), a put and call option was entered into with the outstanding minority shareholders which is exercisable from 1 October 2014. The financial liability in respect of this put option was £1.0m.

At 30 September 2012 the Group retained put options to acquire minority interests in BGS, HPS and M Seals which are exercisable within the next twelve months.

At 30 September 2012 the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2012. This led to a remeasurement of the fair value of these put options and the liability was increased by £0.1m (2011: £0.8m increase). This charge, together with the charge from unwinding the discount on the liability, was in aggregate £0.2m (2011: £0.9m) and has been charged to the consolidated Income Statement.

At 30 September 2012 deferred consideration of £0.6m comprises £0.3m payable to the former vendors of CMI in respect of certain commitments entered into at acquisition and £0.3m payable to the vendors of Amfast Limited in respect of certain gross profit targets to be achieved in the year ending 31 March 2013. These amounts are expected to be paid during the next year.

On 20 December 2011 deferred consideration of £0.8m was paid to the former vendors of CMI in final settlement of their performance payment.

21. Minority Interests

	£m
At 1 October 2010	3.1
Minority interests acquired	0.7
Share of profit	0.6
Dividends paid	(3.9)
At 30 September 2011	0.5
Acquisition of subsidiary	0.7
Share of profit	0.3
Dividends paid	(0.1)
At 30 September 2012	**1.4**

22. Acquisition and Disposal of Subsidiaries

On 12 December 2011 the Group acquired the trade and net assets of J Royal Co. Inc ("J Royal") for maximum consideration of £11.8m (US$18.4m). The initial cash consideration paid on acquisition was £10.4m (US$16.3m) and a further £1.4m (US$2.0m) was paid on 29 March 2012 in final settlement of the performance payment, including a small adjustment in respect of net assets at completion. Acquisition expenses of £0.3m (US$0.4m) were incurred on the acquisition of both J Royal and JRPP.

On 30 March 2012 the Group acquired 100% of Abbeychart Limited ("Abbeychart") from Mr P Best for consideration of £4.0m, including a small adjustment in respect of net assets at completion.

On 10 May 2012 the Group acquired 100% of Amfast Limited ("Amfast") from Mr C Myers and Ms C Brotherton for a maximum consideration of £4.3m, including deferred consideration of £0.3m. Acquisition expenses of £0.1m were incurred on these two acquisitions.

On 6 June 2012 the Group acquired 80% of Diagnostic Solutions Pty Ltd ("DSL"), from Ms E de Gooyer and Mr P West for cash consideration of £3.0m (A$4.8m); the outstanding 20% of shares are subject to put and call options exercisable from October 2014 at an agreed multiple of earnings before interest and tax. The minority interest recognised at the acquisition date was measured by reference to the fair value of the minority interest and amounted to £0.7m (A$1.2m). The fair value was assessed by reference to the purchase price paid for the controlling interest. Acquisition expenses of £0.2m (A$0.3m) were incurred on this acquisition.

The consideration for all these acquisitions was paid in cash and met from the Group's existing cash and borrowing 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 these acquisitions:

	J Royal		Other acquisitions		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	0.1	6.1	–	4.9	0.1	11.0
Property, plant and equipment	–	–	0.4	0.3	0.4	0.3
Inventories	1.8	1.8	2.8	2.4	4.6	4.2
Trade and other receivables	1.4	1.4	2.8	2.8	4.2	4.2
Trade and other payables	(0.6)	(0.6)	(2.6)	(2.6)	(3.2)	(3.2)
Deferred tax	–	–	(0.1)	(0.9)	(0.1)	(0.9)
Net assets acquired	2.7	8.7	3.3	6.9	6.0	15.6
Goodwill arising on acquisitions		3.0		2.6		5.6
Minority share of net assets (including goodwill)		–		(0.7)		(0.7)
		11.7		**8.8**		**20.5**
Cash paid		11.8		11.0		22.8
Cash acquired		(0.1)		(2.5)		(2.6)
Expenses of acquisition		0.3		0.3		0.6
Net cash paid, after acquisition expenses		**12.0**		**8.8**		**20.8**
Provision for deferred consideration payable		–		0.3		0.3
Less: Expenses of acquisition		(0.3)		(0.3)		(0.6)
Total consideration		**11.7**		**8.8**		**20.5**

