DIPLOMA PLC

Annual Report & Accounts 2013

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.

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Financial Highlights

Year ended 30 September

	2013 £m	2012 £m	
Revenue	**285.5**	260.2	+10%
Adjusted operating profit[1]	**54.3**	52.8	+3%
Adjusted operating margin[1]	**19.0%**	20.3%	
Adjusted profit before tax[1,2]	**54.3**	52.6	+3%
Profit before tax	**48.5**	46.0	+5%
Free cash flow[3]	**31.6**	32.7	–3%
	Pence	Pence	
Adjusted earnings per share[1,2]	**34.8**	33.1	+5%
Basic earnings per share	**30.7**	27.9	+10%
Total dividends per share	**15.7**	14.4	+9%
Free cash flow per share[3]	**27.9**	28.9	–3%

1 Before acquisition related charges.
2 Before fair value remeasurements.
3 Before cash payments on acquisitions and dividends.

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 included in the Annual Report & Accounts.

Chairman's Statement

John Rennocks
Chairman

EPS growth
pence

+17% p.a.

2013	34.8
2012	33.1
2011	27.9
2010	18.9
2009	14.8

TSR growth
TSR index = 100

+39% p.a.

2013	525
2012	371
2011	240
2010	207
2009	121

Dividend growth
pence

+16% p.a.

2013	15.7
2012	14.4
2011	12.0
2010	9.0
2009	7.8

Investment for future growth

We have made significant progress this year in developing the Group's business through both investment and the effective execution of the Group's consistent and proven strategy. The robust financial performance this year and the continuing strength of the balance sheet and cash flow provide confidence in the Group's long term prospects.

After several years of strong underlying growth, the focus this year has been on the Group's Investment for Growth programme, through which significant investments are being made across the Group's businesses to establish a firm foundation for the next phase of future growth. The investment programme started last year and by 30 September 2013 the Group had invested £4.4m in modern, enlarged facilities and new and efficient information systems. Additional senior management to strengthen the Group's corporate development resources have added a further £1.1m to annual operating costs. This investment programme will be concluded during the next financial year and details of the key programme elements, together with an indication of the likely benefits that will flow to the Group over the coming years, are described later in this Report.

Acquisitions remain an integral part of the Group's growth strategy and we continue to see a promising pipeline of opportunities. Our strong track record for acquiring good quality businesses, investing in them and delivering value is founded on a disciplined approach to acquisitions. This year, uncertainties about future economic prospects have made vendors cautious and transaction processes have been lengthened. With an improving acquisition environment and additional corporate development resources in place, the Board remains confident that 2014 will be a successful year for converting opportunities into good value-enhancing acquisitions.

After the year end on 5 November 2013, contracts were signed for the acquisition of 80% of Kentek Oy, based in Finland, for a maximum consideration of £11.2m, extending the Seals businesses into new and emerging markets.

Results

Group revenue increased in 2013 by 10% to £285.5m (2012: £260.2m) driven by a strong performance from the Life Sciences businesses and benefiting from the contribution from acquisitions completed last year. The Seals businesses delivered modest underlying growth against strong prior year comparatives, while the Controls businesses reported a decline in underlying revenues given the difficult trading conditions in Europe, particularly in the first half of the year.

Underlying Group revenues increased by 4%, after adjusting for the additional net contribution from acquisitions, the divestment last year of a small business in Switzerland and for currency movements on the translation of overseas results.

As anticipated, adjusted operating margins reduced to 19.0% (2012: 20.3%) from the record levels reported last year, largely reflecting the impact on operating costs of investing in the businesses. Adjusted operating profit increased by 3% to £54.3m (2012: £52.8m).

Adjusted profit before tax increased by 3% to £54.3m (2012: £52.6m) and adjusted earnings per share, helped by a lower effective tax rate, increased by 5% to 34.8p (2012: 33.1p).

The Group continued to generate strong cash flow of £31.6m (2012: £32.7m), after both increasing capital investment in the businesses to £4.6m (2012: £3.5m) and making an exceptional cash contribution of £4.7m (2012: £Nil) to the Group's Employee Benefit Trust.

During the year, £17.4m (2012: £14.2m) was distributed to shareholders as dividends and with a much lower expenditure on acquisitions of £2.2m (2012: £22.3m), the Group's net cash funds increased by £11.4m to £19.3m at 30 September 2013.

Dividends

The strong balance sheet and free cash flow, supported by a solid set of results has led the Board to recommend an increase in the final dividend of 5% to 10.7p per share (2012: 10.2p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 22 January 2014 to shareholders on the register at 29 November 2013.

The total dividend per share for the year will be 15.7p which represents a 9% increase on 2012. The dividend is well covered by adjusted EPS at 2.2 times, in line with our objective of targeting towards a two times level of cover.

Board development

I am very pleased with the progress we have made this year in developing and refreshing the Board and its Committees. This process started some 18 months ago following the Company's admission to the FTSE 250 index. In November 2012, we welcomed Marie-Louise Clayton to the Board as a non-Executive Director and I was delighted that John Nicholas and Charles Packshaw agreed to join the Board as non-Executive Directors in June 2013. These changes were in part brought about by the decision of John Matthews and Ian Grice to retire from the Board, having served as independent Directors for many years. During their tenure they have guided the Company through a period of significant growth and development and I am very grateful to both John and Ian for their wise counsel and for their substantial contribution to the success of the Group.

I am confident that the refreshed Board has the right balance of skills, experience, capabilities, independence, diversity and knowledge required to lead the Company forward during its next stage of development.

Employees

It is important to thank all our employees whose tremendous hard work has been a driving force behind our performance. Diploma is very much a people business and success is always a team effort. We continue to foster an entrepreneurial culture within our businesses which encourages all our staff to take responsibility for their own businesses.

Outlook

The Group has a resilient business model with a good geographic spread of businesses, supported by a strong balance sheet and cash flow. We have made significant investments in the business this year, providing the resources and capacity to support our future growth in key markets and improve our ability to target and develop acquisitions.

Looking ahead, the investments we have made provide a strong platform for growth and the Board is confident that the Group will make further progress this year.

John Rennocks
Chairman
18 November 2013

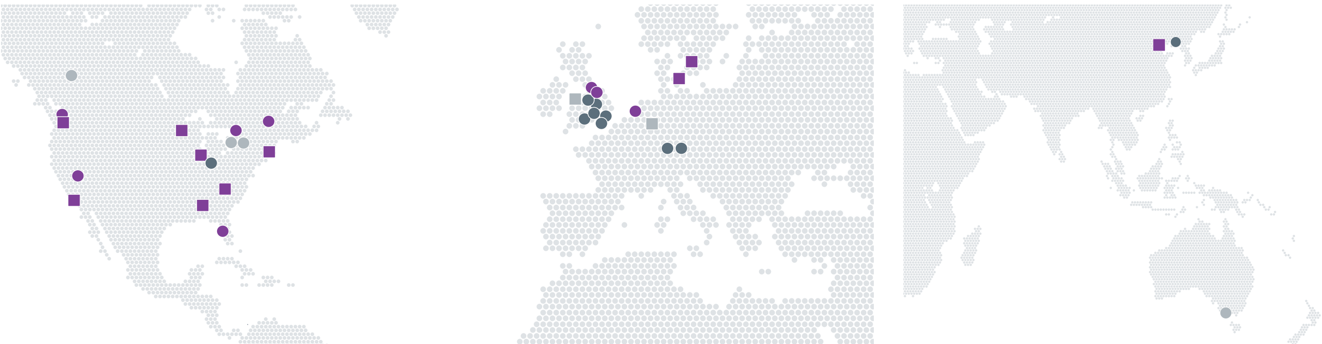
Group at a Glance

The Group is well diversified by geographic and business area.

Life Sciences
- Healthcare
- Environmental

Seals
- Aftermarket
- Industrial OEM

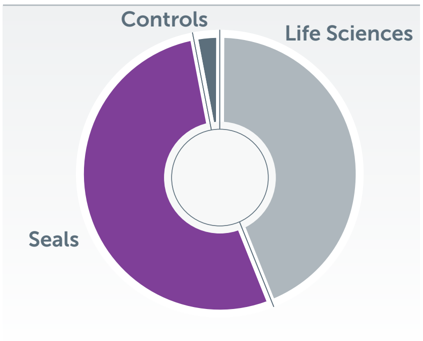
Controls
- Controls



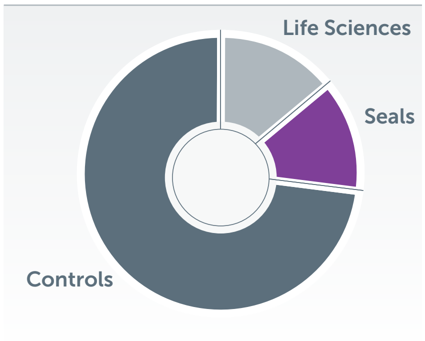
Geography

North America	Europe	Rest of World
53% of revenues[1]	**38%** of revenues[1]	**9%** of revenues[1]
27% US	22% UK	
26% Canada	16% Continental Europe	

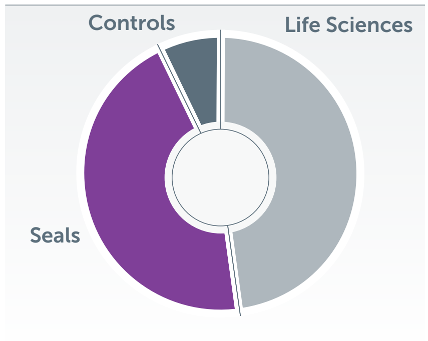
North American revenues[1] by Sector



European revenues[1] by Sector



ROW revenues[1] by Sector



1 By destination.

We focus on supplying essential products and services across a range of specialised industry segments.

Life Sciences

Healthcare (85% of revenues)
Medical devices and related consumables and services supplied to hospital pathology laboratories, operating rooms and GI Endoscopy suites and clinics

Environmental (15% of revenues)
Environmental analysers, containment enclosures and emissions monitoring systems

Principal businesses
DHG and a1-group

33% of revenues

319 employees worldwide

Seals

Aftermarket (55% of revenues)
Next day delivery of seals, sealing products and cylinder components for the repair of heavy mobile machinery

Industrial OEMs (45% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment

Principal businesses
HFPG, FPE Group and M Seals

37% of revenues

513 employees worldwide

Controls

Interconnect (70% of revenues)
Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial

Fluid Controls (30% of revenues)
Temperature, pressure and fluid control products used in Food, Beverage and Catering industries

Principal businesses
IS Group, Filcon, Clarendon, Hawco Group

30% of revenues

300 employees worldwide

Our Business Model and Growth Strategy

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.

The main focus this year has been on the "Build" phase of our growth strategy.

Our Growth Strategy

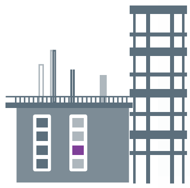
Acquire

Build

Grow

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.

The focus this year has been on the "Build" phase of the strategy through the Group's "Investment for Growth" programme. This comprises a series of specific investments designed to provide the foundation for the next phase of the Group's growth.



Investment in Facilities

£3.6m of capital and revenue cost is being invested in modern and expanded facilities. By the end of 2013, four of five planned business moves had been successfully completed in the US, UK and Canada with the final one completed in Canada in October 2013.

Investment in IT Systems

£1.7m of capital and revenue cost is being invested in powerful and efficient new ERP systems. By the end of 2013, three implementations had been successfully completed. The final project will be rolled out to the Canadian Healthcare businesses through 2014.

Investment in Management

Investment is being made in additional senior managers at the Group's Head Office and in the major businesses to strengthen the corporate development resources. These additional managers are all now in place and add ca. £1.2m to annual operating costs.

Chief Executive's Review

Bruce Thompson
Chief Executive Officer

"Over five years, compound growth rates for adjusted EPS and TSR have been 17% p.a. and 39% p.a. respectively."

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 17% 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 reinvested 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 39% p.a., which represents upper quartile performance as compared with the FTSE 250, where median TSR growth has been 18% 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 16% p.a. and this continues the trend of increasing dividends in each of the last 14 years.

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

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.

13% p.a. compound

2013	£285.5m
2012	£260.2m
2011	£230.6m
2010	£183.5m
2009	£160.0m

Underlying revenue is after adjusting for the impact from acquisitions and divestments and for currency movements on the translation of overseas results.

Underlying revenue growth: % p.a.

+5% p.a. average

2013	+4%
2012	+6%
2011	+17%
2010	+11%
2009	–12%

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.

Adjusted operating margins: % of revenue

18–19% average

2013	19.0%
2012	20.3%
2011	19.6%
2010	17.5%
2009	16.0%

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

£15m p.a. average

2013	£2.2m
2012	£22.3m
2011	£28.2m
2010	£11.0m
2009	£12.2m

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

£29m p.a. average

2013	£31.6m
2012	£32.7m
2011	£25.0m
2010	£29.8m
2009	£23.5m

Working capital as % of revenue

16–17% average

2013	16.7%
2012	16.5%
2011	16.1%
2010	15.4%
2009	17.6%

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: %

24% average

2013	25.8%
2012	26.6%
2011	25.4%
2010	22.1%
2009	19.0%

Our Year in Review

Group
Major investment programme to establish firm foundation for growth

Life Sciences
Strong growth across all businesses after prior year investments

Seals
Modest underlying growth but against very strong comparatives

"The main focus this year has been the Group's Investment for Growth programme."

Business model and growth strategy
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 Group Sectors of Life Sciences, Seals and Controls.

Our businesses target organic revenue growth over the business cycle at the rate of 5–6% p.a. ("GDP plus" growth). Stable and resilient revenue growth is achieved through our focus on ***essential products*** and services funded by customers' operating rather than capital budgets and supplied across a range of specialised industry segments. 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.

Overall growth is accelerated from the underlying GDP plus levels to the strong, double-digit level through carefully selected, value-enhancing acquisitions which fit the business model and offer entry into new strategic markets. Acquisitions are not made just to add revenue and profit, but rather we are looking for successful businesses which have growth potential, capable management and a good track record of profitable growth and cash generation.

As part of our ***Acquire***, ***Build***, ***Grow*** strategy, we invest in the businesses post acquisition to build a firm foundation to allow them to move to a new level of growth. These acquisitions form a critical part of our Sector growth strategies and are designed to generate a pre-tax return on investment of at least 20% and hence support our Group objective of consistently exceeding 20% return on trading capital employed ("ROTCE").

The Group has delivered another year of growth, albeit at a lower level than previous years. The main focus this year has been on the Investment for Growth programme to ensure that following the strong growth in recent years, we continue to have the right platform in place to support the future growth of the business. Whilst our pipeline of opportunities remains promising, we have seen more modest acquisition activity this year as transaction processes have lengthened in the current macroeconomic environment.

Performance against KPIs
Growth in the year against the principal corporate objectives of adjusted earnings per share ("EPS") and total shareholder return ("TSR") has been 5% and 42% respectively. Over a five year period, compound growth rates for EPS and TSR have been 17% p.a. and 39% p.a. respectively.

This year, the Group increased revenues by 10% over the prior year with *underlying revenue growth* of 4% after adjusting for currency effects, acquisitions and a small divestment in 2012. Underlying growth rates strengthened from 2% in the first half of the year to 6% in the second half, trending towards GDP plus levels of growth as prior year comparatives became less challenging. The Group continues to benefit from its broad spread of businesses and geography, with the Life Sciences businesses growing strongly and more than offsetting the small decline in underlying revenues in Controls, largely caused by the challenging trading conditions in Europe. The Seals businesses, which in recent years have acted as the principal driver for the Group's growth, showed modest underlying growth this year against very strong comparatives.

Controls
Decline in underlying revenues in face of challenging trading conditions in Europe

Acquisitions
Uncertain economic environment slowing transaction processes

Group
Strong cash flow and growth in value

Adjusted *operating margins* reduced to 19% this year from the record 20% plus levels of last year reflecting the impact on operating costs of investing in the businesses. There will be benefits resulting from these investments in terms of greater operating efficiencies and improved management of working capital, which should start to make a positive impact in the second half of 2014. Against this, new acquisitions brought into the Group are likely to join with initial operating margins below the Group average.

The level of *acquisition spend* this year of £2.2m is well below the five year average of ca. £15m p.a. and a current target of £25m plus. The uncertainty over future economic prospects has made vendors very cautious and has resulted in lengthening transaction processes and delayed completions. With an improving acquisition environment and additional corporate development resources in place, prospects for 2014 are more encouraging.

The Group continued to generate strong *free cash flow*, which at £31.6m was still close to last year's level of £32.7m. This was after an exceptional £4.7m cash contribution this year to fund the Group's Employee Benefit Trust and £4.6m of capital expenditure, which was up £1.1m from the prior year. Free cash flow as a percentage of adjusted profit after tax (free cash flow conversion) was 80% compared with the five year average of ca. 95%. *Working capital as a percentage of revenue* was 16.7% compared with the five year average of 16.5%.

Return on trading capital employed or *ROTCE* is the final indicator of the overall performance of the Group and very importantly its success in creating value for shareholders. ROTCE is measured as the pre-tax return on total Group investment excluding net cash funds, but including all goodwill and acquired intangible assets. ROTCE has exceeded the 20% target in each of the last five years and this year was 25.8%.

Investment for Growth
The Investment for Growth programme comprises a series of specific investments designed to provide the foundation for the next phase of the Group's growth. Major investments are being made in modern and expanded facilities, powerful and efficient new information technology ("IT") systems and additional senior management to strengthen corporate development resources.

By the end of the 2013 financial year, £4.4m of the programme's planned investment of £5.3m in new facilities and IT infrastructure had been invested, with ca. £0.9m still to be invested in 2014. The benefits resulting from these investments in facilities and ERP systems should start to impact in the second half of 2014, delivering greater operating efficiencies and improved management of working capital.

To date, £3.4m has been invested in major facility moves. In 2012, two of the Industrial OEM Seals businesses, RT Dygert and All Seals moved to new facilities. This year the Vantage business in Canada and the IS-Rayfast business in the UK completed major relocations into new larger facilities in Markham, Ontario in Canada and Swindon in the UK respectively. After the year end, the Hercules business in Barrie, Ontario completed a move to a new custom built facility. All moves have been successfully completed with minimal disruption to the businesses. The new facilities not only provide an appropriate environment for modern, technically biased companies, but also substantial capacity for future growth.

A further £1.0m has been invested in powerful new ERP systems to improve the IT infrastructure. During the year, major new ERP systems were implemented by M Seals across its three locations in Denmark, Sweden and China, by Hawco in its principal UK operation and by a1-envirosciences in Germany. A major new ERP project has also been initiated by the Healthcare businesses in Canada, with implementation starting in Somagen during the second half of 2013 and plans to roll out the system across the other businesses through the 2014 financial year.

Our Year in Review
continued

Investment has also been made in additional senior managers at the Group's Head Office and in the major businesses to strengthen corporate development resources. These additional managers are all now in place and have added ca. £1.1m to annual operating costs this year.

Outside the Investment for Growth programme, there has been further investment within the businesses to strengthen sales and business development resources and in regional management. These additional resources are designed to give the strong leadership required to extend the businesses into new areas and develop acquisition opportunities.

Acquisitions

Acquisitions remain an integral part of the Board's strategy, but this has been a frustrating year for completing acquisitions, as the general economic uncertainty has contributed to increased caution from vendors and lengthened transaction processes. During the past ten years the Group has experienced similar challenging periods for completing acquisitions and therefore is prepared to wait until the environment improves, rather than compromise the quality of acquisitions and risk diluting shareholder value.

As confidence builds and the prospects for the global economy improve, there are signs that the acquisition environment is now improving. With the investments made this year in additional corporate development resources, the scope of the acquisition programme has broadened and the acquisition pipeline has strengthened.

Following the year end, in early November contracts were signed for the acquisition of 80% of Kentek Oy for a maximum consideration of £11.2m (€13.3m). Kentek is a specialised distributor of filters and related products, used in heavy mobile machinery and industrial equipment applications. Kentek is based in Finland with operations in Russia and the Baltic States and will extend the reach of the Seals businesses into new and emerging markets.

This transaction is expected to close in January 2014 with completion conditional upon certain conditions precedent. These conditions include the approval of the Russian competition authorities, no material adverse change and warranties to be repeated at closing.

Sector developments

Good progress was made in the year in further developing the Group's strategy in each of the three business Sectors and the key developments this year are summarised below.

Life Sciences

33%
Group revenues

	2013 £m	2012 £m	
Revenue	**93.2**	78.4	+19%
Adjusted operating profit	**20.9**	18.0	+16%
Adjusted operating margin	**22.4%**	23.0%	

- **Underlying revenue growth of 15% with strong growth across all businesses**
- **Vantage completed integration programme with move to new facility; strong growth of new MI Surgery business in AMT**
- **Major supplier added at DSL giving step change in revenues; Australian management strengthened and operations integrated**
- **Major new ERP system initiated in Canada with roll-out through 2014**
- **Strong growth in reshaped Environmental businesses**

The Life Sciences businesses increased revenues by 19%, which included a full year contribution from the DSL business in Australia, acquired in June 2012. After adjusting for this acquisition, for currency effects and for a minor reshaping of the Environmental businesses, underlying revenues in Life Sciences increased by 15%.

Adjusted operating profit increased by 16% and adjusted operating margins reduced by 60bps to 22.4%. In the Healthcare businesses, there was some weakening in gross margins towards the end of the year, caused by the weakening of the Canadian and Australian exchange rates, relative to the US dollar. The implementation of the Investment for Growth programme during the year also impacted Healthcare operating margins but this was partly offset by an improvement in Environmental margins.

The DHG group of *Healthcare* businesses in Canada and Australia account for ca. 85% of Life Sciences revenues. The DHG business model is to build strong market positions in growing niche healthcare markets. Products are sourced from high quality medical device manufacturers under the terms of long term exclusive distribution agreements. Full service solutions are provided by highly qualified DHG technical sales and product application staff, working closely with the surgeons, operating room nurses and laboratory technologists. A large proportion of revenues (ca. 70%) are secured under multi-year customer contracts.

In Canada, the Somagen and AMT businesses continued to grow steadily in their core markets of Clinical Diagnostics and Electrosurgery. The principal drivers of growth this year however, have been the two newer businesses, Vantage and AMT's Minimally Invasive ("MI") Surgery business. Vantage has benefited from prior year investments to establish it as a strong independent business within DHG, focused on the growing GI Endoscopy market. Vantage started the current financial year with a complete product range, an integrated and fully trained sales team and strengthened operational and service management. Vantage has performed strongly this year with steadily growing sales of consumable and service products boosted by strong capital equipment sales and CPP (cost per procedure) based contracts.

AMT's new MI Surgery business also benefited from prior year investments in securing a strong portfolio of products, negotiating long term supplier agreements and in building a focused sales team. The business supplies products ranging from surgical instruments used in standard laparoscopic procedures to leading edge interventional radiology and oncology products for use in the treatment of cancer and cancer related conditions. This year has seen a substantial increase in revenues from this new business area.

In Australia, DSL in its first full year in the Group, delivered a step change increase in revenues from the addition of a major new supplier (also a key supplier to Somagen) shortly after acquisition. BGS also continued to penetrate the market with its smoke evacuation products while maintaining steady growth in sales of its core electrosurgical grounding pads and laparoscopic electrodes. During the year, senior management in Australia was strengthened at country level and the BGS operations and back office functions were successfully relocated and integrated into the DSL facility in Melbourne. The DSL and BGS businesses continue to operate as clear separate sales and marketing businesses, but will now benefit from the efficiencies and critical mass of a central services group.

The remaining ca. 15% of Life Sciences 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. Following various initiatives in recent years to reshape and refocus the businesses, both a1-envirosciences and a1-CBISS delivered double digit growth this year and an improvement in operating margins.

Seals

37%

Group revenues

	2013 £m	2012 £m	
Revenue	**106.1**	99.9	+6%
Adjusted operating profit	**19.5**	20.4	–4%
Adjusted operating margin	**18.4%**	20.4%	

- **Underlying revenue growth of 2% against very strong prior year comparatives**
- **Continued development of Aftermarket Webstore application with online sales up by 30% this year**
- **Investment in two new seal machining centres and increased engineering resource to improve service offering and broaden product line**
- **Investment in the Industrial OEM businesses in new seal compound certifications to move up the value chain**
- **Hercules Canada relocation completed after year end and new ERP system installed across the three M Seals businesses**

The Seals businesses increased revenues by 6% including a full year contribution from J Royal, which had been acquired in December 2011. After adjusting for the additional contribution from this acquisition and for currency translation effects, underlying revenues increased by 2%.

Adjusted operating profits decreased by 4% and operating margins reduced by 200bps to 18.4% of revenue, reflecting the impact of investment in the Seals businesses, including the Group's Investment for Growth programme begun last year. Aftermarket gross margins continued to be resilient, underpinned by essential product availability and added value technical service, though overall, Seals gross margins weakened slightly with continued competition in the Industrial OEM markets.

The ***Aftermarket*** businesses account for ca. 55% of Seals revenues and supply own-branded sealing products used in a broad range of heavy mobile machinery applications. The products are generally supplied from inventory on a next day delivery basis and are used in the repair and maintenance of equipment after it has completed its initial warranty or lease term.

Our Year in Review
continued

"Good progress has been made in the year in further developing the Group in each of the three business Sectors."

Seals continued

In North America, the Aftermarket businesses have consistently out-performed the relevant construction indices and have posted strong growth rates since emerging from the 2009 downturn. This year, the businesses have consolidated their market share gains and are now moving to more normal GDP plus growth rates. Hercules Bulldog has made a number of investments during the year to reinforce its market leading levels of service. During the year, over 3,000 new kit applications were developed and additional revenues were generated from sales of new parts.

The business continued to develop its electronic trading capabilities ("Webstore") with new search and find capabilities, allowing the business to develop new sales channels to retail customers, as well as converting existing customers to online ordering. Online sales increased this year by over 30% and now represent 15% of revenues. The business also installed its third seal machining centre and added technical staff and development engineers to broaden the product range offered to customers.

In Europe, FPE took operational responsibility for the Hercules Europe operation in the Netherlands, which will now provide the impetus to develop a more substantial, unified European Aftermarket group. The FPE group delivered another year of good revenue growth and installed an additional seal machining centre to complement the two existing machines.

The ***Industrial OEM*** businesses account for ca. 45% of Seals revenues and supply seals, O-rings and custom moulded and machined parts used in a range of specialised industrial equipment. The businesses work closely with the Industrial OEM customers to specify the most appropriate sealing material, design and manufacturer for the application. Once the product is designed in to the application, the businesses supply the sealing products and provide the necessary logistical and technical support, in most cases for the lifetime of the product.

In North America, the Industrial OEM businesses have continued to operate in an industrial economy which has shown slow steady growth since emerging from the 2009 recession. The HFPG businesses have broadly grown with the market, with a stable level of demand from existing customers and a steady stream of new projects offsetting any business lost. In an increasingly competitive market for the more standard products, the RT Dygert business has enhanced its product offering through new compound certifications for a variety of applications, which allows it to meet the more stringent demands of customers and to move up the value chain. The J Royal and All Seals businesses have invested in additional technical sales resource and a new water jet gasket cutting machine to generate growth. All Seals has also obtained the AS9100 quality certification which strengthens its position in the Aerospace and Medical products industries.

In Europe, M Seals delivered good overall growth in its core Scandinavian markets which more than offset the slowing demand for its wind turbine seals in China. The new ERP system implemented this year will provide a solid platform for growth and more efficient management of inventory across the three country locations.

The acquisition of Kentek Oy will extend the reach of the Seals businesses into new and emerging markets. Kentek is a specialised distributor of filters and related products, based in Finland, but with 75% of revenues generated by its operations in Russia and the Baltic States. Kentek supplies its products to similar heavy mobile machinery applications as the Aftermarket Seals businesses, but Kentek also has a good proportion of its revenues in the Oil & Gas and Mining sectors, where the Seals businesses currently have limited involvement.

Controls

30%
Group revenues

	2013 £m	2012 £m	
Revenue	**86.2**	81.9	+5%
Adjusted operating profit	**13.9**	14.4	–3%
Adjusted operating margin	**16.1%**	17.6%	

- **Underlying revenues decreased by 3% in challenging trading conditions in Europe**
- **IS-Group relocated to new warehouse/office facility**
- **Amfast integrated into Clarendon; strong performance in premium aircraft seats and interiors**
- **Rayquick acquisition strengthened Sommer's position in Electrical Distribution in Germany**
- **New ERP system at Hawco; strengthened sales resource at Abbeychart**

The Controls businesses increased revenues in 2013 by 5%, benefiting from both the acquisition in November 2012 of a small energy distributor based in Germany and from a full year contribution from Abbeychart and Amfast, acquired respectively in March and May 2012. After adjusting for the additional contribution from these acquisitions and for modest currency translation effects, underlying revenues decreased by 3%.

Over 90% of Controls revenues are generated in Europe and the background trading conditions during the year have been very challenging, reflecting the economies in the principal markets of the UK and Germany.

Operating profits decreased by 3% and operating margins reduced by 150bps to 16.1%. The reduced operating margins resulted from the reduction in underlying revenues, combined with increased costs following the major relocation of the IS-Rayfast business in the UK and the ERP investment at Hawco. Overall gross margins in the Controls Sector remained resilient as the businesses continued to focus on specialised markets and added value opportunities.

The *Interconnect* businesses account for ca. 70% of Controls revenues and supply high performance wiring, connectors and harness components, fasteners and control devices along with a range of value-added services. The products are used in technically demanding applications and often harsh environments in industries including Aerospace, Defence, Motorsport, Energy, Medical and Industrial.

In the first quarter of this year, IS-Rayfast completed its relocation from the site it had occupied since 1992 into a newly refurbished 37,000 sq.ft facility nearby in Swindon. The facility now accommodates the core IS-Rayfast business and acts as the central management and operational hub for the IS-Group businesses in the UK.

Amfast had an excellent first year in the Group and consolidated its position within the Civil Aerospace sector as a leading supplier to the premium aircraft seating and cabin interior market. Later in the year, Amfast's sales and customer service functions were fully integrated into Clarendon's sales operation in Leicester and warehousing operations were combined with those of Clarendon at the new Swindon site. Clarendon and Amfast together now form a single fastener products group supplying principally to the Aerospace and Motorsport markets in Europe, but also with potential to expand into other industrial sectors and geographies.

Early in the year, the acquisition was completed of Rayquick, a small German distributor focused on the Energy market in Germany. Rayquick was successfully integrated into Sommer and has helped Sommer to secure its appointment as a German Master Distributor for its key energy products supplier. Sommer and Rayquick are now well positioned to benefit when a more normal cycle resumes in the repair and refurbishment of the local transmission networks.

The *Fluid Control* businesses account for ca. 30% of Controls revenues and supply a range of fluid control products used broadly in the Food and Beverage industry. Products are used in a range of applications including food retailing and transportation, catering equipment, vending machines, coffee brewing, pure water and water cooling systems.

The Hawco group businesses faced significant headwinds this year in challenging market conditions in the UK. Major food retailers continued to focus on smaller convenience stores which require less Hawco equipment and commercial catering equipment customers were overstocked with surplus equipment after the Olympics in London. There were also slowdowns in demand from a number of Abbeychart's vending, water filter and catering customers, but the coffee brewing sector remained buoyant.

During the year, the Hawco group made a significant investment in a new ERP system, which was successfully implemented at Hawco's operations in Guildford and Bolton and which will be rolled out to Abbeychart in 2014. This investment will provide the Fluid Controls businesses with a solid modern platform to support future growth.

Finance Review

Nigel Lingwood
Group Finance Director

Operating results in 2013

Diploma achieved a robust result this year given challenging economic conditions in Europe and against a record performance last year from the Seals businesses. Revenues and profits increased on the prior year, free cash flow remained strong and the Group's return on trading capital employed was again above 25%.

Revenues increased by 10% to £285.5m (2012: £260.2m) which included an additional net contribution from businesses acquired or divested during the past two financial years of £11.7m. After adjusting for this additional contribution and for the impact on overseas revenues from the change in exchange rates, underlying revenues increased by 4%. An improvement in the trading environment in the Seals and Controls markets, combined with less demanding prior year comparatives led to an improvement in the second half, with underlying revenues up 6% compared with the same period last year.

Adjusted operating profit, which is before acquisition related charges, increased by 3% to £54.3m (2012: £52.8m) and adjusted operating margins decreased to 19.0% from the record level of 20.3% reported last year. As indicated last year, the ramp up in the Investment for Growth programme which started in early 2012 contributed to this reduction in margin. In addition, further revenue investment in sales and business development resources in the businesses, together with a slight weakening in gross margins in both the Healthcare and Fluid Controls businesses also contributed to the margin reduction. Underlying adjusted operating profits reduced by 1%, after adjusting for the impact of acquisitions, the divestment of the small Swiss Environmental business last year and currency movements.

The relative strength against UK sterling of both the US dollar and the Euro during the first nine months of the year benefited the Group's results this year on the translation of the results of the overseas businesses to UK sterling. The benefit to revenues and operating profit on translation was £1.8m and £0.3m respectively. On a transaction basis, the weakening in both the Canadian dollar and Australian dollar against the US dollar and Euro in the last quarter of the year impacted the gross margin in the Healthcare businesses, since their products are mainly purchased in these currencies. The existing hedging programmes in the businesses mitigated much of this effect this year, such that the reduction in gross margin in the DHG businesses was only £0.3m compared with the previous year. The impact on the rest of the Group on a transaction basis from the change in exchange rates was broadly positive, but not significant.

Investment for Growth programme

As indicated last year, the Board approved a programme of investments, including additional management resources, of ca. £6m across the Group designed to secure a platform to sustain the profitable growth in the businesses over the next five years. This investment programme comprises the following elements:

	Actual 2012 £m	Actual 2013 £m	Forecast 2014 £m	Total £m
Expenditure:				
Capital	1.3	2.0	0.5	3.8
Revenue cost	0.4	0.7	0.4	1.5
	1.7	2.7	0.9	5.3
Comprising:				
Facilities	1.5	1.9	0.2	3.6
IT infrastructure	0.2	0.8	0.7	1.7
	1.7	2.7	0.9	5.3
Impact on Income Statement:				
Additional management resources	0.4	1.1	1.2	
Revenue cost and depreciation	0.6	1.1	0.9	
	1.0	2.2	2.1	

During the year the refurbishment of new facilities in Swindon and Markham was completed and work began on the relocation of the Barrie facility in Canada which was completed shortly after the end of the year. In addition, a number of large IT infrastructure projects were completed in M Seals, Hawco and a1-envirosciences and a new ERP project commenced in the second half of the year in the Canadian Healthcare companies.

The impact on operating profit this year from this programme of investments has been £2.2m which is £0.7m higher than was anticipated last year because certain stages of investment have been advanced or additional costs expensed during the year. This cost, which represents ca. 80bps of margin, is expected to continue at a broadly similar running rate in future years. However as we complete this Investment for Growth programme in the second half of 2014, we expect to start to realise efficiency benefits in terms of better management of inventory and the ability to take delivery of large supplier shipments. We are also beginning to see the benefits from better service levels, as well as having increased capacity in facilities, information systems and management resource to support substantially larger businesses.

Adjusted profit before tax, earnings per share and dividends

Adjusted profit before tax increased by 3% to £54.3m (2012: £52.6m). There was no net interest expense this year (2012: £0.2m) because the combination of the interest earned on cash deposits and the notional net income earned on the defined pension scheme of £0.3m, offset interest paid on bank borrowing and commitment fees. IFRS profit before tax was £48.5m (2012: £46.0m), after acquisition related charges of £5.6m (2012: £6.4m) and fair value remeasurements of £0.2m (2012: £0.2m).

The notional net income earned on the defined pension scheme of £0.2m will no longer accrue to the Company from 1 October 2013, following the implementation of a change in accounting under IAS 19 (Retirement Benefit Obligations), whereby the calculation of the notional return on the assets will be restricted to the return on high quality corporate bonds.

The Group's adjusted effective accounting tax charge decreased in 2013 to 27.3% (2012: 28.7%) of adjusted profit before tax reflecting the benefit of a further reduction in UK corporation tax rates to 23.5% (2012: 25%), together with the impact from a lower proportion of profits being contributed by HFPG in the US, where the effective tax rate is ca. 38%. The Group's adjusted cash rate of tax was 27.3% for the year.

Adjusted earnings per share increased by 5% to 34.8p, compared with 33.1p last year reflecting the benefit from the lower effective tax rate this year. IFRS basic earnings per share increased to 30.7p (2012: 27.9p).

The Board's policy 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 two times cover. Following this policy and recognising the strength of the Group Balance Sheet and strong free cash flow, the Directors have recommended an increase in the final dividend of 5% to 10.7p per share; this gives a total dividend per share for the year of 15.7p per share with represents a 9% increase on the prior year dividend of 14.4p. The dividend cover moves to 2.2 times from 2.3 times reported last year.

Free cash flow

The Group continues to generate strong free cash flow from its activities which in 2013 was £31.6m (2012: £32.7m), after making exceptional cash payments of £4.7m (2012: £nil) to fund the Company's Employee Benefit Trust in respect of incentive awards which had vested in earlier years. Free cash flow, which is before expenditure on acquisitions or returns to shareholders, represented 80% of Adjusted profit after tax (2012: 87%).

Operating cash flow increased to £55.9m (2012: £50.2m) after investing £1.1m (2012: £5.2m) in working capital which, at 30 September 2013, was broadly stable at 16.7% (2012: 16.5%) of annual revenues, adjusted for the timing of acquisitions. The increase in working capital arose partly from a small increase in inventory and also reflected the timing of a large CPP contract in DHG which contributed to an increase in receivables. Group tax payments increased by £1.1m to £14.8m (2012: £13.7m) primarily reflecting the normalisation of Canadian tax payments which had been deferred from earlier years, following the amalgamation of the AMT Endoscopy business with Vantage.

Capital expenditure increased to £4.6m (2012: £3.5m) with the Investment for Growth programme accounting for £2.0m of this expenditure. The completion of the facility relocations in Swindon in the UK and Markham in Ontario, Canada at the beginning of the year cost £1.4m and £0.6m was capitalised in connection with the IT development projects in M Seals, Hawco, a1-envirosciences and Somagen. The Healthcare businesses in Canada and Australia spent £1.7m (2012: £1.6m) on acquiring field equipment in support of their customer contracts with hospitals; this included £1.0m (2012: £1.0m) on funding endoscopy cost per procedure ("CPP") contracts in Vantage. The remaining capital expenditure of £0.9m was spent on new seal cutting machinery and testing equipment in Seals and on general improvements to the IT infrastructure across the Group. The rate of capital expenditure is currently running well ahead of depreciation of £2.5m (2012: £2.1m), but this will begin to recede after next year as the Group comes to the end of its Investment for Growth programme.

During the year, participants exercised share options in respect of outstanding awards which had vested in earlier years under the Company's Long Term Incentive Plan ("LTIP"). In exchange for reduced awards to the participants, the Company paid the PAYE income tax liability on the awards on behalf of the participants. This liability, including the funding of the Employee Benefit Trust to acquire shares in the Company in respect of future LTIP awards, accounted for an exceptional cash payment of £4.7m by the Company.

The Group spent £2.2m (2012: £22.3m) of the free cash flow on acquiring businesses during the year, including deferred consideration of £0.6m (2012: £0.8m) and £17.6m (2012: £14.3m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

There was a low level of acquisition activity during the current financial year with only £2.2m (including deferred consideration of £0.6m) being spent on acquiring both Rayquick in November 2012, a small Controls business based in Germany and the outstanding minority interest in BGS. In 2012 the Group had spent £22.3m on acquiring businesses. In the absence of significant acquisitions, the amount of acquisition intangible assets held at 30 September 2013 reduced to £26.7m from £32.2m last year; these acquisition intangible assets are being amortised over a period ranging from 5 to 15 years and acquisition related charge in the year was £5.6m (2012: £6.4m), which included a negligible amount

Finance Review continued

on acquisition expenses (2012: £0.6m). At 30 September 2013, the value of goodwill in the Group Balance Sheet, which is not amortised, was £78.5m (2012: £79.8m).

Shortly after the year end, the Group signed contracts for the acquisition of 80% of Kentek Oy for consideration of £11.2m, subject to completion of competition approvals by the authorities in Russia and certain other conditions precedent. The business is based in Finland, but much of its activities are carried out across Russia in supplying filters and related products for a range of heavy mobile machinery and industrial applications.