Goodwill arising on these acquisitions of £5.6m is represented by the product know-how held by employees, prospect for sales growth from new customers and operating cost synergies. Goodwill and acquisition intangible assets relating to these acquisitions of £9.1m will be allowable for a tax deduction in future years.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2012

22. Acquisition and Disposal of Subsidiaries continued

From the date of acquisition to 30 September 2012, the newly acquired businesses contributed £16.2m to revenue and £2.0m to profit before tax, after allocation of Head Office costs. If the acquisition of these businesses had been made at the beginning of the financial year, these businesses would have contributed £26.5m to revenue and £3.4m to profit before tax. Profit before tax should not be viewed as indicative of the results of these businesses that would have occurred if these acquisitions had been completed at the beginning of the year.

On 22 May 2012 the Group sold its controlling interest in a1-envirosciences AG, a company based in Switzerland, to members of its management team for maximum consideration of £0.4m. During the year the business contributed £1.0m (2011: £2.9m) to revenues and £nil (2011: £0.4m) to adjusted operating profit. No gain or loss on this disposal has been recognised in the consolidated financial statements.

23. Reconciliation of Cash Flow from Operating Activities

	2012 £m	2011 £m
Profit for the year	**31.6**	27.6
Depreciation/amortisation of tangible and other intangible assets	**2.1**	2.1
Acquisition related charges	**6.4**	4.8
Share-based payments expense	**0.8**	0.7
Financial expense, net	**0.4**	1.2
Tax expense	**14.4**	11.6
Operating cash flow before changes in working capital	**55.7**	48.0
Increase in inventories	**(4.1)**	(5.5)
Increase in trade and other receivables	**(1.2)**	(3.3)
Increase in trade and other payables	**0.1**	1.4
Cash paid into defined benefit schemes (note 25)	**(0.3)**	(0.3)
Cash flow from operating activities	**50.2**	40.3

24. Net Funds

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

	2012 £m	2011 £m
Net decrease in cash and cash equivalents	**(6.1)**	(12.6)
Decrease/(increase) in borrowings	**2.2**	(5.4)
	(3.9)	(18.0)
Effect of exchange rates	**(0.4)**	0.1
Movement in net funds	**(4.3)**	(17.9)
Net funds at beginning of year	**12.2**	30.1
Net funds at end of year	**7.9**	12.2
Comprising:		
Cash and cash equivalents	**11.4**	17.8
Borrowings	**(3.5)**	(5.6)
Net funds at 30 September	**7.9**	12.2

The Group has a committed £20m revolving bank facility which expires on 18 November 2013. At 30 September 2012, the Group had utilised £3.5m of this facility. Interest on this facility is payable at between 150 and 175 bps over LIBOR, depending on the ratio of net debt to EBITDA.

25. Retirement Benefit Obligations

The Group maintains a defined benefit pension scheme in the UK called Diploma Holdings PLC UK Pension Scheme ("the Scheme"). The Scheme is closed to further accrual and the assets of the Scheme are held in separate trustee administered funds. The Scheme is funded in accordance with rates recommended by an independent qualified actuary on the basis of triennial or shorter period reviews using the projected unit method.

Pension deficit included in the Consolidated Statement of Financial Position:

	2012 £m	2011 £m
Market value of Scheme assets		
Equities	**16.1**	13.8
Bonds	**4.5**	4.2
Cash	**0.1**	0.2
	20.7	18.2
Present value of Scheme liabilities	**(26.1)**	(23.6)
	(5.4)	(5.4)

25. Retirement Benefit Obligations continued

Amounts credited to the consolidated Income Statement:

	2012 £m	2011 £m
Charged to operating profit	–	–
Interest cost	**(1.2)**	(1.2)
Expected return on Scheme assets	**1.3**	1.4
Credited to financial income (note 6)	**0.1**	0.2
	0.1	0.2

Amounts recognised in the consolidated Statement of Income and Other Comprehensive Income:

	2012 £m	2011 £m
Merger of legacy schemes	–	(0.4)
Experience adjustments on Scheme assets	**1.3**	(1.8)
Changes in assumptions on Scheme liabilities	**(1.1)**	2.1
Experience adjustments on Scheme liabilities	**(0.6)**	(0.5)
Actuarial loss on Scheme liabilities	**(0.4)**	(0.6)

The cumulative amount of actuarial losses recognised in the consolidated Statement of Income and Other Comprehensive Income, since the transition to IFRS, is £4.9m (2011: £4.5m).