Liabilities to minority shareholders

At 30 September 2013, the Group's liability to purchase outstanding minority shareholdings had reduced to £2.8m (2012: £3.2m) following the acquisition on 8 January 2013 of the outstanding 20% minority interest in BGS, the Australian Healthcare business. At 30 September 2013 this liability related to minority interests held in M Seals, 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 2013 and this led to a financial charge of £0.2m (2012: £0.2m) being made in the Consolidated Income Statement.

The options to acquire the outstanding minorities in these companies are, with the exception of the 20% minority interest acquired in DSL last year, likely to be exercised during the next 12 months and account for £1.9m of the liability at 30 September 2013.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2013 for deferred consideration of up to £0.2m (2012: £0.6m) arising from the acquisition of the outstanding minority interest in BGS; this deferred consideration will be paid during the next 18 months. During the year, deferred consideration of £0.6m was paid, of which £0.3m was paid to the vendors of Carsen Medical, the Canadian endoscopy business acquired in 2010 and £0.3m was paid to the vendor of Amfast Limited, acquired last year.

Return on trading capital employed and Balance Sheet

The Group continued to achieve a strong return on trading capital employed ("ROTCE") of 25.8% in 2013 (2012: 26.6%). ROTCE, is a pretax measure and includes all gross historic goodwill and gross intangible assets and gives an indication of the overall profitability of the Group and its success in creating value for shareholders. The slight reduction in the return of 80bps to 25.8% largely arose from the large capital investments in facilities and IT systems which have yet to contribute to an increase in operating profits. In absolute terms, trading capital employed, which represents the amount of operational assets held by the businesses, remained broadly unchanged at £158.2m (2012: £159.4m). The increased investment in tangible assets and working capital was offset by a combination of amortisation of intangibles and a reduction in overseas capital employed following the strengthening in UK sterling against overseas currency exchange rates at 30 September 2013.

The Group also continues to maintain a strong Balance Sheet with net cash funds increasing during the year by £11.4m to £19.3m at 30 September 2013. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

The Group has a £20m revolving credit facility which is generally utilised to provide any shortfall in cash to fund acquisitions. During the year, up to £7.0m was drawn down to fund both prior year acquisitions and short term working capital requirements, but these had been fully repaid by the end of the year.

The Group's bank facility of £20m can, subject to market pricing, be extended to £40m at the option of the Company. The facility, which was due to expire in November 2013, has been extended on the same terms until 30 June 2014 when it will be renegotiated in light of the acquisition pipeline existing at that time.

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 2013 of £1.5m (2012: £1.1m).

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 Company continues to make regular cash contributions to the scheme at a rate of £0.3m, as agreed with the actuary, with the objective of eliminating the funding deficit of £2.7m over ten years. The triennial funding actuarial valuation of the scheme is being carried out as at 30 September 2013 and given the large reduction in bond yields since the last valuation was completed in 2010, the funding deficit is likely to increase substantially, despite the recent strong investment returns. However the Company will look for opportunities to provide sufficient security to the Trustees in order to limit any requirement to increase the Company's existing cash contribution to the scheme.

On an accounting basis, the strong performance of global equity markets during the year has led to a small fall in the accounting deficit in the scheme to £4.7m (2012: £5.4m) before the related deferred tax asset. Scheme assets which are largely represented by equities, increased by £2.6m to £23.3m while pension liabilities increased by £1.9m following a correction to equalisation liabilities and a small increase in the assumption on future inflation.

Sector Review

Life Sciences

33% of revenues

Geography[1]

71% Canada
16% Europe
13% ROW

Customers

84% Clinical
9% Utilities
4% Chemical & Petrochemical
2% Life Sciences Research
1% Other Life Sciences

Products

68% Consumables
25% Instrumentation
7% Service

319 employees worldwide

Seals

37% of revenues

Geography[1]

76% North America
13% Europe
11% ROW

Customers

45% Industrial OEMs
37% Heavy Construction
7% Other Industrial
6% Industrial Aftermarket
3% Dump & Refuse Trucks
2% Logging & Agriculture

Products

53% Seals & Seal Kits
16% O-rings
12% Gaskets
11% Attachment Kits
8% Cylinders & Other

513 employees worldwide

Controls

30% of revenues

Geography[1]

58% UK
34% Continental Europe
8% ROW

Customers

29% Aerospace & Defence
25% Industrial
20% Food & Beverage
14% Motorsport
7% Energy & Utilities
5% Medical & Scientific

Products

42% Wire & Cable
15% Control Devices
14% Connectors
13% Fasteners
10% Equipment & Components
6% Other Controls

300 employees worldwide

Geography

North America

53% of revenues[1]

27% US
26% Canada

Europe

38% of revenues[1]

22% UK
16% Continental Europe

Rest of World

9% of revenues[1]

1 By destination.

Sector Review
Life Sciences

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

Healthcare
The Diploma Healthcare Group ("DHG") in Canada comprises three principal operating businesses which supply to the ca. 600 public hospitals across the country as well as to private clinics and laboratories. Somagen Diagnostics ("Somagen") 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") 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 ("MI") Surgery. Vantage Endoscopy ("Vantage") 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 Diagnostic Solutions ("DSL") and Big Green Surgical ("BGS") which are both located in Melbourne. BGS and DSL focus on similar markets respectively to the AMT and Somagen businesses and share a number of common suppliers.

Environmental
The a1-group is a supplier to Environmental testing laboratories and to Health & Safety engineers. The a1-envirosciences business, based in Germany, supplies a range of specialised environmental analysers and a range of containment enclosures for potent powder handling. The a1-CBISS business, based in the UK, supplies equipment and services for the monitoring and control of environmental emissions, as well as a range of gas detection devices.

Principal operations

Healthcare

Somagen Diagnostics	Edmonton, AB, Canada
AMT Electrosurgery	Kitchener, ON, Canada
Vantage Endoscopy	Markham, ON, Canada
Big Green Surgical	Melbourne, VA, Australia
Diagnostic Solutions	Melbourne, VA, Australia

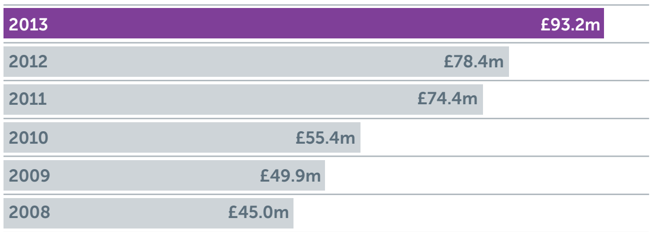
Environmental

a1-CBISS	Tranmere, UK
a1-envirosciences	Dusseldorf, Germany

Total revenue growth:

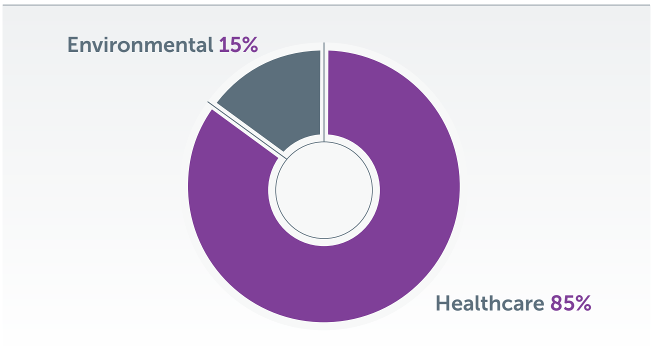
16%

p.a. compound

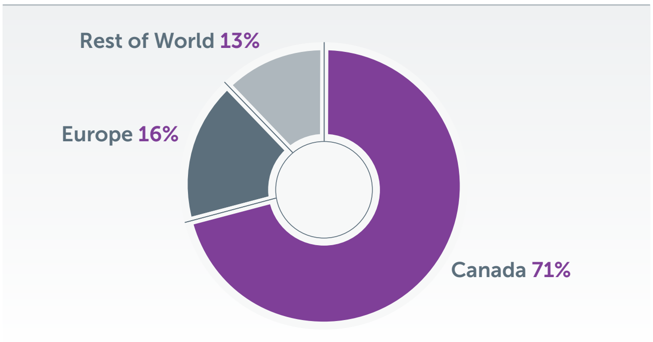


Total revenue

Principal segments



Geography



Market drivers

The DHG businesses in Canada supply into areas of Healthcare which are predominantly public sector funded. Private sector funding in Canada is focused on areas where DHG do not participate, including dental, cosmetic and eye surgery and pharmaceuticals. The principal demand driver for DHG is therefore the level of healthcare spending by the Canadian Government.

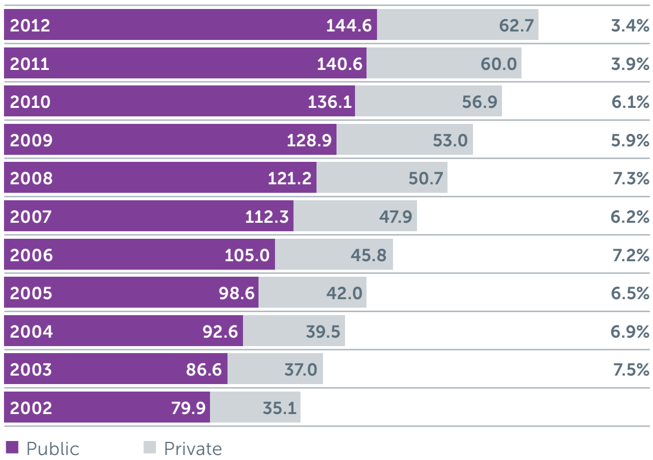
The Canadian Healthcare industry is a proven, long term growth environment for medical device distribution. A growing, aging and well educated population demands high standards of service delivery, helping to ensure ongoing growing demand; per capita healthcare spending in Canada is in the top 20% of 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 dependent 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 in areas such as surgery and laboratory testing, 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.

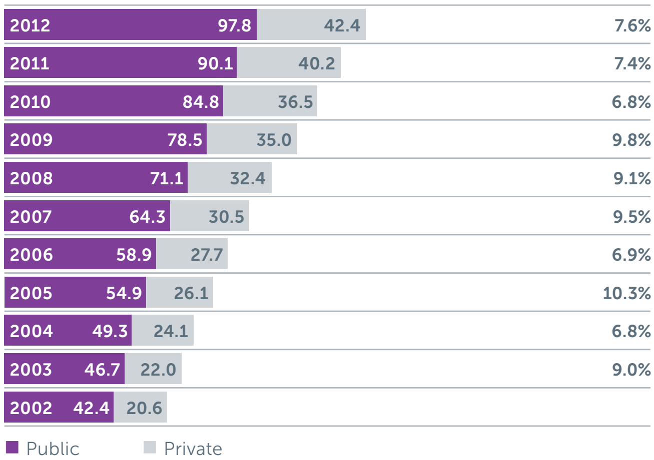
The a1-group supplies to customers in the Environmental industry in the UK, Germany and France. The market demand is largely driven by Environmental and Health & Safety regulations and growth in recent years has been driven by the need to be compliant with a range of EU regulations. Since market demand is driven by regulation, this ensures reasonably steady demand for essential consumable products and services, though customers may defer capital expenditure during significant downturns in the economy.

Canadian Healthcare Expenditure (C$bn) Growth



Source: Canadian Institute for Health Information

Australian Healthcare Expenditure (A$bn) Growth



Source: Australian Institute of Health & Welfare

Total health expenditure as a percentage of GDP

	2008	2009	2010	2011	2012
Canada	10.7%	11.9%	11.9%	11.7%	11.6%
Australia	8.8%	9.1%	9.4%	9.3%	9.5%

Sources: As above

Sector Review continued
Life Sciences

Sector performance
Life Sciences statistics

Revenue
£93.2m

	2013	2012
Revenue	**£93.2m**	£78.4m
Adjusted operating profit	**£20.9m**	£18.0m
Adjusted operating margin	**22.4%**	23.0%
Free cash flow	**£14.4m**	£13.3m
Trading capital employed	**£67.2m**	£68.2m
ROTCE	**31.1%**	27.4%

The Life Sciences businesses increased revenues by 19% to £93.2m (2012: £78.4m), which included a full year contribution from the DSL business in Australia, acquired in June 2012. After adjusting for this acquisition, for currency effects and for a minor reshaping of the Environmental businesses, underlying revenues in Life Sciences increased by 15%.

Adjusted operating profits increased by 16% to £20.9m (2012: £18.0m), with adjusted operating margins reducing by 60bps to 22.4% (2012: 23.0%). In the Healthcare businesses, there was some weakening in gross margins towards the end of the year, caused by the weakening in the Canadian and Australian exchange rates, relative to the US dollar. The implementation of the Investment for Growth programme during the year also impacted Healthcare operating margins, although this was partly offset by an improvement in Environmental margins.

Capital expenditure was £2.8m (2012: £2.3m) and included £1.7m invested in field equipment for placement by the Healthcare businesses and £0.3m invested in the new ERP systems in a1-envirosciences and Somagen. A further £0.6m was spent on completing the fit-out of the new Vantage facility in Markham. Free cash flow increased modestly to £14.4m (2012: £13.3m) with the increase limited by the adverse phasing of tax payments during the year, following the amalgamation of AMT's Endoscopy business into Vantage in 2011. Working capital remained under tight control with additional investment of only £1.1m.

Healthcare
Revenues from the Diploma Healthcare Group ("DHG") increased by 20% in UK sterling terms. After adjusting for currency and for the DSL acquisition, underlying revenues increased by 15%. Somagen increased revenues by 8%, with strong double digit growth achieved from the sale of consumable products and services which are generally supplied through multi-year reagent rental contracts and account for ca. 80% of Somagen's revenues. Capital equipment sales, which vary year-to-year depending on availability of capital budgets were somewhat reduced against a strong prior year comparative. Somagen had good sales success with placing new instruments in the areas of allergy testing, a1c diabetes testing and ART (assisted reproductive technology). Somagen also won contracts in three Provinces to supply testing equipment for their new colorectal screening programmes.

AMT increased revenues by 15%, with the major growth driver being the new MI (minimally invasive) Surgery division, which was established last year to supply specialised surgical instruments and devices used in laparoscopic and other MI Surgery procedures. Products range from surgical instruments used in standard laparoscopic procedures carried out on the abdomen, to leading edge interventional radiology and oncology products for use in the treatment of cancer and cancer related disorders. In 2012, investment had been made in securing a strong portfolio of products, negotiating long term supplier agreements and in building a focused sales team. The results have been seen this year with a substantial increase in revenues from these new products and the MI Surgery division now accounts for ca. 30% of AMT's revenues. AMT's core Electrosurgery business, which represents 70% of AMT's revenues, continued to grow steadily with the newly launched Penevac 1 product (combined electrode and smoke evacuation device) further penetrating the market and replacing more traditional products.

Vantage increased revenues by 14%, benefiting from prior year investments made to combine AMT's Endoscopy business with Carsen Medical (acquired in December 2010) and establish Vantage as a strong independent business within DHG. Vantage started the current financial year with a complete product range, an integrated and fully trained sales team and strengthened operational and service management. In the first quarter of the year, the business completed the integration programme by relocating all of its activities to a new, larger facility, close to the existing location in Markham, Ontario. The results of these investments have been seen in the strong performance this year, with steadily growing sales of consumable and service products, boosted by strong capital equipment sales of endoscope reprocessors and argon plasma coagulation units. Sales of endoscopes have also shown good growth from a combination of capital equipment sales and CPP (cost per procedure) based contracts. During the year, £1.0m (2012: £1.0m) was spent on acquiring instruments in support of these CPP contracts.

In Australia and New Zealand, revenues from DSL and BGS increased by ca. 30% on a like-for-like basis (after adjusting for DSL's pre-acquisition revenues). DSL, in its first full year in the Group, delivered a step change increase in revenues from the addition of a major new supplier (also a key supplier to Somagen) shortly after acquisition. DSL also had good success in selling auto-immune testing equipment to the leading private laboratory groups in Australia. In BGS, the growth was driven by strong sales in smoke evacuation products, building on the continued steady growth in electrosurgical grounding pads and laparoscopic electrodes.

During the year, senior management in Australia was strengthened at the country level and the BGS operations and back office functions were successfully relocated and integrated into the DSL facility in Melbourne. The DSL and BGS businesses continue to operate as clearly separate sales and marketing businesses, but now benefit from a central services group which gives increased efficiency and improved service levels. This consolidation also provides a firm foundation for further growth of the existing businesses and potentially other new businesses in Australia and New Zealand.

A number of DHG's key supplier agreements were extended during the year and 12 of the 15 key suppliers (which together account for ca. 80% of DHG's revenues) now have contracts that extend through 2016 and beyond. As part of the Group's broader Investment for Growth programme, a major new ERP project has been initiated by DHG in its Canadian businesses. The implementation of this new system has started in Somagen in the second half of this year and will roll out across the other Canadian Healthcare businesses through the 2014 financial year.

Environmental
Revenues from the Environmental businesses increased by 6% in UK sterling terms. In 2012, a small a1-envirosciences business in Switzerland was sold to its management and from the beginning of the 2013 financial year, the responsibility for the small Hitek business was transferred to a1-CBISS from the Controls sector. After adjusting for these changes and for currency effects, underlying revenues increased by 15%.

The a1-envirosciences business based in Germany increased revenues by 14%, with strong demand for elemental analysers in Germany and continuing growth in laboratory enclosure sales in both Germany and France. The business also successfully introduced a new mercury analyser to meet increasingly stringent requirements to reduce mercury content in solids, liquids and gases. A new ERP system was implemented during the year to create a single platform for operational and accounting processes and to provide capacity for future growth.

The core a1-CBISS business based in the UK experienced another strong year of trading with revenues growing by 12%. There was substantial growth in sales of CEMS (continuous emissions monitoring systems) equipment as new waste incineration and biomass power stations cleared planning and funding bottlenecks and advanced to the build stage. a1-CBISS also benefited from its strong positioning in preventative and emergency maintenance services and as a specialised technical distributor of a range of essential products for the gas detection and air quality sectors.

Highlights from the Year

Healthcare

- Steady growth in consumable and service revenues across core Canadian businesses
- Vantage benefited from prior year investments in sales, operations and service; moved to new, larger facility in Q1
- Strong growth in new AMT division focused on MI Surgery
- Major new supplier added at DSL, giving step-change increase in revenues; BGS operations and back office integrated into DSL in Melbourne
- Key supplier agreements renegotiated – 12 out of 15 contracts now extend through 2016 and beyond
- Major ERP project initiated – Somagen implementation started in H2, with roll-out to other Canadian businesses through 2014

Environmental

- Strong growth in core business revenues and strengthening operating margins
- Reshaping including divestment of small operation in Switzerland and transfer of Hitek

Potential for Growth

- Increase share in specialised segments of growing Canadian Healthcare market
- Extend into other medical disciplines with new products and technologies
- Build critical mass in Australian market and then other geographies
- Continue to develop product and geographic spread of Environmental business

Sector Review continued
Seals

Sector definition & 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.

Aftermarket
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. The products are generally supplied on a next day delivery basis and are used in the repair and maintenance of equipment after it has completed its initial warranty period or 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.