Analysis of movement in the pension deficit:

	2012 £m	2011 £m
At 1 October	**5.4**	5.3
Merger of legacy schemes	–	0.4
Amounts credited to consolidated Income Statement	**(0.1)**	(0.2)
Contributions paid by employer	**(0.3)**	(0.3)
Actuarial loss	**0.4**	0.2
At 30 September	**5.4**	5.4

Analysis of movements in the present value of the Scheme liabilities:

	2012 £m	2011 £m
At 1 October	**23.6**	21.6
Merger of legacy schemes	–	2.9
Interest cost	**1.2**	1.2
Actuarial loss	**0.6**	0.5
Loss/(gain) on changes in assumptions	**1.1**	(2.1)
Benefits paid	**(0.4)**	(0.5)
At 30 September	**26.1**	23.6

Analysis of movements in the present value of the Scheme assets:

	2012 £m	2011 £m
At 1 October	**18.2**	16.3
Merger of legacy schemes	–	2.5
Expected return on assets	**1.3**	1.4
Actuarial gain/(loss)	**1.3**	(1.8)
Contributions paid by employer	**0.3**	0.3
Benefits paid	**(0.4)**	(0.5)
At 30 September	**20.7**	18.2

The actual return on Scheme assets during the year was a £2.6m gain (2011: £0.4m loss).

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2012

25. Retirement Benefit Obligations continued

Principal actuarial assumptions for the Scheme at balance sheet dates:

	2012	2011	2010
Inflation rate – RPI	**2.6%**	3.2%	3.2%
– CPI	**1.9%**	2.5%	–
Expected rate of pension increases – RPI	**–**	–	3.2%
– CPI	**1.9%**	2.5%	–
Discount rate	**4.6%**	5.1%	5.0%
Number of years a current pensioner is expected to live beyond age 65			
Men	**22.4**	22.3	22.1
Women	**24.8**	24.6	25.0
Expected return on Scheme assets[1]			
Analysed as:			
Equities	**7.8%**	8.0%	8.0%
Bonds	**4.3%**	3.8%	5.0%
Cash	**1.0%**	1.0%	1.0%

1 The expected return for each class of scheme assets is based on a combination of historical performance, current market yields and advice from investment managers.

Demographic assumptions:

Basic mortality table used:	S1NA
Year the mortality table was published:	CMI 2010
Allowance for future improvements in longevity:	Year of birth projections, with a long term improvement rate of 1.25%
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 2012 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%	9.2	2.4
Expected rate of pension increase	Increase by 0.5%	3.4	0.9
Life expectancy	Increase by 1 year	1.1	0.3

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.

Date of last formal funding valuation	30 September 2010
Deficit	£2,682,000
Funding level	87%
Funding approach	Assumes that Scheme assets will outperform Government 20 year fixed interest gilt yield by 2.90% pa pre-retirement and 0.80% pa post-retirement
Post retirement mortality table	S1NA
Post retirement mortality projections	CMI 2010 with long term improvement rate of 1.25% pa
Contributions per annum to remove the deficit	£320,000
Period over which the deficit is expected to be removed	1 October 2010 – 30 September 2021
Expected contributions during FY2013	£326,400
Current investment strategy	80% Equities/20% Bonds
Number of deferred members at date of actuarial valuation	344

25. Retirement Benefit Obligations continued

History of experience gains and losses:

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

	2012	2011	2010[1]	2009[1]	2008[1]
Experience adjustments arising on Scheme assets:					
Amount (£m)	**1.3**	(1.8)	0.3	0.7	(3.4)
% of Scheme assets	**6%**	10%	2%	5%	27%
Changes in assumptions arising on present value of Scheme liabilities:					
Amount (£m)	**(1.1)**	2.1	(2.2)	(3.8)	3.0
% of present value of Scheme liabilities	**4%**	9%	10%	20%	21%
Experience adjustments arising on present value of Scheme liabilities:					
Amount (£m)	**(0.6)**	(0.5)	0.1	–	(0.1)
% of present value of Scheme liabilities	**2%**	2%	–	–	1%
Present value of Scheme liabilities	**(26.1)**	(23.6)	(21.6)	(18.8)	(14.2)
Market value of Scheme assets	**20.7**	18.2	16.3	14.1	12.5
Deficit	**(5.4)**	(5.4)	(5.3)	(4.7)	(1.7)