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

Principal operations

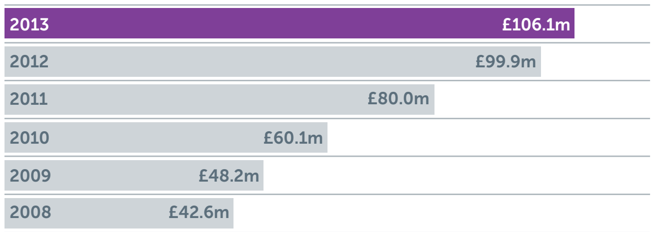
Aftermarket

HFPG	
Hercules Bulldog	Clearwater, FL & Reno, NV, US
Hercules Canada	Barrie, ON & Dorval, QC, Canada
HKX	Monroe, WA, US
FPE Group	
FPE	Darlington & Doncaster, UK
Hercules Europe	Breda, The Netherlands

Industrial OEM

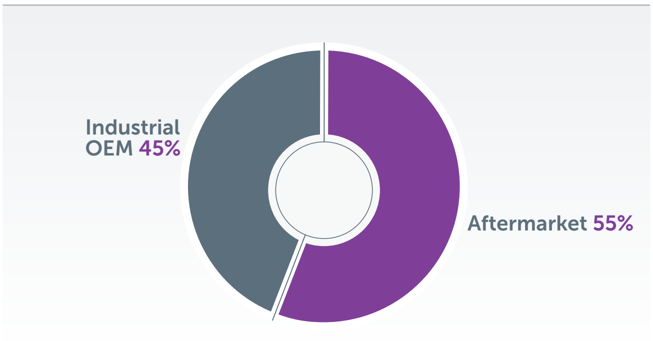
HFPG	
All Seals	Lake Forest, CA, US
J Royal	Clemmon, NC & Barrington, RI, US & Shanghai, China
RT Dygert	Minneapolis, MN & Chicago, IL, US
HPS	Seattle, WA, US
M Seals	Espergaerde, Denmark & Halmstad, Sweden & Tianjin, China

Total revenue growth:
20%
p.a. compound

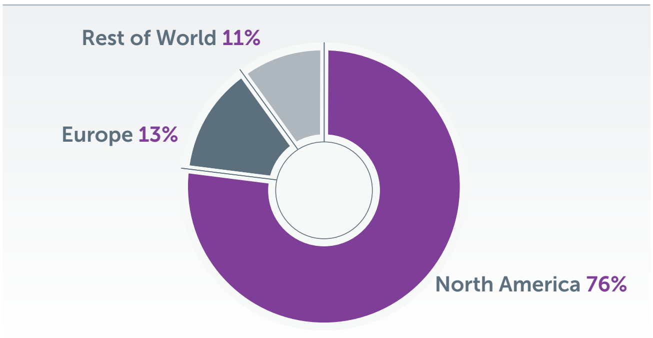


Total revenue

Principal segments



Geography



Market drivers

The principal market drivers for both the Aftermarket and Industrial OEM Seal businesses is the growth in the general industrial economies, in particular in North America where almost 80% of Seal Sector revenues are generated. In 2012, the USA and Canada showed moderate GDP growth of 2.8% and 1.9% respectively, continuing the slow steady growth trend that has been achieved since emerging from the 2009 recession.

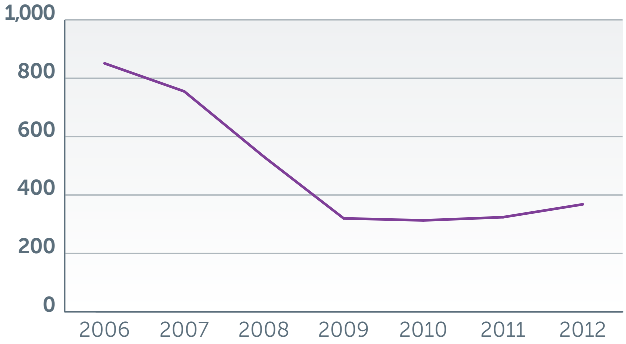
In the UK and Northern Continental European markets where 13% of revenues are generated, the industrial economies have been flat at best, which has provided a challenging environment in which to operate. The smaller but growing percentage of revenues generated in the Rest of the World are generated from a range of markets in South America, Middle East, Africa and Asia Pacific, where economic conditions have been variable.

For the Aftermarket businesses, activity and spending levels in the US Heavy Construction sector are very important, since this market accounts for over 50% of Aftermarket Seals revenues. Statistics on the Total US Construction spend include non-residential and infrastructure spend, as well as residential housing activity. The index had begun to fall sharply ahead of the 2008 financial crisis but recovered by 2010 and has since remained positive. The earlier recovery was driven primarily by stimulus funding on infrastructure projects with a solid contribution from the ground clearance phase of the fracking boom. More recently, improvements in the residential housing market have partially offset weakness in mining and oil and gas exploration.

US Construction Equipment unit sales of heavy mobile equipment (including excavators above 12 tonnes, crawler dozers and wheeled loaders), is an important short term indicator for the HKX attachment business. It is also important as a medium term indicator for Hercules' replacement hydraulic seals activities, as the new heavy equipment will move out of the dealer warranty period in the coming years. There was an exceptional level of growth from 2009 to 2011 as tighter emissions legislation accelerated machine replacement and hire companies re-equipped their fleets. Residual momentum from these factors continued into 2012 before growth levels began to moderate.

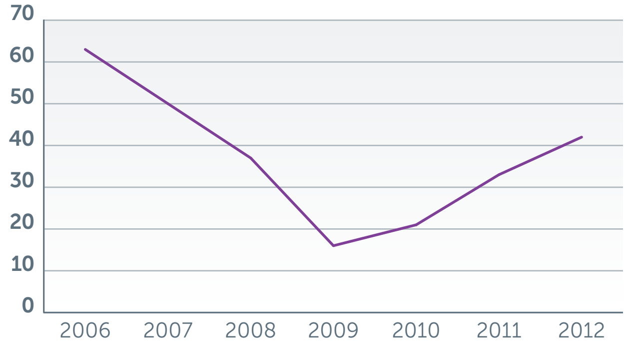
For the Industrial OEM Seal businesses, the best indicator is the US Industrial Production index, which made solid gains from 2009 to 2011, with a mixed performance in 2012 as demand levelled out at below pre-recession levels.

US Construction Spend ($bn)



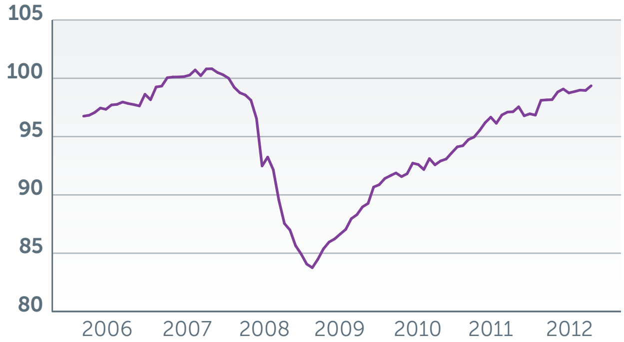
Source: Cyclast Intercast

US Construction Equipment Units ('000)



Source: Cyclast Intercast

US Industrial Production Index



Source: US Federal Reserve (Seasonally Adjusted)

Sector Review continued

Seals

Sector performance

Seals statistics

Revenue

£106.1m

	2013	2012
Revenue	**£106.1m**	£99.9m
Adjusted operating profit	**£19.5m**	£20.4m
Adjusted operating margin	**18.4%**	20.4%
Free cash flow	**£15.9m**	£13.7m
Trading capital employed	**£54.1m**	£56.8m
ROTCE	**36.0%**	37.4%

The Seals business increased revenues by 6% to £106.1m (2012: £99.9m) which included a full year contribution from J Royal, which had been acquired in December 2011. After adjusting for the additional contribution from this acquisition and for currency translation effects, underlying Seals revenues increased by 2%.

Adjusted operating profits decreased by 4% to £19.5m (2012: £20.4m) and adjusted operating margins reduced by 200bps to 18.4% (2012: 20.4%), reflecting the impact of investment in the Seals businesses, including the Group's Investment for Growth programme begun last year. Significant investments over the past two years include the two facility relocations completed in the prior year in RT Dygert and All Seals, a new ERP system in M Seals and the general strengthening of management across the Seals businesses with investment in targeted business development resources. Aftermarket gross margins continued to be resilient, underpinned by essential product availability and added value technical service, though overall, Seals gross margins weakened slightly with continued competition in the Industrial OEM markets.

Free cash flow improved by £2.2m to £15.9m (2012: £13.7m), benefiting from a reduction in working capital, as the pace of growth moderated; this more than offset the impact from reduced operating profits and increased capital investment. Capital expenditure increased to £0.9m (2012: £0.6m) with a £0.3m investment made in two seal machining centres in the Aftermarket businesses and a water-jet gasket cutter in the Industrial OEM businesses; these investments allow the Seals businesses to deliver specialist seals and gaskets to customers on demand. In Europe, M Seals invested £0.2m on implementing a new ERP installation as part of the Group's broader Investment for Growth programme.

Aftermarket

The Aftermarket businesses, which account for ca. 55% of Seals revenues, saw revenues increase by 2% in UK sterling terms and by 1% in constant currency terms.

In North America, the HFPG Aftermarket businesses (Hercules Bulldog and HKX) reported revenues broadly flat against the prior year. This represents a very creditable performance when set against the strong double digit annual growth achieved in the three years since emerging from the 2009 downturn. The businesses have significantly out-performed the relevant construction indices over this period, benefiting from superior inventory depth and advantageous long term relationships with key suppliers. In 2013, the uneven demand spikes from the economic recovery have abated, supplier product lead times have decreased and pricing has stabilised. Against this more stable market background, the businesses have consolidated their market share gains and are moving back towards more normal GDP plus rates of growth.

In the US, Hercules Bulldog continued to develop its electronic trading capabilities ("Webstore") with new search and find capabilities, allowing the business to develop new sales channels to retail customers, as well as converting existing customers to online ordering. Online sales are up by 30% over the prior year and now represent 15% of revenues at US$7.0m. The company also installed its third seal machining centre as the two existing machines reached capacity. These seal machining centres, which now contribute over US$1.0m to revenues, have proved to be successful additions to the Aftermarket customer service offering, enabling repairers to have access to hard-to-find and outsized seals within 24 hours. Additional development engineers have also been added to broaden the product range and during the year over 3,000 new kit applications were developed. In Canada, the Hercules operation in Barrie, Ontario successfully completed a move in October 2013 to a new, custom built facility, providing Hercules in Canada with a first class platform for future growth.

HKX's revenues fell marginally against an exceptional 33% increase in the prior year, when the combination of new emissions regulations and the re-equipping of hire fleets drove strong demand for HKX's attachment kits. While revenues in 2013 were sustained at close to record levels, the company took the opportunity to strengthen its service offering by adding technical staff and investing in additional CAE (computer aided engineering) software.

In Europe, FPE took operational responsibility for the Hercules Europe operation in the Netherlands, which will now provide the impetus to develop a more substantial, unified European Aftermarket group. The FPE group delivered good revenue growth, again following several years of steady revenue development. While domestic UK and Benelux demand for hydraulic seals was muted, there were good opportunities for an expanding range of hydraulic cylinder metal parts and selling into export markets. FPE also installed a seal machining centre in its Doncaster operation to complement the two existing machines located at Darlington.

Outside the core, directly-served markets in North America and Europe, the Aftermarket businesses continue to generate revenues by selling Hercules and Bulldog branded products through in-country sub-distributors. There was good growth in sales in Mexico, the Middle East and South Africa, though revenues were softer in several South American and South East Asian countries.

Industrial OEM

The Industrial OEM businesses, which account for ca. 45% of Seals revenues, reported an 11% increase in revenues. After adjusting for the acquisition of J Royal and for currency effects, underlying revenue growth of 4% was achieved.

In North America, the HFPG Industrial OEM businesses (RT Dygert, J Royal and All Seals) continued to operate in an industrial economy which has shown slow steady growth since emerging from the 2009 downturn. For the HFPG businesses, the level of demand from existing customers has been generally stable with a reasonably steady stream of new projects. However, there were also some revenue losses during the year, arising from a combination of reasons including customer loss of business, product design changes and in one case, a manufacturer taking business directly. Overall, the business gains broadly balanced out the business lost, with market share not significantly impacted. In an increasingly competitive market for the more standard products, the businesses have enhanced their product offering through new compound certifications for a variety of applications which allows them to meet the more stringent demands of customers, as well as to move up the value chain.

RT Dygert delivered good revenue growth as existing and new OEM customers introduced new products to their markets and the traditional Mid-West cylinder producers benefited from the growth in new mobile equipment demand. RT Dygert also invested in a range of regulatory compliant elastomer compounds to penetrate the pharmaceutical, water and petrochemical industries. All Seals had a relatively flat year with good new customer gains being offset by revenue reductions from legacy customers. All Seals invested during the year in the Seals businesses first water-jet gasket cutting machine to support the growing demand for turnaround custom gaskets. All Seals also obtained the AS9100 quality certification which strengthens its position in the Aerospace and Medical products industries. J Royal continued to invest in a significant strengthening of its management and sales development resources to diversify its customer base in the Eastern US. Development lead times can be lengthy for new projects, but the prospect and project pipelines are growing and should underpin the long term growth potential.

In Europe, M Seals delivered good overall growth, with the core territories of Denmark and Sweden performing well. Sales of large bearing seals to Chinese wind power customers were subdued as the Chinese wind power industry appeared to take a pause in its development in the year. During the year, M Seals successfully completed the implementation of a new ERP software package which will provide a solid platform for future growth, as well as providing more efficient management of inventory across the three country locations.

Highlights from the Year

Aftermarket

- Continued development of Aftermarket "Webstore" with online sales up 30%
- Additional engineering resources at Bulldog to drive New Product Introduction
- New seal machining centres in Hercules and FPE – now seven machines in total
- New facility for Hercules Canada in Barrie, Ontario – completed in October 2013
- HKX investment in CAE software and additional technical staff
- Creation of unified Aftermarket seals group in Europe

Industrial OEM

- New GM and additional sales resource at J Royal to focus on new customers
- Development of new range of regulatory compliant, elastomer compounds at RT Dygert
- Automated water jet gasket cutting system at All Seals
- New Microsoft AX ERP system implemented across all three M Seals locations

Potential for Growth

- Aftermarket share gains through superior marketing and product development
- Increase global footprint of Aftermarket – particularly in Europe and Asia Pacific
- Expand group of Industrial OEM businesses in North America and internationally

Sector Review continued

Controls

Sector definition & scope

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

Interconnect

The IS-Group, Filcon and Clarendon businesses supply high performance interconnect products used in technically demanding applications in a range of industries including Aerospace, Defence, Motorsport, Energy, Medical and Industrial. Products include electrical wiring, connectors and harnessing products, aerospace-quality fasteners, seals, customised assemblies and kits. 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. There is also a range of internally manufactured products, including flexible braided products for earthing and lightning protection, power shunt connectors, and multi-core cables.

Fluid Controls

The Hawco Group businesses supply a range of fluid control products used broadly in the Food and Beverage industry, in applications including food retailing and transportation, catering equipment, vending machines, coffee brewing, pure water and water cooling systems. Products include fluid controllers, compressors, valves, temperature and pressure measurement devices and specialised vending and liquid dispensing components. The customer offering is enhanced by value adding services including kitting for production line flow and the repair and refurbishment of soft drinks dispensing equipment.

Principal operations

Interconnect

IS-Group	
IS-Rayfast	Swindon, UK
IS-Cabletec	Weston-super-Mare, UK
IS-Sommer	Stuttgart, Germany
IS-Connect	Indianapolis, US
Filcon	Munich, Germany
Clarendon	Leicester, UK

Fluid Controls

Hawco Group	
Hawco	Guildford & Bolton, UK
Abbeychart	Faringdon, UK

Total revenue growth:

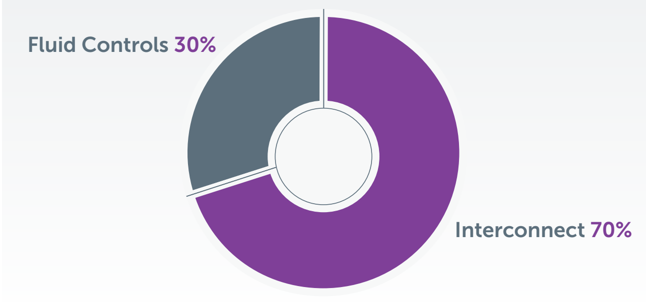
5%

p.a. compound

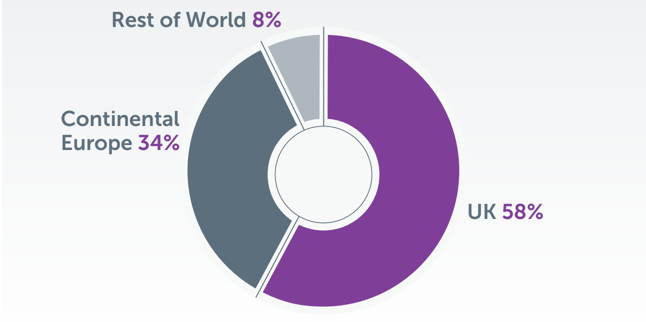
2013	£86.2m
2012	£81.9m
2011	£76.2m
2010	£68.0m
2009	£61.9m
2008	£68.6m

Total revenue

Principal segments



Geography



Market drivers

Industrial economic background

The Controls 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 UK and Germany.

A good indicator of the health of the UK industrial economy is the UK Index of Production. This index tracks the severe decline in 2009 caused by the financial crisis, a partial recovery in 2010 and then a continued steady decline in 2011 and 2012. Although there has been some improvement in 2013, the background is still one of limited and fluctuating confidence among general manufacturing customers.

Similarly, the German Production Sector Output Index again tracks the severe decline in 2008 and 2009, but shows a more sustained recovery before flattening out in 2011 and 2012 as the Euro crisis deepened and German export growth slowed. In comparison to the UK, production output has remained close to pre-recession levels.

Specific industry drivers

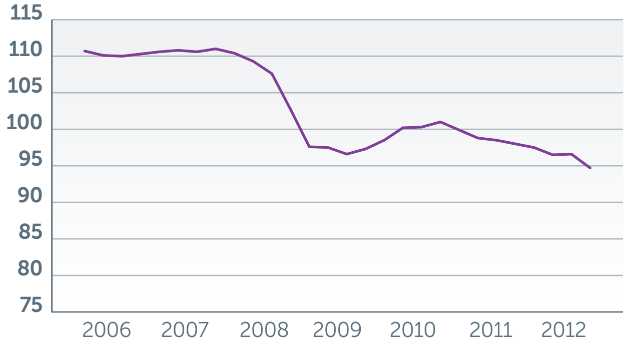
Although influenced by the general industrial economic cycles, there are also more specific drivers within the main market segments served by the Controls businesses.

The Civil Aerospace market continued to grow steadily with growth in World Passenger Traffic returning to the long term average of around 5% per annum. New aircraft continue to come into service and Europe has taken its share of the fit-out projects for aircraft interiors, including the continued upgrade of the technology and components used in premium cabins. The Defence markets in the UK and Germany remained subdued with programme delays, expenditure reduction and a general slowdown in the time taken to gain firm commitment to spending decisions.

The Motorsport market was underpinned by a stable grid in Formula 1 but demand for products used in testing was limited in a year when there were no major technological changes. New engines for Formula 1 will be introduced in the 2014 season which should boost demand. In Energy markets, demand for repair components for the electricity distribution sector in Germany was lower; the mobile generator and commercial battery sectors were also slower following a strong performance in the previous year.

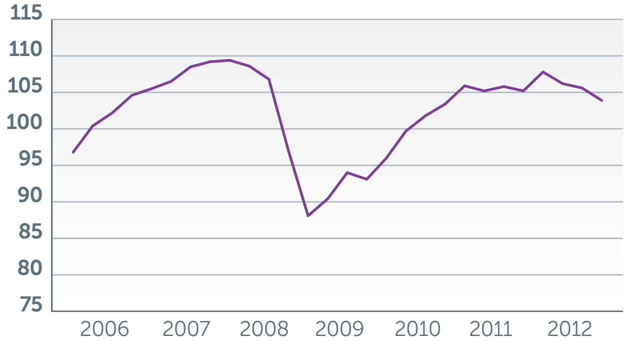
Demand for fluid control products from the UK food retailing sector was in line with last year but well below previous highs as retailers continued to focus on smaller convenience stores. The beverage, vending and purified waters sectors were steady with new coffee dispensing formats continuing to generate interest and growth.

UK Index of Production



Source: UK Office of National Statistics
Calendar & Seasonally Adjusted, Reference Year 2010=100

German Production Sector Output (including Construction)



Source: Deutsche Bundesbank
Calendar & Seasonally Adjusted, Reference Year 2010=100

World Passenger Traffic – Annual Growth Rate

Source: International Civil Aviation Organisation

Sector Review continued
Controls

Sector performance
Controls statistics

Revenue
£86.2m

	2013	2012
Revenue	**£86.2m**	£81.9m
Adjusted operating profit	**£13.9m**	£14.4m
Adjusted operating margin	**16.1%**	17.6%
Free cash flow	**£11.9m**	£10.0m
Trading capital employed	**£35.5m**	£35.7m
ROTCE	**39.2%**	44.2%

The Controls businesses increased revenues in 2013 by 5% to £86.2m (2012: £81.9m), benefiting from both the acquisition in November 2012 of a small energy distributor based in Germany and from a full year contribution from Abbeychart and Amfast, acquired respectively in March and May 2012. After adjusting for the additional contribution from these acquisitions and for modest currency translation effects, underlying revenues decreased by 3%.

Adjusted operating profits decreased by 3% to £13.9m (2012: £14.4m) and adjusted operating margins reduced by 150bps to 16.1% (2012: 17.6%). The reduced operating margins resulted from the reduction in underlying revenues, combined with increased costs following the major relocation of the IS-Rayfast business in the UK (completed in November 2012) and the ERP investment at Hawco. Overall gross margins in the Controls Sector remained resilient as the businesses continued to focus on specialised markets and added value opportunities.

Free cash flow improved by £1.9m to £11.9m (2012: £10.0m), with a reduction in working capital reflecting the weaker trading environment and from stronger management of working capital in the more recently acquired businesses. Capital expenditure increased to £0.9m (2012: £0.6m) including £0.7m on the completion of the new IS-Rayfast facility in Swindon and £0.1m on installing a new ERP system in Hawco. Both of these investments were part of the Group's broader Investment for Growth programme.

Interconnect
The Interconnect businesses, which account for ca. 70% of Controls revenues, increased revenues by 4% in UK sterling terms. After adjusting for acquisitions and currency effects, underlying revenues decreased by 3%, reflecting a combination of strong prior year comparatives in Motorsport, a weaker Defence market and a generally challenging Eurozone backdrop.

Aerospace and Defence accounts for ca. 40% of Interconnect revenues and in this market, there was a sharp contrast between the Civil and Military segments. In Civil Aerospace, there was good demand for the full range of electrical harnessing products and bonding leads for cabin interiors. There was also significant demand for fasteners supplied by Amfast, which had an excellent first full year in the Group and consolidated its position as a leading supplier to the premium aircraft seating industry. By contrast, Military Aerospace demand in both the UK and Germany slowed with the reduction in the annual production rate of Eurofighter Typhoon aircraft having the largest impact.

Defence markets more broadly also remained subdued, but our businesses demonstrated their resilience by ending the year with revenues marginally ahead of the prior period. In the UK, there were fewer large projects but IS-Rayfast leveraged its excellent stocking profile to provide a rapid turnaround of orders to its wide customer base. IS-Rayfast, as a European Master Distributor for key suppliers, was also able to provide critical stocking support to its distribution partners across Europe. In Germany, Filcon saw good growth from the provision of connectors for specialist engines for use in the Puma and K9 Howitzer military vehicles, as well as from a return to increased production of military radios.

Sales to the Industrial markets in the UK and Germany (ca. 25% of Interconnect revenues) were essentially flat, which was a creditable performance in a difficult UK and Eurozone manufacturing environment. The field sales teams in the UK and Germany were able to offset slower demand by winning new business from both existing and new customers. In Germany, Sommer benefited from the strengthening of its field sales team and made solid progress in penetrating a wider customer base, again supported by superior stocking and value added services. Examples of business gains include the supply of miniature solder sleeves for a fan system used in high end car seats and the provision of a wide range of components for the refurbishment and upgrade of cruise ships.

Motorsport accounts for ca. 20% of Interconnect revenues and in this market, revenues reduced against strong prior year comparatives. In the UK there was much lower development and testing activity this year, ahead of the proposed introduction of new engines and upgraded Energy Recovery Systems for the 2014 Formula 1 season. In the US, sales had been boosted in 2012 by the adoption of fuel injectors for the Nascar racing series and a change in the chassis used in the Indy car series; this year, there were no such technological changes to drive increased demand. In Germany, Filcon delivered good growth in Motorsport sales through the supply of specialist connectors for the VW World Engine, the new car design for the Le Mans series and multiple developments in electric and hybrid engines for both racing and road cars.

In the German Energy market, Sommer supplies components used in repair and refurbishment of medium voltage electricity generation equipment. Sales slowed this year due to a combination of an extended period of bad weather and the focus by large generating companies in Germany on the high voltage distribution network, at the expense of a more normal cycle of repair and refurbishment of the local transmission networks. The small acquisition of Rayquick, which coincided with this slowdown, was successfully integrated into Sommer and helped Sommer to secure its appointment as a German Master Distributor for its key supplier of energy products. In the UK, the Cabletec energy business focuses on high reliability industrial batteries mainly for use in UPS (uninterrupted power supply) applications. As the market is concentrated in a small number of key customers, demand can vary significantly and 2013 was a relatively slow year in comparison to the prior year. Cabletec continued to improve its in-house manufacturing capabilities and competitiveness resulting in share gains on key components, such as its tin and nickel plated copper braiding used for the protection of electrical cables and harnesses in harsh environments.

Operationally, this was a year of significant change for IS-Rayfast, as it successfully completed its relocation from the site it had occupied since 1992 into a newly refurbished 37,000 sq.ft. building. The new facility not only provides an appropriate environment for a modern, technically biased company, but also substantial capacity for future growth. Later in the year, Amfast's sales and customer service functions were fully integrated into Clarendon's sales operation in Leicester and warehousing operations were combined with those of Clarendon at the new Swindon site.

Fluid Controls

The Fluid Controls businesses, which account for ca. 30% of Controls revenues, increased revenues by 14% in UK sterling terms. After adjusting for currency effects and for the acquisition of Abbeychart last year, underlying revenues decreased by 2%. The Hawco business faced significant headwinds this year as the major food retailers continued to focus on smaller convenience stores, which require less Hawco product. In addition, some key commercial catering equipment manufacturers were left with surplus equipment, having leased the products on a temporary basis to vendors at the 2012 Olympics' sites. Hawco continued to have success with its range of space and energy saving components and benefited from the rise in home deliveries through increased sales to the refrigerated transport market.

The Abbeychart business also faced challenges in its markets, but was able to offset this by utilising its expanded field sales team to increase the company's share of business from smaller customers through superior technical support and stock availability. The coffee sector remained buoyant with consumers continuing to look for new, personal-use dispensing methods and from high street vendors taking an increasingly technical approach to brewing. With vendors now looking to install increasingly sophisticated equipment to guarantee the purity and consistency of the water used in the brewing process, prospects for next year remain encouraging.

During the year, the Hawco Group made a significant investment in a new ERP system which was successfully implemented at Hawco's operations in Guildford and Bolton and which will be rolled out to Abbeychart next year. This investment will provide the Fluid Controls businesses with a solid, modern IT platform to support future growth.

Highlights from the Year

Interconnect

- Investment in a new 37,000 sq.ft. warehouse/office facility for the IS-Group
- Acquisition of Rayquick by Sommer, strengthening position in the Electrical Distribution market in Germany
- Filcon expansion into the French Motorsport market with specialist sales resource
- Amfast fully integrated into Clarendon including sales, ERP system and warehousing
- Strong performance in Civil Aerospace with further penetration into premium aircraft seating

Fluid Controls

- Successful implementation of new ERP system at Hawco giving platform for future growth
- Strengthened UK sales resources in Abbeychart

Potential for Growth

- Further penetrate specialised market sectors in Europe
- Broaden range of high performance products and added value services
- Expand geographical reach outside Northern Continental Europe

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. There have been no significant changes to these risks and uncertainties, or their potential impact on the Group, since last year.

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 margin pressures due to increased competition.

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.
- 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 four 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's businesses are required to undertake Product Risk assessments and Supplier Quality Assurance assessments. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £20m 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.

As set out on page 36, 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 a business 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 five 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 Canadian dollar, the Australian dollar and the Euro. 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 2013, 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 increase revenue by £1.8m and increase adjusted operating profit by £0.3m. 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 £4.2m (8%), due to currency translation.

Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2013, the Group's non-UK sterling trading capital employed in overseas businesses was £125.7m (2012: £131.9m), which represented 79% 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 £12.1m.

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 exposed to foreign currency risk on those 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. The Group's US businesses do not have any material foreign currency transactional risk.

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 forecast 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 ca. £1.0m p.a., 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.

Corporate Responsibility

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 strong. 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

	2013	2012	2011
Average number of employees in year	**1,145**	1,062	910
Females as % of total	**35%**	33%	32%
Length of service (years)	**6.2**	6.0	6.3
Average staff turnover	**20.4%**	16.7%	16.3%
Sick days lost per person	**2.2**	2.3	1.9

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

	2013		2012	
	Male	Female	Male	Female
Directors	**6**	**1**	6	–
Senior Managers	**55**	**17**	46	13
Employees	**695**	**385**	696	356
	756	**403**	748	369

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 2013 the Group employed one disabled employee.

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.

Some of the Group's operating companies have structured apprenticeship schemes for technical staff and the Group provides sponsorship for high potential employees for higher education courses where appropriate. Vocational training is also provided and some staff are enrolled on National Vocational Qualification ("NVQ") level courses. Employees are actively encouraged to undertake Continuing Professional Development ("CPD").

Health & Safety

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

The Group Chief Operating Officer, Iain Henderson, has overall responsibility for Health & Safety procedures across the Group. However, in line with the Group's decentralised management approach, accountability for Health & Safety is with local management to match local regulatory requirements, culture and specific business needs. The Group requires that each operating business conducts a Health & Safety review against its specific operational risk profile and local regulatory requirements.

	2013	2012	2011
Minor injuries	**54**	21	16
Reportable lost time incidents[1]	**1**	2	1

1 Three or more day's absence from workplace.

The increase in minor injuries through 2012 and 2013 reflects the improved systems for reporting and collecting injury data, particularly in relation to recently acquired businesses. The most common types of injury relate to minor cuts, slips/trips and lifting injuries.

All injuries are fully investigated and corrective actions and preventative measures put in place to ensure that the injury does not reoccur and future risks are mitigated.

Health & Safety forms part of the induction process for new employees and where relevant, more specialist training is provided for specific functions. The Group has good coverage of employees who have formal Health & Safety training and/or qualifications and this will be expanded during 2014.

Human rights

The Group's activities are substantially carried out in developed countries that have strong legislation governing human rights. The Group complies fully with appropriate legislation in the countries in which it operates.

Environmental

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

The Group ensures it minimises its impact on the environment through compliance with relevant environmental legislation. The Group is committed to identifying and assessing environmental risks, such as packaging waste, arising from its operations.

Waste management initiatives are encouraged and supported by the Group and materials are recycled where practical.

Local management are committed to good environmental management practices throughout our operations.
The Managing Directors have responsibility for environmental performance of their operating businesses and each subsidiary is required to implement initiatives to meet their responsibilities. Some specific environmental initiatives are provided below:

- Each location participates in recycling paper, plastic, cardboard, and wood from pallets.
- Hercules US has reduced the amount of plastic bags used for packaging of parts to be shipped by over 50% .
- Hercules Canada has worked with local waste management to recycle over 95% of all disposal items, virtually eliminating any landfill waste.
- HKX is in compliance with ISPM15 phytosanitary regulations for international shipping.
- Cabletec in the UK has modified all products to ensure they are now fully REACH (Registration, Evaluation, Authorisation and restriction of Chemicals) compliant.

Ethics

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

Dealings with these groups depend upon the honesty and integrity of employees and the Group ensures that a high standard of expertise and business principles are maintained in all such dealings.

Community

The Group believes that good community relations are important to the long term development and sustainability of the operating businesses. It recognises the obligation it has towards the parties with whom it has business dealings including customers, suppliers, shareholders, employees and advisors. In general, the interactions with these parties are managed at a local level by senior management and the Group expects a high standard of expertise and business principles are maintained in such dealings.

The Group's policy towards suppliers is that each operating business is responsible for negotiating the terms and conditions under which they trade with their suppliers. The Group does not operate a formal code that it follows with regard to payments to suppliers. Group companies agree payment terms with their suppliers when they enter into binding purchasing contracts for the supply of goods or services.

Suppliers are, in that way, made aware of these terms. Group companies seek to abide by these payment terms when they are satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The Group considers the environmental and social impacts of conducting business on the community and this forms part of the business decision making process. Many community activities and events are fully supported by the Group and this relationship is managed by the local management teams. Some examples of Group community activities include:

- In North America:
  - Various charitable donations made locally at each operating company by employees for local charities such as United Way (over $20k donated by employees), Haven House (Abused Women) and Clothes for Kids.
  - Hercules US sponsorships at charity golf challenges.
  - Adopt a Needy Family at Thanksgiving and Christmas at Hercules US; employees donate cash, food and gifts for a designated family in the community.
- In Europe:
  - Staff from a1-CBISS took part in the 'Tough Mudder' fund raising activity on behalf of Claire House Children's Hospice in November 2012.
  - IS-Rayfast supported Prospect Hospice near Swindon UK, in memory of a long term colleague who was sadly lost to cancer last year and took part in the Swindon Race for Life to support Cancer Research UK.
  - Cabletec supported Weston Hospice in Weston-super-Mare UK, again in memory of a long term colleague who was sadly lost to cancer. Teams from IS-Cabletec and IS-Rayfast took part in the national 'Movember' charity event to raise awareness of men's health issues.

The Group also contributes to local worthwhile causes and charities and in 2013 the Group made donations of £32,359 (2012: £28,285). No political donations were made.

Directors and Advisors

John Rennocks[1, 3]

Chairman

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

Skills and experience:
John is a Chartered Accountant with over 41 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 18 years, including as Chairman of six other public or private companies across several industrial or support service sectors.

External appointments:
John is currently non-Executive Director of GreenKo Group PLC, Chairman of Bluefield Solar Income Fund Ltd and Deputy Chairman of Inmarsat plc.

Bruce Thompson

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[1,2,3]

Non-Executive Director

Appointed:
Joined the Board in November 2012 and appointed Chairman, Audit Committee March 2013.

Skills and experience:
Marie-Louise is a Chartered Certified Accountant with some 30 years experience in commerce and industry, 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 Chairman of the Audit Committee and a non-Executive Director of Zotefoams plc. Marie-Louise is also a non-Executive Director of Independent Oil and Gas plc and of two private companies.

Nigel Lingwood

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.

John Nicholas[1,2,3]

Senior Independent Non-Executive Director

Appointed:
Joined the Board in June 2013 and appointed Chairman, Remuneration Committee in July 2013.

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

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

External appointments:
John is currently non-Executive Director and Chairman of the Audit Committees of Mondi plc, Hunting PLC and Rotork plc. John is also a member of the Financial Reporting Review Panel.

Iain Henderson

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.

Charles Packshaw[1,2,3]

Non-Executive Director

Appointed:
Joined the Board in June 2013.

Skills and experience:
Charles is Head of UK Advisory and Managing Director in HSBC's global banking business. With 30 years City experience, including 18 years at Lazard in London, where he was Head of Corporate Finance, prior to joining HSBC in 2002. Charles has been a non-Executive Director of two listed companies and he is also a Chartered Engineer.

External appointments:
None.

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

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

Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

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

Investment Bankers
Lazard
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

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

Corporate Governance

John Rennocks
Chairman

Dear Shareholder
I am pleased to present Diploma's report on Corporate Governance on behalf of our Board. We have developed and expanded this report this year which I hope gives a clear and meaningful explanation of how the Board and its Committees discharge their governance duties and apply the principles of good governance as set out in the UK Corporate Governance Code ("Code").

The Board is committed to ensuring the highest standards of corporate governance and that values and behaviours are consistent across the Group. As I indicated in my earlier Reports to shareholders, in October 2011 on joining the FTSE 250, I set clear objectives for the Board to develop its policies and processes to ensure that the Board would be able to meet the more stringent governance standards commensurate with a Company that is now firmly established in the FTSE 250 constituent group.

The appointment of John Nicholas and Charles Packshaw in June as independent non-Executive Directors, following the appointment of Marie-Louise Clayton earlier in the financial year, has allowed the Board to refresh its Committees and provides a firm foundation for continued oversight and scrutiny of the Company's activities. These appointments follow the decision of John Matthews and Ian Grice to step down from the Board at 30 September 2013.

We have also made solid improvements in the Board processes over the past two years and further developments in policies and review processes are planned for the coming financial year, including an external evaluation of the performance of the Board. Towards the end of next year we will also carry out a further formal review of the Group's strategy, following that carried out in October 2012. This will be the first opportunity for the new members of the Board to contribute to the Group's future strategic direction, having had an opportunity to gain a thorough understanding of the Group's operations.

Members of Board:

		Attendance
Chairman		
John Rennocks		7/7
Independent non-Executive Directors		
Marie-Louise Clayton	– appointed 13 November 2012	7/7
Ian Grice	– retired 30 September 2013	6/6
John Matthews	– retired 30 September 2013	6/6
John Nicholas	– appointed 1 June 2013	3/3
Charles Packshaw	– appointed 1 June 2013	3/3
Executive Directors		
Iain Henderson		7/7
Nigel Lingwood		7/7
Bruce Thompson		7/7

Compliance with the Code

Diploma PLC is required to state whether it has complied with the Main Principles of the UK Corporate Governance Code, published by the Financial Reporting Council in September 2012. Set out on pages 41 to 65 is an explanation of how the Company has complied with the Main Principles of the Code.

The Board confirms that throughout the financial year, the Company applied all of the Principles set out in sections A to E of the UK Corporate Governance Code for the period under review. The Board also confirms that it complies with all of the Provisions of the Code as at the date of this Report. However, as a result of the timing of appointments to the Board, there were two short periods during the year where the Company did not comply with three Provisions. The explanations relating to these exceptions are set out on page 44.

The Company's auditor Deloitte LLP, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance.

Following the developments over the past two years I am pleased to report that at the date of this Report, the Company is able to comply fully with all of the principles and provisions enshrined in the Code.

Finally, I would like to encourage all shareholders to find the time to attend our AGM on 15 January 2014. It provides an excellent opportunity to meet the Executive Directors and the independent non-Executive Directors on the Board whose Committee's reports are set out in the following pages of this Report on Governance.

John Rennocks
18 November 2013

Framework of Corporate Governance

The Board

The Diploma PLC Board is accountable to the Company's shareholders for standards of governance across the Group's businesses. Certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board. The principal matters reserved for the Board are set out below. Day-to-day operational decisions are managed by the Chief Executive Officer.

- Setting the overall strategic direction and oversight of the management of Diploma PLC.
- Recommending or declaring dividends.
- Approval of the Group and Company financial statements.
- Maintaining sound systems of internal controls and risk management.
- Approval of major corporate transactions and commitments.
- Succession planning and appointments to the Board and senior management remuneration.
- Review of the Group's overall corporate governance arrangements and reviewing the performance of the Board and its Committees annually.
- Approval of the delegation of authority between the Chairman and the Group Chief Executive and the terms of reference of all Committees of the Board.

Where appropriate, matters are delegated to a Committee which will consider them in accordance with its terms of reference. Details of each Committee's terms of reference are available on the Diploma PLC website at www.diplomaplc.com

Audit Committee

Chaired by Marie-Louise Clayton
Number of meetings in the year: 6

Role of the Committee
The Audit Committee has responsibility for overseeing and monitoring the Company's financial statements, accounting processes, audit (internal and external), internal control matters and also monitors issues relating to fraud and whistleblowing.

Nomination Committee

Chaired by John Rennocks
Number of meetings in the year: 3

Role of the Committee
The Nomination Committee regularly reviews the structure, size and composition of the Board and its Committees. It identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally.

Remuneration Committee

Chaired by John Nicholas
Number of meetings in the year: 7

Role of the Committee
The Committee reviews and recommends to the Board the framework and policy for the remuneration of the Chairman and the Executive Directors. The remuneration of the non-Executive Directors is determined by the Chairman and the Executive Directors. The Committee takes into account the business strategy of the Group and how remuneration policy should reflect and support that strategy.

Corporate Governance continued

Leadership

Board composition

The Board comprises a Chairman, three Executive Directors and three independent non-Executive Directors. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Committee Report on page 57. The biographical details of the Board members are set out on pages 38 and 39.

During the year, the Board completed an exercise begun last year to refresh the composition of non-Executive Directors on the Board. Marie-Louise Clayton was appointed as an independent non-Executive Director on 13 November 2012 and on 1 June 2013, John Nicholas and Charles Packshaw joined the Board as independent non-Executive Directors. Following these appointments, John Matthews, a long serving director who had completed ten years of service and Ian Grice, who had been a member of the Board for six years, retired from the Board. Both John Matthews and Ian Grice served throughout the year to enable smooth hand-overs of their Committee chairmanship roles and retired as planned on 30 September 2013.

The role of Senior Independent Director became vacant on the retirement of John Matthews and on 15 November 2013 John Nicholas was appointed Senior Independent Director.

Activities of the Board

The Company's governance framework is set out on page 41 together with a summary of the formal terms of reference. The core activities of the Board and its Committees are planned on an annual basis and this framework forms the basic structure within which the Board operates.