1 Amounts relate only to the two principal schemes.

26. Commitments

At 30 September 2012 the Group has total lease payments under non-cancellable operating leases as follows:

	Land and Buildings	
	2012 £m	2011 £m
Lease payments due:		
Within one year	**1.8**	1.4
Within two to five years	**4.3**	2.3
After five years	**0.9**	0.6
	7.0	4.3

Operating lease payments made in respect of land and buildings during the year were £2.1m (2011: £1.4m).

27. Auditor's Remuneration

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

	2012 £m	2011 £m
Fees payable to the auditor for the audit of:		
– the Company's annual report	**0.1**	0.1
– the Company's subsidiaries, pursuant to legislation	**0.2**	0.2
Total audit fees	**0.3**	0.3

Non-audit fees of £13,500 (2011: £10,500) were paid to the Group's auditor for other assurance services, including £11,000 (2011: £10,500) in connection with the Half Year Announcement. In 2011, the Group also paid £11,000 for taxation services provided in Canada and Denmark.

28. Exchange Rates

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

	Average		Closing	
	2012	2011	2012	2011
US dollar	**1.58**	1.61	**1.61**	1.56
Canadian dollar	**1.59**	1.59	**1.59**	1.62
Euro	**1.22**	1.15	**1.26**	1.16

29. Subsequent Events

On 2 November 2012 the Group acquired the assets and goodwill of Rayquick GmbH ("Rayquick") from Mr S Rias for a maximum consideration of £1.3m (€1.7m), before expenses. The initial cash paid was £1.0m (€1.3m) and up to a further £0.3m (€0.4m) is payable depending on revenues reported in the year ending 31 December 2012. In the year ended 31 December 2011 Rayquick reported unaudited revenues of £1.6m (€2.4m).

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2012

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 2012 and the comparative period. The following new standards, amendments and interpretations to existing standards have been published and have been endorsed by the EU; these are mandatory for the first time for the year ended 30 September 2012:
- Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement.
- IFRIC 13 Customer Loyalty Programmes: Fair Value of Award Credit.
- Annual Improvements to IFRS issued May 2010.
- Amendment to IFRS 7: Disclosures – Transfers of Financial Assets.

The introduction of these amendments has had no impact on the results, financial position or presentation of the consolidated financial statements.

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. The consolidated financial statements have been prepared on a going concern basis, as discussed on page 46.

In the year ended 30 September 2011, the Group acquired the outstanding 25% minority interest in AMT Vantage Group Inc and accounted for the difference of £13.1m between the cash paid of £12.5m and the minority interest book value as goodwill. Subsequent to the publication of the 2011 Annual Report & Accounts, it was confirmed that the difference of £13.1m should have been written off directly against total shareholders' equity in accordance with the new IAS 27 "Consolidated & Separate Financial Statements", rather than added to goodwill. The Group has therefore corrected this amount in the financial statements in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and the balances for goodwill and total shareholders' equity at 30 September 2011 have been restated accordingly.

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.

Non-controlling interests, defined as minority interests, in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

1.3 Acquisitions
Acquisitions are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Goodwill at the acquisition date represents the cost of the business combination (excluding acquisition related costs, which are expensed as incurred) plus the amount of any non-controlling interest in the acquiree in excess of the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on acquisition is recognised immediately in the income statement.

Minority interests may be initially measured at fair value or, alternatively, at the minority interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made for each business combination separately.

1.4 Divestments
The results and cash flows of major lines of businesses that have been divested have been classified as discontinued businesses.

1.5 Revenue recognition
Revenue is measured as the fair value of the consideration received or receivable for goods and services supplied to customers, after deducting sales allowances and value added taxes; revenue receivable for services supplied to customers, as opposed to goods, is less than 3% of Group revenue. Revenue is recognised when the risk and rewards of ownership transfers to the customer, which depending on individual customer terms, is at the time of despatch, delivery or upon formal customer acceptance. Provision is made for returns where appropriate. Service revenue received in advance is deferred and recognised on a pro-rata basis over the period of the contract.