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

The Chairman is responsible for the overall leadership of the Board and the governance of the Board and ensures that the Directors have an understanding of the views of the Company's major shareholders. The Chairman sets the Board's agenda and ensures that there is a healthy culture of challenge and debate at Board and Committee meetings.

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. The Chief Executive is responsible for developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Company and for maintaining good relationships and communications with investors.

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 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.

To ensure that non-Executive Directors can constructively challenge and support 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 later in 2014.

Meetings of the Board

The Board has six scheduled meetings each year and meets more frequently as required. It met on seven occasions during the year under review and attendance at these meetings is set out on page 40.

Each Director is required to attend all meetings of the Board or Committees of which they are a member. In addition senior management from across the Group and advisers attend some of the meetings for the discussion of specific items in greater depth.

This exposure to the members of senior management from across the businesses helps enhance the Board's understanding of the business, the implementation of strategy and the changing dynamics of the markets in which the business operates.

Effectiveness

Independent non-Executive Directors

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. In accordance with the Code, the ongoing test of independence for the Chairman is not appropriate.

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.

Each non-Executive Director is required to inform the Board of any changes to their other appointments.

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

The appointment of non-Executive Directors are subject to formal, rigorous and transparent procedures which are described more fully in the Report from the Nomination Committee which is set out on page 49.

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 Group. 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.

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 Group'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.

Following the new appointments to the Board this year, a comprehensive induction programme was set up which included a visit by each of the new non-Executive Directors to the major business units in each of the Group's Sectors where they had an opportunity to meet with senior management in these businesses. Further meetings were held individually between each of the non-Executive Directors and the Executive Directors and with the principal advisors to the Company.

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 gives 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.

Board evaluation
The Board undertakes an annual evaluation of effectiveness 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 by the Chairman to a meeting of the Board and actions and objectives are agreed for the following year.

The Board intends to introduce periodic externally facilitated evaluations of the Board, commencing with the 2014 evaluation.

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 and in accordance with the Code, all Directors will also stand for re-election annually at the Annual General Meeting.

Conflicts of interest
Directors are 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.

Corporate Governance continued

Accountability

The Board is responsible for ensuring that the Annual Report & Accounts present a fair, balanced and understandable assessment of the Group's position and prospects.

The Board is also responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. They also review the effectiveness of these systems through the work of the Audit Committee as reported on in the Report of the Audit Committee on pages 45 to 48.

The key risks which the Board has focused on this year are set out in the Principal Risks and Uncertainties section on page 32 to 35. 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.

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.

During the past two years, these communications have been enhanced by the introduction of Investor Days, both in the UK and in Canada which were well attended. In addition Investor Roadshows are now held each year in the US as well as in the UK and formal investor presentations are made twice a year to groups of private client fund managers.

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, 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, focused on both investors and analysts.

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.

Electronic communications to shareholders include the Notice of the Annual General Meeting which is sent at least 20 working days prior to the meeting. The Company proposes a separate resolution on each substantially separate issue and for each resolution proxy appointment forms provide shareholders with the option to vote in advance of the AGM.

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.

Code non-compliance

The Company complied with the Principles of the Code throughout the year, but for very short periods of time, did not comply with the following Provisions of the Code during the year under review. In each case this was attributable to the timing of appointments:

- A.4.1 – There was no Senior Independent Director appointed for the period from 30 September 2013 when John Matthews retired, until the appointment of John Nicholas on 15 November 2013. The candidates for Senior Independent Director were recently appointed as non-Executive Directors to the Board and this, together with the need to follow a fair and structured appointment process, meant that the appointment was delayed until early in the new financial year.
- B.1.2 – At least half the Board did not comprise independent non-Executive Directors from 1 October 2012 until the appointment of Marie-Louise Clayton as an independent non-Executive Director on 13 November 2012. The Board narrowly missed the end of the transition period permitted by the Code for smaller companies, under which the Company was previously allowed to have at least two independent non-Executive Directors.
- C.3.1 – The Audit Committee did not comprise at least three independent non-Executive Directors for the period 1 October 2012 until the appointment of Marie-Louise Clayton to the Committee on 13 November 2012. The Board narrowly missed the end of the transition period permitted by the Code for smaller companies, under which the Audit Committee was previously allowed to have at least two independent non-executive directors with the Company Chairman being a member of the Audit Committee.

As set out above in this Report, the Company was in full compliance with all of the Principles and Provisions of the Code at the date of this Report.

Audit Committee Report

Marie-Louise Clayton
Chairman of the Audit Committee

Dear Shareholder
I was delighted to be appointed Chairman of the Audit Committee in March 2013 and would like to thank my predecessor, John Matthews who has guided the Committee over many years. In June 2013, John Nicholas and Charles Packshaw, both of whom have substantial experience of corporate financial reporting, joined the Committee and I look forward to their support and contribution to the Committee's oversight in the coming years.

In my first year as Chairman, I have devoted a large amount of time to gain a thorough understanding of the financial reporting processes in the Group and to reviewing the overall control environment related to the Group's strategic, operational and financial activities. As part of this exercise I have been assisted particularly by the Group Finance Director and Internal Auditor, but I have also met with local management in the larger business units to ensure I understand the way in which the Group's processes and controls are applied by the Group's businesses.

I have also met separately with the Company's auditors during which meetings I have sought their views on the strength and depth of financial reporting and internal control processes operating over the Group's activities. I welcome Ed Hanson as the lead engagement audit partner this year and wish to thank his predecessor, Ian Waller who had reported on the Group's financial statements for the past five years.

Set out over the following pages is my Report on the activities of the Committee during the year; the Committee's agenda continues to grow each year and this year we have given further insight into the work of the Committee by expanding the Committee's Report to explain how the Committee has dealt with the areas of financial reporting that require particularly careful review and judgement. None of these areas have proved critical in preparing the Group's financial statements this year.

Members of Committee:

		Attendance
Marie-Louise Clayton	– appointed on 13 November 2012 and as Chairman on 21 March 2013	6/6
Ian Grice	– retired on 30 September 2013	5/5
John Matthews	– retired as Chairman on 21 March 2013 and as member on 30 September 2013	4/5
John Nicholas	– appointed on 29 July 2013	3/3
Charles Packshaw	– appointed on 29 July 2013	3/3
John Rennocks	– resigned on 13 November 2012	–

Key Duties

(Full terms of reference are available on the Company's website).

- Monitors the integrity of the financial statements of the Group and assists the Board to fulfil its responsibilities relating to external financial reporting and similar announcements, including Half Year and Annual financial statements, Interim Management Statements and trading updates.
- Reviews key accounting and auditing issues.
- Reviews Group's internal control systems and risk management procedures.
- Recommends appointment and/or reappointment of the external auditor and approves their terms of engagement.
- Reviews and monitors independence of the external auditor and the effectiveness of the audit process.
- Monitors policy on external auditor supplying non-audit services.
- Monitors fraud reports and operation of the Company's whistleblowing policy.
- Reviews effectiveness of the internal audit function and makes recommendations to the Board.

I hope you will find this Report helpful in understanding the work of the Committee.

Marie-Louise Clayton
18 November 2013

Audit Committee Report continued

Audit Committee

The Committee is chaired by Marie-Louise Clayton and comprises independent non-Executive Directors. The Chairman and John Nicholas are both qualified accountants, who have recent and relevant financial experience.

John Rennocks, the Chairman of the Company, resigned from the Audit Committee on 13 November 2012 in accordance with good governance practice, but continues to attend meetings at the invitation of the Committee.

The Group Company Secretary acts as Secretary to the Committee. The Executive Directors also attend Committee meetings and the Internal Audit Manager also attended two Committee meetings. The Committee met with the external auditor during the year, without the Executive Directors being present.

Engagement of the external auditor

The external auditor is engaged to express an opinion on the Group's and Company's financial statements. The audit includes the review and test of the systems of internal financial control and the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

Deloitte LLP has been the Company's auditor since their appointment in 2008. Deloitte LLP provides the Committee with relevant reports, reviews and advice throughout the year, as set out in their terms of engagement.

In accordance with UK regulations, the Company's auditor adheres to a rotation policy based on best practice and a new Group lead engagement partner was appointed this year in place of the previous lead engagement partner who had completed a term of five years in that role.

During the year the performance of the auditor was formally assessed by the Committee in conjunction with the senior management team. In making this assessment the Committee focussed on the robustness of the audit, the quality of delivery of audit services and the quality of the auditor's staff. The Committee is satisfied that the audit continues to be effective and provides an appropriate independent challenge of the Group's senior management.

The Committee is satisfied that Deloitte continues to provide an effective audit and considers that the cost and disruption that would be caused to the Group's businesses by an audit tender process, outweighs any benefit to shareholders from a more frequent change in the Company's auditor. However the Committee remains supportive of the Code's requirement that the audit should be put out to tender at least once in every ten years.

Audit Committee Agenda – 2013

- Reviews and agrees the scope of work to be undertaken by the external auditor and agrees the terms of engagement and fees to be paid for the external audit.
- Reviews the Annual Report & Accounts and receives reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement. Reviews the processes necessary to ensure that the Board is able to confirm that the Annual Report & Accounts are "fair, balanced and understandable".
- Reviews a report from the Group Finance Director on the controls in place to mitigate fraud risk.
- Reviews the Interim Management Statements and Trading Updates at meetings held in January, March, July and September.
- Invites the Internal Audit Manager to attend meetings in September and January to review the results of the internal audit work for the current year and agree the scope and focus of internal audit work to be carried out in the following year.
- Reviews the Half Year Announcement and receives reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Assesses the effectiveness of the external audit at the meeting in May.
- Reviews the effectiveness of the Group's internal control and risk management procedures and makes recommendations to the Board on areas for improvement.
- Reviews the effectiveness and independence of the external auditor, the audit plan process, and recommends the re-appointment of the Group's external auditors.
- Reviews the Group's policy on non-audit services which may be provided by the auditor and the Group's policy on whistleblowing.
- Reviews the Audit Committee Terms of Reference.

Financial reporting and significant judgements

As part of their monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also seeks support from the external auditors to assess them.

The main issues reviewed in the year ended 30 September 2013 are set out below:

- **Impairment of goodwill and intangible assets:**
The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the business being tested for impairment, primarily the achievability of long term business plans and macroeconomic assumptions underlying the valuation process. This area is a prime source of audit focus and accordingly the external auditor provided detailed reporting to the Committee.
- **Valuation of inventory:**
The Committee reviewed the Report of the Group Finance Director that set out the gross balances by businesses, together with any related provision against the carrying value. The Committee reviewed the bases used to value and confirm existence of inventory held across the Group; they also considered the appropriateness of provisions held against the carrying value of inventory, having regard to the age and volumes of inventory, relative to expected usage. These matters were also discussed with the Group Finance Director and the auditor.
- **Recoverability of accounts receivable:**
The Committee reviewed the Report of the Group Finance Director that set out the gross balances by businesses, together with any related provision against the carrying value. The Committee reviewed the report of work done by the external auditor on trade receivables to confirm both existence and recoverability; they also considered the appropriateness of provisions held against the carrying value of accounts receivables having regard to the age and creditworthiness of the customer. These matters were also discussed with the Group Finance Director and the auditor.

The Committee was satisfied that each of the matters set out above had been fully and adequately addressed by the Executive Directors, appropriately tested and reviewed by the external auditor and that the disclosures made in the Annual Report & Accounts were appropriate.

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 the key strategic and operating risks of the Group identified by management. 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 most significant impact on the Group's long term performance are set out on pages 32 to 35.

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 2013, 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 2012 to the date of this Report and is satisfied that the Group has in place effective risk management and internal control systems.

Audit Committee Report continued

Internal audit

The Group's finance department includes a separate internal audit function. This is managed by a qualified internal auditor who is based in Toronto, Canada. On larger audit engagements the Internal Audit Manager is assisted by a member of the Group finance team at Diploma PLC.

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. In January, the Internal Audit Manager presents his audit plan for the year to the Committee for their approval. 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 Internal Audit Manager reports to the Committee on the results of the audit work carried out in the year. The Committee reviews management's response to matters raised, including the time taken to resolve such matters. 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 procedures operating over supplier masterfile data and credit card terminals.

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 appropriate to a group of Diploma's size.

Non-audit fees

The Committee has an established a set of guidelines covering the type of non-audit work that can be assigned to the external auditor. These guidelines were reviewed and updated during the year and relate to advisory 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.

The external auditor may only provide such services where these do not conflict with their statutory responsibilities and ethical guidance. 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. However during the year the tax department of Deloitte LLP provided advice to the Company in connection with the application of new legislation relating to Controlled Foreign Companies. This advice has resulted in a small assignment which will be concluded in the 2014 financial year. The Committee remains satisfied that this assignment, which largely arose from Deloitte's detailed knowledge of the Group's tax affairs, is sufficiently ring-fenced so as not to conflict with the duties of the auditor.

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 assures itself of the auditor's independence by receiving regular reports 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.

Details of the external auditor's total fees, including non-audit fees of £71,000 paid to Deloitte LLP during the year are set out in note 27 to the financial statement.

Anti-Bribery and Whistleblowing

Diploma has a group wide anti-Bribery and Corruption policy to comply with the Bribery Act 2010 and it periodically reviews its procedures to ensure continued effective compliance in its businesses around the world.

During the year, the Committee formally reviewed and updated the Group's Whistleblowing Policy, which provides the framework to encourage and give employees confidence to "blow the whistle" and report irregularities. Employees are encouraged to raise concerns with designated individuals, including the Executive Directors, the Group Company Secretary or the Chairman of the Audit Committee. All such reports will be investigated and reported to the Committee, together with details of corrective action taken. The Group's Whistleblowing Policy is monitored by the Committee.

Nomination Committee Report

The Nomination Committee is chaired by John Rennocks, the Chairman of the Company. The Committee would be chaired by the Senior Independent Director on any matter concerning the chairmanship of the Company. The Committee comprises the non-Executive Directors.

The Group Company Secretary acts as Secretary to the Committee.

Board development

The Committee's primary focus for 2013 was the continued development of the Board with the appointment of independent non-Executive Directors for succession and Board balance.

The current development phase of the Board began in 2012 with the appointment of Marie-Louise Clayton as a non-Executive Director on 13 November 2012. With John Matthews having completed ten years' service and Ian Grice having indicated his wish to retire from the Board, two new independent non-Executive Directors were appointed during the year to maintain Board balance and structure.

Advisors

The Committee appointed Norman Broadbent LLP, an external search agency in 2012, to assist with the identification of suitable candidates as non-Executive Directors. Norman Broadbent LLP has no other connection with the Company.

Bruce Thompson, the Group Chief Executive Officer provides advice to the Committee to help it make informed decisions.

Diversity

The Board's policy on diversity is set on page 43.

Appointment process

As part of the appointments process, the Committee determined the selection criteria for each of the new independent non-Executive Directors. The Committee worked with Norman Broadbent LLP who 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 members of the Nomination Committee.

Following these interviews, the Nomination Committee recommended to the Board the appointments of John Nicholas and of Charles Packshaw as non-Executive Directors.

Appointment terms

All three non-Executive Directors have been appointed for an initial period of three years, subject to election by shareholders at the first Annual General Meeting. Thereafter, and subject to their individual and separate re-election, the appointments will be for a term of three years unless terminated earlier by, and at the discretion of, either party, upon three months' notice.

Members of Committee:

		Attendance
John Rennocks (Chairman)		3/3
Marie-Louise Clayton	– Appointed on 29 July 2013	1/1
Ian Grice	– Retired on 30 September 2013	2/2
John Matthews	– Retired on 30 September 2013	2/2
John Nicholas	– Appointed on 29 July 2013	1/1
Charles Packshaw	– Appointed on 29 July 2013	1/1

Key Duties

(Full terms of reference are available on the Company's website).

- Review the composition and structure of the Board and the Committees.
- Identify and nominate candidates to fill Board vacancies, after evaluating the existing balance of skills, knowledge and diversity on the Board and preparing a description of the role and capabilities required for a particular appointment.
- Review the succession planning for the Board and senior executives and in doing so take account of experience, knowledge, skills and diversity.
- Review the Group Conflicts of Interest policy and register and ensure there are no material conflicts of interest.

Nomination Committee Agenda – 2013

- Evaluated the balance of skills, knowledge and experience on the Board and its diversity, including gender and prepared a description of the role and capabilities for candidates for appointment as a non-Executive Director.
- Retained Norman Broadbent to search for and interview candidates.
- Made recommendations to the Board for appointment of non-Executive Directors, after a rigorous interview process of shortlisted candidates.
- Refreshed Board Committees in light of new appointments of non-Executive Directors.
- Reviewed Terms of Reference of the Committee.

Remuneration Committee Report

John Nicholas
Chairman of the Remuneration Committee

Dear Shareholder
This is my first report to shareholders as Chairman of the Committee having joined the Board this year and taken over from Ian Grice at the end of July.

Diploma has again delivered a good financial performance in the year as set out in other parts of the Report & Accounts. The absence of any substantial acquisitions in the year has meant that growth, although good, was lower than target. This has been reflected in the lower bonus awards paid to Executive Directors this year.

However the Company's Total Shareholder Return over the past three years ended 30 September 2013 was outstanding with growth of 193% over this period placing the Company in the upper quintile against the FTSE 250 benchmark. This strong performance resulted in 100% of the long term awards granted to the Executive Directors in January 2011 vesting at 30 September 2013. It has also established the Company firmly in the FTSE 250 index which was one of the principal objectives set for the Executive Directors in earlier years.

During the year the Committee held seven meetings. No substantial changes were made to the remuneration arrangements for the Executive Directors, other than to introduce malus arrangements for the PSP, SMP and annual performance bonus arrangements. Other routine matters discussed at Committee meetings included the annual salary review, bonus target setting and long term incentive awards, together with the determination of prior year target achievements in respect of the short and longer term incentive plans. The Committee also reviewed the remuneration arrangements of the cadre of senior management (ca. 70 managers) across the Group.

Members of Committee:

		Attendance
John Nicholas	– Appointed as Chairman on 29 July 2013	2/2
Marie-Louise Clayton	– Appointed on 29 July 2013	2/2
Ian Grice	– Retired as Chairman on 29 July 2013 and as a member on 30 September 2013	6/6
John Matthews	– Retired on 30 September 2013	5/6
Charles Packshaw	– Appointed on 29 July 2013	2/2
John Rennocks		7/7

The Committee believes it is important that remuneration policy and structure continues to be targeted to deliver long term shareholder value. The Committee is also aware of investors' preference for simplicity and transparency. Against that background, the Committee intends to undertake a review of remuneration arrangements during the coming financial year and should there be any changes to the Remuneration Policy, they will be submitted for shareholder approval at the AGM in January 2015.

The Committee welcomes dialogue with shareholders on remuneration matters and aims to ensure that the remuneration policy supports the business strategy and is closely aligned to the interests of the Company's shareholders.

I hope you will find this report of the Committee's work comprehensive and understandable and that you will join me in supporting the two resolutions in respect of this year's Remuneration Committee Report at the Company's AGM on 15 January 2014.

John Nicholas
18 November 2013

Remuneration Committee

The Remuneration Committee ("the Committee") is chaired by John Nicholas and comprises independent non-Executive Directors.

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

The Report which follows has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations SI 2008/410 (as amended) which came into force on 1 October 2013.

Changes to the Remuneration Committee Report

The Report is presented in two sections as required under the new regulations:

- Directors' Remuneration Policy – set out on pages 52 to 57.
- Annual Report on Remuneration – set out on pages 58 to 65.

The Directors' Remuneration Policy is subject to a binding vote of shareholders at the forthcoming AGM on 15 January 2014. The Annual Report on Remuneration continues to be subject to an advisory vote by shareholders at the AGM.

Remuneration principles and structure

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

- is aligned to the business strategy and the achievement of planned business goals;
- supports the creation of sustainable long-term shareholder value;
- provides an appropriate balance between remuneration elements that attract, retain and motivate the right calibre of executive talent; and
- encourages a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results.

The Remuneration Policy table on pages 52 and 53 outlines the principles behind each key element of remuneration, the opportunity for each Director in the year ahead and a brief summary of how it works. A more detailed explanation of how the incentive plans work can be found on page 54.

Key Duties

(Full terms of reference are available on the Company's website).

- 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 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.
- Approving the rules and design of any Group share-based incentive plans, and the granting of awards under any such plans.
- Setting, reviewing and approving the fees of the Chairman.