1.6 Employee benefits
The Group operates a number of pension plans, both of the defined contribution and defined benefit type. The defined benefit scheme is closed to the accrual of further 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.

1 Group Accounting Policies continued

(b) Defined benefit pension plan: The deficit recognised in the balance sheet for the Group's defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets. The defined benefit obligation is calculated by independent actuaries using the projected unit cost method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds. The pension expense for the Group's defined benefit plan is recognised as follows:

(i) Within the Income Statement:

- Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised in operating profit;
- Interest cost on the 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 Income and Other Comprehensive Income:

- Actuarial gains and losses arising on the assets and liabilities of the scheme 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 its defined benefit scheme in the period in which they occur, outside the consolidated Income Statement, but in the consolidated Statement of Income and Other Comprehensive Income.

(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 Income Statement on a straight line basis over the vesting period, with a corresponding credit to equity. The cumulative expense recognised is adjusted to take account of shares forfeited by Executives who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely that shares will vest. For the market based measure, the Directors have used a predicted future value model to determine fair value of the shares at the date of grant.

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

1.7 Foreign currencies

The individual financial statements of each Group entity are prepared in their functional currency, which is the currency of the primary economic environment in which that entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated into UK sterling, which is the presentational currency of the Group.

(a) Reporting foreign currency transactions in functional currency:

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each subsequent balance sheet date:

(i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the 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.

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2012

1.8 Taxation
The tax expense relates to the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year, which differs from profit before taxation as reported in the Income Statement. Taxable profit excludes items of income and expense that are taxable (or deductible) in other years and also excludes items that are never taxable or deductible. The Group's liability for current tax, including UK corporation tax and overseas tax, is calculated using rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Temporary differences arise primarily from the recognition of the deficit on the Group's defined benefit pension scheme, the difference between accelerated capital allowances and depreciation and for short term timing differences where a provision held against receivables or 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 than 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.

1.9 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.

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
Leasehold property	– term of the lease
Plant and equipment	– plant and machinery between 3 and 7 years
	– IT hardware between 3 and 5 years
	– fixtures and fittings between 5 and 15 years

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.

1.10 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.

1 Group Accounting Policies continued

(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 and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. 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.

1.11 Impairment of tangible and intangible assets

An impairment loss is recognised to the extent that the carrying amount of an asset or cash generating unit 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.

1.12 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.

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2012

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

(a) Trade receivables
Trade receivables are initially measured at fair value, do not carry any interest and are reduced by a charge for impairment for estimated irrecoverable amounts. Such impairment charges are recognised in the 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 can 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 IAS 39, 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 other comprehensive income and the ineffective portion is recognised in the consolidated Income Statement. 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 consolidated 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 other comprehensive income 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 other comprehensive income is transferred to the consolidated Income Statement 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 the consolidated Income Statement (fair value hedges). No financial instruments are used to hedge net investments in a foreign operation (net investment hedges).

1.14 Available for sale financial assets (Investment)
Available-for-sale financial assets comprise equity securities which are not held for the purposes of equity trading. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income.

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

1 Group Accounting Policies continued

1.16 Other liabilities

Other liabilities are recognised when the Group has legal or constructive obligation as a result of a past event and it is possible that the Group will be required to settle that obligation. Other liabilities are measured at the Director's best estimate of the expenditure required to settle the obligation at the balance sheet date.

1.17 Dividends

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

1.18 Share capital and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The Group also maintains the following reserves:

(a) Translation reserve – The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign businesses.

(b) Hedging reserve – The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

(c) Retained earnings reserve – The retained earnings reserve comprises total 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.

1.19 Accounting standards, interpretations and amendments to published standards not yet effective

The IASB has published a number of new standards, amendments and interpretations to existing standards which are not yet effective, but will be mandatory for the Group's accounting periods beginning on or after 1 October 2012. Set out below are those which are considered most relevant to the Group:

- IFRS 9 "Financial Instruments – Recognition and Measurement": change in categorisation, recognition and measurement of financial assets;
- IFRS 10/11/12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in other Entities": suite of new standards on consolidation and related matters;
- IAS 19 "Employee Benefits": amendment to basis of accounting for defined benefit schemes; and
- IAS 1 "Presentation of Financial Statements": revision of presentation of comprehensive income.

The Group has considered the impact of these in future periods and no significant impact is expected on reported profit or net assets.

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:

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2012

2 Critical Accounting Estimates and Judgements continued

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 Directors' 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 Scheme's actuary and are consistent with those assumptions used to determine the financing elements related to the Scheme's 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 Scheme's actuary, are set out in note 25.

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 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investments	c	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(42.1)**	(42.2)
Total assets less current liabilities		**29.9**	29.8
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account	e	**24.2**	24.1
		29.9	29.8

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 19 November 2012 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

Notes to the Parent Company Financial Statements
For the year ended 30 September 2012

a) Accounting Policies
a.1 Basis of accounting
These financial statements have been prepared on a going concern basis, as discussed on page 46, under the historical cost convention in accordance with the Companies Act 2006 and applicable UK Accounting Standards. As permitted by section 408 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 the awards have vested and options have been exercised by the participants.

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 34 to 43.

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2012 and 1 October 2011	**72.0**

Details of the principal subsidiaries are set out on page 78.

d) Share Capital

	2012 Number	2011 Number	2012 £m	2011 £m
Allotted, issued and fully paid ordinary shares of 5p each				
At 30 September	**113,239,555**	113,239,555	**5.7**	5.7

During the year 132,175 shares were transferred from the Diploma Employee Benefit Trust to participants in connection with the exercise of options in respect of awards which have vested under the 2004 Long Term Incentive Plan. At 30 September 2012 the Trust held 962,337 (2011: 1,094,512) ordinary shares in the Company representing 0.8% of the called up share capital. The market value of the shares at 30 September 2012 was £4.6m (2011: £3.5m).

e) Reconciliation of movement in shareholders' funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 October 2011	5.7	24.1	29.8
Retained profit for the year	–	0.1	0.1
At 30 September 2012	**5.7**	**24.2**	**29.9**

Independent Auditor's Reports
For the year ended 30 September 2012

Independent Auditor's 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 2012 which comprise the consolidated income statement, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of income and other comprehensive income, the consolidated statement of changes in equity, the Group accounting policies and the related notes 1 to 29. 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 Chapter 3 of Part 16 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 auditor's 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 auditor
As explained more fully in the Directors' Responsibilities Statement for preparing the Financial Statements, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the Parent company financial statements of Diploma PLC for the year ended 30 September 2012 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 Auditor
London
19 November 2012

Independent Auditor's 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 2012 which comprise the Parent company balance sheet and the related notes a) to e). 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 Chapter 3 of Part 16 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement for preparing the Financial Statements, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012;
- 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 2012.

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
19 November 2012

Principal Subsidiaries

	Group percentage of equity capital	Country of incorporation or registration
Life Sciences		
a1-envirosciences Limited	100%	England
a1-envirosciences GmbH	100%	Germany
Somagen Diagnostics Inc	100%	Canada
AMT Electrosurgery Inc	100%	Canada
Vantage Endoscopy Inc (formerly Carsen Medical Inc)	100%	Canada
Big Green Surgical Company Pty Limited	80%	Australia
Diagnostic Solutions Pty Limited	80%	Australia
Seals		
HB Sealing Products Inc	100%	USA
J Royal US, Inc	100%	USA
HKX Inc	100%	USA
Hercules Europe BV	100%	Netherlands
All Seals Inc	100%	USA
RTD Seals Corp	100%	USA
M Seals A/S	90%	Denmark
FPE Limited	100%	England
Controls		
IS Rayfast Limited	100%	England
IS Motorport Inc	100%	USA
Amfast Limited	100%	England
Clarendon Engineering Supplies Limited	100%	England
Cabletec Interconnect Components Systems Limited	100%	England
Sommer GmbH	100%	Germany
Filcon Electronic GmbH	100%	Germany
HA Wainwright (Group) Limited	100%	England
Abbeychart 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):

First Interim Management Statement released	16 January 2013
Second Interim Management Statement released	30 July 2013
Half Year Results announced	13 May 2013
Preliminary Results announced	18 November 2013
Annual Report posted to shareholders	2 December 2013
Annual General Meeting (2012)	16 January 2013
Annual General Meeting (2013)	15 January 2014
Dividends (provisional dates)	
Interim announced	13 May 2013
Paid	19 June 2013
Final announced	18 November 2013
Paid (if approved)	22 January 2014

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

Share Registrar – Computershare Investor Services PLC:
The Company's Registrar is Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.
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 Group Company Secretary at the address shown below.