Remuneration Committee agenda – 2013

- Approval of Annual Performance Bonus targets for 2013.
- Approval of PSP and SMP awards to Executive Directors under the Long Term Incentive Plan.
- Review of Executive Directors' salaries.
- Confirmation of the vesting percentages for the LTIP award made in 2011 and vesting in 2013.
- Approval of the 2013 remuneration report.
- Approval of updated terms of reference.
- Confirmation of the performance conditions for the 2013 LTIP awards.
- Approval of Executive Directors' exercise of nil-cost options.
- Approval of minor changes to LTIP documentation.

Remuneration Committee Report continued

Directors' Remuneration Policy

Policy Table

The table below summarises the components of reward for Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments; more detailed descriptions of the incentive plans are given in the following sections.

This Remuneration Policy ("Policy"), if approved by shareholders at the Annual General Meeting on 15 January 2014, will apply from 15 January 2014 for a term of three years. Any commitments made by the Company prior to the approval and implementation of the Policy set out in this Report which were consistent with the remuneration policy in force at the time, can be honoured, even if they would not be consistent with the policy prevailing when the commitment is fulfilled.

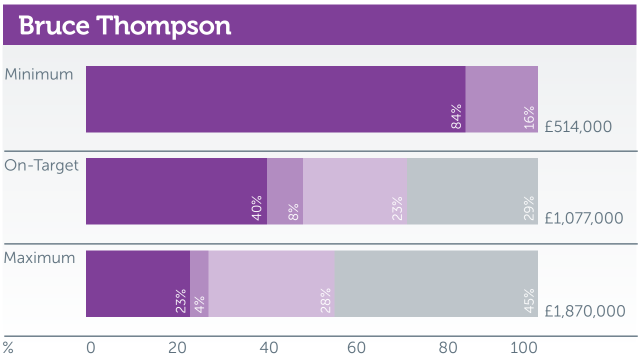
Executive Directors

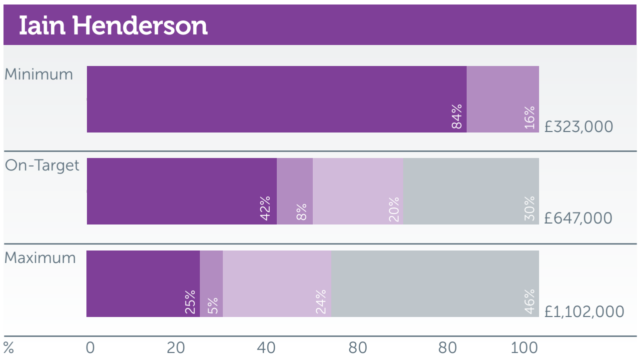
Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base Salary	To attract and retain talent by ensuring that salaries are competitive. To reflect the individual's experience and role within the Group.	Salaries are paid monthly and are reviewed annually, with changes normally effective from 1 October.	There is no maximum increase.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases for employees more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be competitive within the market to reward sustained contribution by Executive Directors.	Pension contributions at 20% of base salary, which are either paid into personal pension savings schemes or paid as a separate cash allowance.	No maximum limit set.	As for Base Salary.
Benefits		Payment in lieu of a company car. Life assurance, annual leave and medical insurance.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	As for Base Salary.
Annual Performance Bonus Plan	A cash based scheme designed to focus Executive Directors on achievement of the annual budget and other business priorities for the financial year.	Dependent on adjusted EPS of the Group for the Chief Executive Officer. For other Executive Directors, 75% of bonus opportunity is based on the same financial criteria as the Chief Executive Officer, with the remaining 25% of bonus opportunity subject to achievement of specific personal objectives.	Maximum 125% of salary for the Chief Executive Officer and 100% for other Executive Directors. On target bonus is 60% of salary for the Chief Executive Officer and 50% of salary for the other Executive Directors.	Adjusted EPS is the principal metric. Discretion related to minimum thresholds for operating margin, free cash flow and ROTCE. Personal objectives for Chief Operating Officer and Group Finance Director.
Long Term Incentive Plan – 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. Awards are discretionary and do not vest until the date on which the performance conditions are determined. If employment ceases during a three-year performance period, awards will normally lapse. Awards include dividend equivalents which are cash bonuses or shares in lieu of dividends forgone on, vested but unexercised LTIP awards.	Opportunity as a percentage of salary is 100% for each award made to the Executive Directors under each of the 2011 Performance Share Plan and the 2011 Share Matching Plan. Committee has discretion to increase awards under the Performance Share Plan to 150% of salary in exceptional circumstances. Dependent on the level of dividends as applied to the number of unexercised, but vested LTIPs.	• 50% on adjusted EPS relative to the compound annual growth rate in the UK Retail Price Index ("RPI"). • 50% on Total Shareholder Return ("TSR") relative to the median performance of the FTSE 250 Index (excluding Investment Trusts).

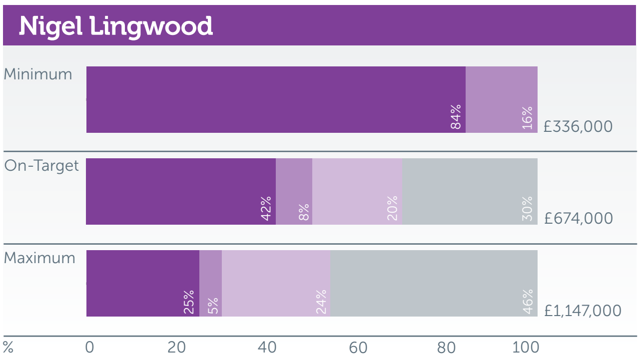
Chairman and non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chairman and non-Executive Directors' Fees	To attract and retain a Chairman and suitable independent non-Executive Directors by ensuring that fees are competitive.	Paid quarterly in arrears and reviewed each year.	The Chairman's and non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data. A Board Committee chairman and the Senior Independent Director may also receive an additional fee in recognition of the greater time commitment.	Annual Board evaluation.

Executive Director's potential value of 2014 remuneration package







Key
Fixed elements
- Base salary and benefits[1]
- Pension

Variable elements
- Annual performance bonus
- Long-term incentive plans

1 Base salary is as at 1 October 2013; benefits are as set out on page 58.

On-Target performance assumes an annual performance bonus of 60% of salary for the CEO and 50% of salary for the other two Executive Directors. It has been assumed that a face value limit of 100% of base salary applies to each PSP and SMP award. On-target vesting of the LTIPs assumes adjusted EPS performance of RPI plus 5.5% p.a. and TSR performance of median plus 3.5% p.a. which is equivalent to 50% of the vesting under the PSP and 25% of the awards vesting under the SMP. Maximum performance assumes maximum annual performance bonus and maximum vesting of LTIP schemes. In all cases, for simplicity no share price growth is assumed.

Remuneration Committee Report continued

Directors' Remuneration Policy

Executive Directors

Base salary

In determining the annual base salary increases which apply from 1 October, the Committee considers comparative salaries in similar companies and the range of remuneration increases applying across the Group and in particular for the Group's senior management cadre comprising ca. 70 senior managers across the Group's businesses.

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 a target adjusted EPS, which to pay-out at the maximum is significantly ahead of both internal annual budgets and market consensus. The Committee has discretion to reduce awards if minimum thresholds are not achieved for operating margins, free cash flow and return on trading capital employed ("ROTCE"). The level of bonus payable for achieving the minimum EPS target is 5% of the maximum.

Different performance measures and weightings may be used for future cycles of the Annual Performance Bonus Plan to those set out in the Policy Table to take into account changes in the business strategy.

Individual objectives are also set for the Chief Operating Officer and the Group Finance Director relating to factors including operating performance, business and management 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 plans; 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 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 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, although the Committee, at its discretion, may increase the face value of an award to a maximum of 150% in exceptional 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 on the date on which the performance conditions are determined and confirmed by the Committee. 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. 30% of the Performance Share Plan awards and 15% of the Share Matching Plan awards will vest at the minimum performance threshold.

The Committee will regularly monitor the continuing suitability of the performance conditions and may impose different conditions on awards granted in subsequent years, having regard to prevailing market conditions.

The Committee may decide, on or before the grant of a share incentive 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. These payments are referred to as dividend equivalent payments and may be made in cash or in an equivalent number of shares.

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate directors of the calibre required to manage the Company and successfully deliver its strategic objectives.

The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed directors. A longer initial period of notice, that would reduce to one year in accordance with the Code, may be used on occasion to successfully complete the recruitment of an external candidate.

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, including pension, for the notice period. However when calculating termination payments, the Committee takes into account a variety of factors, which will normally include individual and Company performance, the obligation for the Director in appropriate circumstances to mitigate loss (for example, by gaining new employment) and the Director's length of service.

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

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

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

Other remuneration policies

Payment for loss of office

The Committee has considered the Company's policy on remuneration for Executive Directors leaving the Company and is committed to applying a consistent approach to ensure that the Company pays no more than is necessary.

The loss of office payment policy is generally in line with market practice and will depend on whether the departing Executive Director is, or is deemed to be treated as, a "good leaver" or a "bad leaver". In the case of a "good leaver" the policy normally includes:

- Notice period of 12 months' base salary, pension and contractual benefits or payment in lieu of notice;
- Bonus payable for the period worked, subject to achievement of the relevant performance condition. Different performance measures (to the other Executive Directors) may be set for a departing director as appropriate, to reflect any change in responsibility.
- Vesting of award shares under the Company's long term incentive plans is not automatic and the Committee would retain discretion to allow partial vesting depending on the extent to which performance conditions had been met at the date of cessation and the length of time the awards have been held. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances.
- The Committee will also provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

When calculating termination payments, the Committee will also take into account a variety of factors, including individual and Company performance, the obligation for the Executive Director in appropriate circumstances to mitigate loss (for example, by gaining new employment) and the Executive Director's length of service.

Change of control

Change of control provisions have been set in accordance with best practice at the relevant time and provide for compensation equal to the value of salary, pension and contractual benefits for the notice period.

In the event of a change in control, vesting of award shares under the Company's long term incentive plans depends on the extent to which performance conditions had been met at that time. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

Malus

Malus provisions (also known as 'soft clawback') apply to awards made since 1 October 2012 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.

Remuneration for new appointments

The Committee has determined that under normal circumstances, new Executive Directors will receive a compensation package in accordance with Company remuneration policy for base salary, benefits, bonuses and long term incentive awards.

The Committee has agreed the following principles that will apply when arranging a remuneration package to recruit new Executive Directors:

- The remuneration structure will be kept simple where practicable, hence the use of Base Salary, Benefits, Pension (or cash allowance in lieu), Annual Performance Bonus and Long Term Incentives;

Remuneration Committee Report continued
Directors' Remuneration Policy

- The emphasis on linking pay with performance shall continue; hence the use of variable pay in the form of an Annual Performance Bonus and a long term incentive award, which will continue to be a significant component of the Executive Directors' total remuneration package;
- In setting base salary the Committee will take into consideration both the existing salary package of the new Executive Director and the level of previous experience; in setting the annual performance bonus, the Committee may wish to set different performance metrics (to those applying to the other Executive Directors) in the first year of appointment;
- The policy shall be set so as to align the interests of Executive Directors (including their direct reports) with those of shareholders, hence the use of Long Term Incentive Plans linked to growth in both total shareholder return and earnings per share;
- The maximum level of variable remuneration would be in line with the existing level of variable remuneration granted to the current Executive Directors;
- The Committee wishes to have the ability to make buy-out awards to a new Executive Director to facilitate their recruitment in accordance with the rules of the UK Listing Authority. Any such award would only be made in exceptional circumstances, would not exceed the expected value being forfeited and would include performance and timing conditions appropriate to the Company; and
- Relocation costs which are reasonable and appropriate may be paid.

Committee discretion
The Committee has powers delegated by the Board under which it operates. In addition, it complies with rules which have either been approved by shareholders (Long Term Incentive Plan) or by the Board (Annual Performance Bonus Plan). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Remuneration Policy is fair both to the individual director and to shareholders, taking overall performance and position of the Company into account. The Committee also has discretions to set components of remuneration within a range from time to time. The extent of such discretions are set out in the relevant rules or in the maximum opportunity for performance metrics sections of the Policy Table.

In addition, the Committee requires discretion to deal with genuinely exceptional or unforeseen circumstances. This form of discretion will only be applied in the best interests of the Company and is intended to provide for changed circumstances or strategy that has not been provided for in the Remuneration Policy, when it would be disproportionate to seek specific approval from a general meeting of shareholders.

The Remuneration Committee will not exercise discretion to reward failure and will report on any exercise of discretion that changes the amount of remuneration paid in any year.

Dilution
In any ten-year period, the number of shares which are or may be issued under option or other share awards 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 are or may be issued under option, or other share awards under all share plans established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

Consultation with shareholders and employees
The Committee will consult with its major shareholders in advance of any significant changes to the approved Remuneration Policy. The Committee also receives reports from the Group Company Secretary on correspondence received from shareholders relating to remuneration matters when their approval of the Remuneration Committee Report is sought at the AGM.

The Committee has not consulted with employees on setting the Remuneration Policy for Executive Directors.

Comparison with employee conditions
In determining annual increases in base salary, annual performance bonuses and benefits, the Committee takes into account the employment conditions applying across the senior management cadre. This comparator group comprises ca. 70 senior managers across the Group's businesses. This senior management cadre has been chosen as a representative group, since comparisons drawn from across the globe and by differing roles, skills, experience and qualifications would reduce the scope for meaningful comparisons.

Chairman and non-Executive Directors

Recruitment and term
The Board aims to recruit non-Executive Directors of a high calibre, with broad and diverse commercial, international or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee.

Appointments of the non-Executive Directors are for an initial term of three years, subject to election by shareholders at the first general meeting following their appointment and subject to annual re-election thereafter. The terms of engagement are set out in letters of appointment which can be terminated by either party serving three months' notice.

Chairman
John 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 16 January 2013 and his appointment will continue to be subject to annual re-election by shareholders at the Annual General Meeting.

Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of re-election	Expiry of term
John Rennocks	12 Jul 02	16 Jan 13	12 July 14
Marie-Louise Clayton	13 Nov 12	16 Jan 13	13 Nov 15
Ian Grice	24 Jan 07	16 Jan 13	
John Matthews	24 Jul 03	16 Jan 13	
John Nicholas	1 Jun 13		1 Jun 16
Charles Packshaw	1 Jun 13		1 Jun 16

John Matthews and Ian Grice retired from the Board on 30 September 2013.

Fees
The non-Executive Directors are paid a competitive basic annual fee which is approved by the Board on the recommendation of the Chairman and the Executive Directors. The Chairman's fee is approved by the Committee, excluding the Chairman. Additional fees may also be payable for chairing a Committee of the Board or for acting as Senior Independent Director.

The fees are reviewed each year and take account of the fees paid in other companies of a similar size and complexity, the responsibilities and the required time commitment.

The non-Executive Directors are not eligible to participate in any of the Company's share plans, incentive plans or pension schemes and there is no provision for payment in the event of early termination.

Remuneration Committee Report continued
Annual Report on Remuneration

The following section of this Report provides details of the implementation of the Remuneration Policy for all Directors for the year ended 30 September 2013. All of the information set out in this section of the Report has been audited, unless indicated otherwise. The Policy as set out on pages 52 to 57 and subject to approval of the shareholders at the AGM on 15 January 2014 will apply from the date of the AGM. The Company's existing policy applies until the date of the AGM.

Executive Directors

Total remuneration in 2013 and 2012

	Bruce Thompson		Iain Henderson		Nigel Lingwood	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Salary	**401**	385	**250**	240	**260**	250
Benefits	**14**	14	**11**	11	**12**	12
Pensions	**80**	77	**50**	48	**52**	50
Annual performance bonus	**164**	367	**108**	186	**112**	193
Short term remuneration (cash)	**659**	843	**419**	485	**436**	505
Long term incentive plan – performance element	**720**	345	**440**	210	**460**	220
Long term incentive plan – share appreciation element	**888**	628	**542**	382	**566**	401
Long term incentive plan – dividend equivalent	**125**	6	**75**	4	**75**	4
Long term share price based remuneration (non-cash)	**1,733**	979	**1,057**	596	**1,101**	625
Total	**2,392**	1,822	**1,476**	1,081	**1,537**	1,130

The aggregate short term remuneration paid to the Executive Directors in the year ended 30 September 2013 was £1.5m (2012: £1.8m).

Base salary
The average base salary increase for Executive Directors which applied from 1 October 2012 was 4% compared with 7% for the Group's senior management cadre. On 12 November 2013, the Committee approved an increase of ca. 4% in base salaries for the Executive Directors which will apply in respect of the year beginning 1 October 2013.

Benefits

	2013			2012		
	Cash allowance in lieu of a car £000	Medical insurance £000	Total benefit £000	Cash allowance in lieu of a car £000	Medical insurance £000	Total benefit £000
Bruce Thompson	**13**	**1**	**14**	13	1	14
Iain Henderson	**10**	**1**	**11**	10	1	11
Nigel Lingwood	**11**	**1**	**12**	11	1	12

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

Pension contributions, which are equivalent to 20% (2012: 20%) of base salary were applied as follows:

	2013			2012		
	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000
Bruce Thompson	**80**	**–**	**80**	77	–	77
Iain Henderson	**50**	**–**	**50**	–	48	48
Nigel Lingwood	**52**	**–**	**52**	21	29	50

Annual Performance Bonus

The following table summarises the annual performance measures and performance assessment by the Committee in respect of 2013 with regard to the following performance measures:

(1) Group Financial Objectives – Bruce Thompson 100% of bonus, Iain Henderson and Nigel Lingwood 75% of bonus

Performance measure	Performance in 2013	Overall assessment against targets
Adjusted EPS	Adjusted EPS grew by 5.1% which compares with minimum performance of 0%, on target performance of 8.0% and maximum target of 20.0%.	Below target, but above minimum.

(2) Individual Objectives – Iain Henderson and Nigel Lingwood 25% of bonus

		Overall assessment against targets
Iain Henderson	Achieve Sector financial budgets as measured against Key Performance Indicators. Achieve specific development objectives in the businesses and contribute to strategic development of the Group. Further strengthen and develop management teams.	Above target, but below maximum.
Nigel Lingwood	Maintain strong control environment and develop finance capabilities across the Group. Maximise value to Group from management of tax, pensions and property exposures. Manage and develop Investor Relations programme.	Above target, but below maximum.

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2013 is as follows:

	2013 actual bonus – as a % of 2013 base salary					2013 bonus delivered as cash
	Target	Maximum	Financial objectives	Individual strategic objectives	Total bonus	£000
Bruce Thompson	60%	125%	41%		**41%**	**164**
Iain Henderson	50%	100%	26%	17%	**43%**	**108**
Nigel Lingwood	50%	100%	26%	17%	**43%**	**112**

The Annual Performance Bonus for the financial year beginning 1 October 2013 will be in accordance with the policy set out on page 54. The performance targets set for the Annual Performance Bonus will be disclosed in next year's Annual Report & Accounts.

Long Term Incentive Plans

Performance conditions

Set out below is a summary of the performance conditions that apply to both the LTIP awards vesting in 2013 and the outstanding LTIP awards, including those granted in 2012. Performance Share Plan awards at 100% of salary and Share Matching Plan awards of 100% of salary will be granted in December 2013. The performance conditions applying to the awards will be the same as those set out below for existing awards.