Secretary and Registered Office:
AJ Gallagher FCIS, Solicitor, 12 Charterhouse Square, London EC1M 6AX. Telephone: 020 7549 5700. Fax: 020 7549 5715.
Registered in England and Wales, number 3899848.

Website:
Diploma's website is www.diplomaplc.com

Five Year Record

Year ended 30 September Continuing businesses	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue	**260.2**	230.6	183.5	160.0	156.2
Adjusted operating profit	**52.8**	45.2	32.1	25.6	26.6
Finance (expense)/income	**(0.2)**	(0.3)	0.1	(0.1)	0.2
Adjusted profit before tax	**52.6**	44.9	32.2	25.5	26.8
Acquisition related charges	**(6.4)**	(4.8)	(3.5)	(3.1)	(2.7)
Fair value remeasurements	**(0.2)**	(0.9)	(2.0)	(1.9)	(3.0)
Profit before tax	**46.0**	39.2	26.7	20.5	21.1
Tax expense	**(14.4)**	(11.6)	(8.8)	(7.1)	(7.2)
Profit for the year from continuing businesses	**31.6**	27.6	17.9	13.4	13.9
Profit from discontinued businesses	**–**	–	5.1	0.9	0.5
Profit for the year	**31.6**	27.6	23.0	14.3	14.4
Capital structure					
Equity shareholders' funds	**165.8**	151.4	136.1	121.4	108.1
Minority interest	**1.4**	0.5	3.1	2.7	1.9
Add/(less): cash and cash equivalents	**(11.4)**	(17.8)	(30.1)	(21.3)	(15.7)
borrowings	**3.5**	5.6	–	–	–
retirement benefit obligations	**5.4**	5.4	5.3	4.7	1.7
future purchases of minority interests	**3.2**	2.0	13.2	13.1	11.2
deferred tax, net	**1.6**	2.0	1.3	2.0	3.3
adjustment to goodwill in respect of deferred tax	**(10.1)**	(8.9)	(6.6)	(6.5)	(6.0)
Trading capital employed	**159.4**	140.2	122.3	116.1	104.5
Net (decrease)/increase in net funds	**(3.9)**	(18.0)	8.6	2.2	2.0
Add: dividends paid	**14.3**	14.8	10.2	9.1	7.8
acquisition of businesses	**22.3**	28.2	11.0	12.2	7.9
Free cash flow	**32.7**	25.0	29.8	23.5	17.7
Per ordinary share (pence)					
Basic earnings	**27.9**	24.0	14.6	10.8	11.4
Adjusted earnings	**33.1**	27.9	18.9	14.8	16.0
Dividends	**14.4**	12.0	9.0	7.8	7.5
Total shareholders' equity	**146**	134	120	107	95
Dividend cover	**2.3**	2.3	2.1	1.9	2.1
Ratios	**%**	%	%	%	%
Return on trading capital employed	**26.6**	25.4	22.1	19.0	22.4
Working capital: revenue	**16.5**	16.1	15.4	17.6	17.2
Operating margin	**20.3**	19.6	17.5	16.0	17.0
Continuing and discontinued businesses	**£m**	£m	£m	£m	£m
Revenue	**260.2**	230.6	188.8	175.7	172.3
Adjusted profit before tax	**52.6**	44.9	31.6	26.7	27.5
Adjusted earnings per ordinary share (pence)	**33.1**	27.9	18.5	15.6	16.4

Notes

1 Return on trading capital employed represents operating profit, before acquisition related charges, as a percentage of trading capital employed (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 has 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 consolidated financial statements.

5 Acquisition expenses have been charged against profit from 1 October 2009; prior to 1 October 2009 acquisition costs were included as part of the cost of investment.

6 The Group disposed of Anachem Limited in the financial year ended 30 September 2010 and this business was reclassified as a discontinued business; the comparatives have been restated accordingly.

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