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 financial year immediately prior to the grant, must exceed the annual compound growth rate in the UK Retail Price Index ("RPI") by a specified amount over the same period. Currently, the performance conditions for all outstanding awards are as follows:

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

Remuneration Committee Report continued
Annual Report on Remuneration

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 2 to the consolidated financial statements. The definition of adjusted EPS remains consistent with the definition of EPS approved by the 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). Currently, the performance conditions are as follows:

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

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

Awards vesting in 2013
The PSP and SMP awards made to the Executive Directors on 24 and 27 January 2011 respectively, were subject to independently operating performance conditions, assessed over a three year period ended 30 September 2013, as set out in the table above. The outcome of each award is also shown in the table below:

Adjusted Earnings per Share:

	Base EPS	EPS at 30 Sept 2013	CAGR in EPS pa.	RPI +12%/15%	Maximum award	Vested award
PSP	18.9p	**34.8p**	22.6%	15.8%	50%	**50%**
SMP	18.9p	**34.8p**	22.6%	18.8%	50%	**50%**

TSR Growth against FTSE 250 (excl. Inv. Trusts)

	TSR at 30 Sept 2013	Median	Median +12%/15%	Maximum award	Vested award
PSP	**193%**	82%	141%	50%	**50%**
SMP	**193%**	82%	157%	50%	**50%**

As a result of meeting the above performance conditions, 100% of the shares awarded as nil cost options under the 2011 PSP and SMP vested to each Executive Director as follows:

		Share price at date of grant Pence	Share price at 30 Sep 2013 Pence	Proportion of award vesting	Shares vested Number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson	– PSP	292.5p	653.0p	**100%**	**123,077**	**360**	**444**	**804**
	– SMP	292.5p	653.0p	**100%**	**123,077**	**360**	**444**	**804**
					246,154	**720**	**888**	**1,608**
Iain Henderson	– PSP	292.5p	653.0p	**100%**	**75,214**	**220**	**271**	**491**
	– SMP	292.5p	653.0p	**100%**	**75,214**	**220**	**271**	**491**
					150,428	**440**	**542**	**982**
Nigel Lingwood	– PSP	292.5p	653.0p	**100%**	**78,632**	**230**	**283**	**513**
	– SMP	292.5p	653.0p	**100%**	**78,632**	**230**	**283**	**513**
					157,264	**460**	**566**	**1,026**

1 The performance element represents the face value of awards granted on 24 and 27 January 2011 that vested, having met the performance conditions set out above.
2 The share appreciation element represents the additional value generated through appreciation of the share price from the date the awards were granted to the end of the three year performance period on 30 September 2013.

Dividend equivalent payments

Dividend equivalent payments were paid in respect of outstanding nil cost options which were exercised during the year as follows:

	2013		2012	
	Options Exercised Number	Dividend Equivalent Payments £000	Options Exercised Number	Dividend Equivalent Payments £000
Brian Thompson	**539,700**	**125**	58,157	6
Iain Henderson	**325,777**	**75**	36,254	4
Nigel Lingwood	**328,492**	**75**	37,764	4

Long Term Incentive Plan – awards granted in the year

The Executive Directors received grants of Performance Share Plan and Share Matching Plan awards on 19 December 2012 and 20 December 2012 respectively, in the form of nil-cost options. These awards were based on the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award. Under the Share Matching Plan, the Executive Directors are required to pledge shares for a minimum period of three years; these shares are pledged on an after tax basis and awards are made on a pre-tax basis.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made, and provided the Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for these awards are set out on pages 59 and 60.

Outstanding share based performance awards

Set out below is a summary of the share based awards outstanding at 30 September 2013, including both share awards which have vested during the year based on performance and share awards which have been granted during the year. All of the awards set out below were granted based on a face value limit of 100% of base salary. No awards will vest unless the performance conditions set out on pages 59 and 60 are achieved over a three year measurement period.

Diploma PLC 2011 Performance Share Plan

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2012	Shares over which awards granted during the year	Vested during the year	Lapsed during the year	Shares over which awards held as at 30 Sep 2013
Bruce Thompson									
24 January 2011	292.5p	360	30 Sep 2013	Sept 2013	123,077	**–**	**(123,077)**	**–**	**–**
16 December 2011	332.0p	385	30 Sep 2014	Sept 2014	116,314	**–**	**–**	**–**	**116,314**
19 December 2012	502.0p	401	30 Sep 2015	Sept 2015	–	**79,880**	**–**	**–**	**79,880**
Iain Henderson									
24 January 2011	292.5p	220	30 Sep 2013	Sept 2013	75,214	**–**	**(75,214)**	**–**	**–**
16 December 2011	332.0p	240	30 Sep 2014	Sept 2014	72,508	**–**	**–**	**–**	**72,508**
19 December 2012	502.0p	250	30 Sep 2015	Sept 2015	–	**49,801**	**–**	**–**	**49,801**
Nigel Lingwood									
24 January 2011	292.5p	230	30 Sep 2013	Sept 2013	78,632	**–**	**(78,632)**	**–**	**–**
16 December 2011	332.0p	250	30 Sep 2014	Sept 2014	75,529	**–**	**–**	**–**	**75,529**
19 December 2012	502.0p	260	30 Sep 2015	Sept 2015	–	**51,793**	**–**	**–**	**51,793**

Remuneration Committee Report continued

Annual Report on Remuneration

Diploma PLC 2011 Share Matching Plan

	Market price at date of award	Face value of the award at date of grant £000	Pledged investment shares	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2012	Shares over which awards granted during the year	Vested during the year	Lapsed during the year	Shares over which awards held as at 30 Sep 2013
Bruce Thompson										
27 January 2011	292.5p	360	30,154	30 Sep 2013	Sept 2013	123,077	–	(123,077)	–	–
19 December 2011	332.0p	385	27,915	30 Sep 2014	Sept 2014	116,314	–	–	–	116,314
20 December 2012	502.0p	401	19,171	30 Sep 2015	Sept 2015	–	79,880	–	–	79,880
Iain Henderson										
27 January 2011	292.5p	220	18,427	30 Sep 2013	Sept 2013	75,214	–	(75,214)	–	–
19 December 2011	332.0p	240	17,402	30 Sep 2014	Sept 2014	72,508	–	–	–	72,508
20 December 2012	502.0p	250	11,952	30 Sep 2015	Sept 2015	–	49,801	–	–	49,801
Nigel Lingwood										
27 January 2011	292.5p	230	19,265	30 Sep 2013	Sept 2013	78,632	–	(78,632)	–	–
19 December 2011	332.0p	250	18,127	30 Sep 2014	Sept 2014	75,529	–	–	–	75,529
20 December 2012	502.0p	260	12,430	30 Sep 2015	Sept 2015		51,793	–	–	51,793

The vesting date for the Performance Share Plan and Share Matching Plan awards granted on 24 January and 27 January 2011 respectively, have been modified in accordance with the rules of both Plans so that such awards will vest on the date on which the performance conditions are determined following the end of the performance period on 30 September 2013, as opposed to the third anniversary of their date of grant. This change has been made to align the timing of the grant and vesting of awards with the announcement of Group's annual results.

Both the Performance Share Plan and Share Matching Plan awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of options exercised during the year and outstanding at 30 September 2013 are set out on page 64.

Services from external advisors

Stephenson Harwood LLP provides 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, formalising the Annual Performance Bonus Plan and advising on the introduction of malus arrangements in the incentive plans. Stephenson Harwood LLP does not advise the Group on other issues.

In September 2013 the Committee also appointed New Bridge Street to provide general advice on remuneration policy and also engages MEIS to provide certain data analysis to the Committee.

The Committee has considered and is satisfied that the advice received from the external advisors it has appointed is objective and independent.

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees
Stephenson Harwood LLP	Committee	Legal advice	None	£17,520
New Bridge Street	Committee	General advice on remuneration policy	None	–
MEIS	Committee	Data analysis	None	£7,000

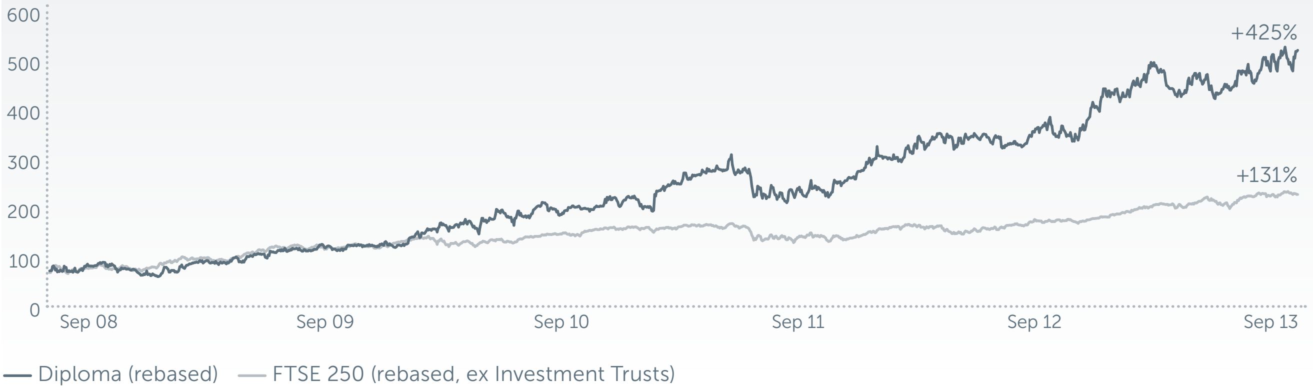
Shareholder voting at previous Annual General Meeting (unaudited)

The Directors' Remuneration Report (the "Report") for the year ended 30 September 2012 was approved by shareholders at the Annual General Meeting held on 16 January 2013. The Report described remuneration policy, together with details of payments, awards and changes made during the year. A total of 81% of shareholder votes were voted and the percentage of votes cast in favour of the resolution to approve the Report was 99.8% and 0.2% of votes were cast against the resolution.

Aligning pay with performance (unaudited)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the five year period ended 30 September 2013 against the FTSE 250 index.

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



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

CEO remuneration compared with annual growth in TSR

	2013	2012	2011	2010	2009
Annual growth in TSR	**+42%**	+54%	+16%	+71%	+21%
	£000	£000	£000	£000	£000
Salary, pensions and benefits	**495**	476	446	428	422
Annual performance bonus	**164**	367	360	345	102
Short term remuneration	**659**	843	806	773	524
Long term incentive plans (including dividend equivalent)	**1,733**	979	887	507	303
CEO total remuneration	**2,392**	1,822	1,693	1,280	827
Actual bonus as a percentage of the maximum	**33%**	95%	100%	100%	30%
Actual share award vesting as a percentage of the maximum	**100%**	100%	100%	100%	91%

Set out below is the change over the prior year in base salary, benefits, pension, annual performance bonus and short term remuneration of the Chief Executive Officer and the Group's senior management cadre.

	Change in base salary %	Change in pension %	Change in benefits %	Change in annual performance bonus %	Change in short term remuneration %
Chief Executive Officer	+4%	+4%	0%	–55%	**–22%**
Senior management cadre	+7%	+2%	0%	–4%	**+5%**

The Committee chose the senior management cadre for pay comparisons with the Chief Executive Officer as it provided the most closely aligned comparator group whereas comparisons with employees drawn from across the globe and by differing roles, skills, experience and qualifications would reduce the scope for meaningful comparisons.

Relative importance of Executive Director remuneration (unaudited)

	FY2013 £m	FY2012 £m	Change £m
Total employee remuneration	**54.8**	48.5	**+6.3**
Total dividends paid	**17.4**	14.2	**+3.2**

Remuneration Committee Report continued

Annual Report on Remuneration

Executive Director's interest in options over shares

In respect of nil cost options granted under the PSP and SMP, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration of the Executive Director is the difference between the amount the Executive Director is required to pay to exercise the options to acquire the shares and the total value of the shares on the vesting date.

If the Executive Director chooses not to exercise the nil cost options on the vesting date (he may exercise the options at any time up to the day preceding the tenth anniversary of the date of grant), any subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the initial vesting date and the date of exercise of the option. This increase or decrease in value is the result of an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The nil cost options outstanding at 30 September 2013 and the movement during the year are as follows:

	Year of vesting	Options as at 1 Oct 2012	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2013[5]	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	2010	116,686	(116,686)[1]	–	–	£1	Nov 2010	Nov 2017
	2011	218,266	(218,266)[1]	–	–	£1	Nov 2011	Dec 2018
	2012	204,748	(204,748)[1]	–	–	£1	Nov 2012	Dec 2019
	2013	–	–	**246,154**	**246,154**	£1	Nov 2013	Jan 2021
Iain Henderson	2010	69,109	(69,109)[2]	–	–	£1	Nov 2010	Nov 2017
	2011	132,039	(132,039)[2]	–	–	£1	Nov 2011	Dec 2018
	2012	124,629	(124,629)[2]	–	–	£1	Nov 2012	Dec 2019
	2013	–	–	**150,428**	**150,428**	£1	Nov 2013	Jan 2021
Nigel Lingwood	2010	67,399	(67,399)[3]	–	–	£1	Nov 2010	Nov 2017
	2011	130,529	(130,529)[3]	–	–	£1	Nov 2011	Dec 2018
	2012	130,564	(130,564)[3]	–	–	£1	Nov 2012	Dec 2019
	2013	–	–	**157,264**	**157,264**	£1	Nov 2013	Jan 2021

1 Bruce Thompson exercised 39,940 options on 19 December 2012, at a market price of 518.0p per share and the total proceeds before tax was £206,889. On 14 May 2013, Bruce Thompson exercised 499,760 options (representing all of the remaining 2004 LTIP shares) at a market price of 572.0p and the total proceeds before tax was £2,858,627.
2 Iain Henderson exercised 24,900 options on 19 December 2012, at a market price of 518.0p per share and the total proceeds before tax was £128,982. On 14 May 2013, Iain Henderson exercised 300,877 options (representing all of the remaining 2004 LTIP shares) at a market price of 572.0p and the total proceeds before tax was £1,721,016.
3 Nigel Lingwood exercised 25,896 options on 19 December 2012, at a market price of 518.0p per share and the total proceeds before tax was £134,141. On 14 May 2013, Nigel Lingwood exercised 302,596 options (representing all of the remaining 2004 LTIP shares) at a market price of 572.0p and the total proceeds before tax was £1,730,849.
4 On 19 December 2012, a total of 47,183 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 518p. On 15 May 2013, the aggregate number of shares received by the participants was reduced by 518,519 shares as part of arrangements under which the Company settled the PAYE liability that arose as a result of the exercise in full by the Executive Directors of options held over shares which had vested in previous years. The market price at that time was 572.0p.
5 The closing price of an ordinary share on 30 September 2013 was 653.0p (2012: 475.3p).

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:

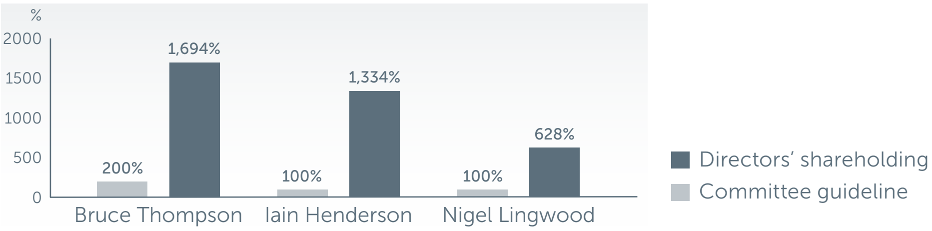
	As at 30 Sep 2013				As at 30 Sep 2012			
			Interest in shares with performance measures				Interest in shares with performance measures	
	Ordinary shares	Options vested but unexercised	PSP	SMP	Ordinary shares	Options vested but unexercised	PSP	SMP
Bruce Thompson	**1,040,000**	**246,154**	**196,194**	**196,194**	1,120,569	539,700	239,391	239,391
Iain Henderson	**510,000**	**150,428**	**122,309**	**122,309**	452,433	325,777	147,722	147,722
Nigel Lingwood	**250,000**	**157,264**	**127,322**	**127,322**	212,392	328,492	154,161	154,161

Interests in ordinary shares include investment shares pledged under the Company's 2011 Share Matching Plan and shares held through personal saving vehicles. As of 15 November 2013 there have been no changes to these interests in ordinary shares of the Company.

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 Officer 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 is 100% of base salary. The guidelines also require that, in relation to LTIP awards, vested shares (net of tax) should be retained by the individual until the required shareholding level is reached. As at 15 November 2013, all Executive Directors exceeded the applicable shareholding guidelines.

Shareholdings at 30 September 2013 against guidelines



Chairman and non-Executive Directors' remuneration

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

		Total fees 2013 £000	Total fees 2012 £000
John Rennocks		**125**	125
Marie-Louise Clayton	– appointed on 13 November 2012	**42**	–
Ian Grice	– retired 30 September 2013	**43**	43
John Matthews	– retired 30 September 2013	**43**	43
John Nicholas	– appointed on 1 June 2013	**14**	–
Charles Packshaw	– appointed on 1 June 2013	**14**	–

The non-Executive Directors received a basic annual fee during the year and there were no additional fees paid in 2013 and 2012 for chairing a Committee of the Board or for acting as Senior Independent Director. The fees for non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. Following a review undertaken in November 2013, the Board approved an increase in the Chairman's fees to £130,000 per annum (2013: £125,000) and in the annual fees paid to non-Executive Directors to £45,000 (2013: £43,000); both to take effect from 1 October 2013.

Chairman and 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:

	Interest in ordinary shares As at 30 Sep 2013	Interest in ordinary shares As at 1 Oct 2012
John Rennocks	**80,000**	103,766
Marie-Louise Clayton	**5,000**	–
Ian Grice	**20,000**	20,000
John Matthews	**12,420**	12,420
John Nicholas	**–**	–
Charles Packshaw	**–**	–

Senior Executives below the Board

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 use similar performance metrics 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.

Financial Statements

Contents

Directors' Report

This section contains 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 37; the Strategic Report on pages 1 to 37 incorporates the requirements of the Companies Act 2006 (the "Act").

Annual General Meeting

The Annual General Meeting will be held at midday on Wednesday, 15 January 2014 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 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 15 November 2013 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 Ltd	8.49%
F&C Asset Management plc	5.04%
Standard Life Investments Ltd	4.41%
Threadneedle Asset Management Ltd	4.06%
Fidelity Management & Research Co	4.00%
Power Financial Corporation	3.95%
Baillie Gifford & Co.	3.95%
Royal London Asset Management Ltd	3.47%
Blackrock Inc.	3.24%
Schroders PLC	3.21%
Legal & General Investment Management Limited	3.06%

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

Share capital

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

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights, 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 Conduct 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 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 certificated 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

While 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 waive dividends on all shares held for the purposes of the Company's long term incentive arrangements.

Directors' Report continued

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 16 January 2013. In the year ended 30 September 2013, the Company has not allotted any shares. These powers will expire at the conclusion of the 2014 Annual General Meeting and resolutions to renew the Directors' powers are therefore included within the Notice of the Annual General Meeting 2014.

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 16 January 2013. In the year to 30 September 2013 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2014 Annual General Meeting and a resolution to renew the authority is therefore included within the Notice of the Annual General Meeting in 2014.

Greenhouse Gas Emissions

During the year, the UK Government introduced a requirement that UK listed companies should report their global levels of Greenhouse Gas ("GHG") emissions in their Annual Report and Accounts. The mandatory requirement is for disclosure of scope 1 and 2 only (direct emissions, e.g. heating, cooling, transport fuel and indirect emissions, e.g. from purchased electricity) and only to the extent that such emissions are the responsibility of the Company.

The Company has not in the past collected the data necessary to meet these GHG emissions reporting requirements and therefore is not able to comply with these new reporting requirements at 30 September 2013. A task force has been set up to establish the scope of information required and the processes required to collect the relevant data. The Company should therefore be able to meet these disclosure requirements when it reports to shareholders for the year ending 30 September 2014.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £34.5m (2012: £31.3m). The Directors recommend a final dividend of 10.7p per ordinary share (2012: 10.2p), to be paid, if approved, on 22 January 2014. This, together with the interim dividend of 5.0p per ordinary share paid on 19 June 2013 amounts to 15.7p for the year (2012: 14.4p).

The results are shown more fully in the consolidated financial statements on pages 70 to 97 and summarised in the Finance Review on pages 16 to 18.

Directors' assessment of going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 16 to 18. In addition, pages 82 to 84 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.

The Group also has a committed revolving bank facility of £20m which expires on 30 June 2014. The Directors are confident that this facility will be successfully renegotiated prior to expiry on 30 June 2014. At 30 September 2013, the Group had cash funds of £19.3m and had no borrowings.

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

Statement of disclosure

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.

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 Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with 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;

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

- The Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 18 November 2013 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 2013

	Note	2013 £m	2012 £m
Revenue	3, 4	**285.5**	260.2
Cost of sales		**(178.6)**	(161.0)
Gross profit		**106.9**	99.2
Distribution costs		**(6.4)**	(5.4)
Administration costs		**(51.8)**	(47.4)
Operating profit	3	**48.7**	46.4
Financial expense, net	6	**(0.2)**	(0.4)
Profit before tax		**48.5**	46.0
Tax expense	7	**(13.7)**	(14.4)
Profit for the year		**34.8**	31.6
Attributable to:			
Shareholders of the Company		**34.5**	31.3
Minority interests	21	**0.3**	0.3
		34.8	31.6
Earnings per share			
Basic and diluted earnings	9	**30.7p**	27.9p

Alternative Performance Measures (note 2)

	Note	2013 £m	2012 £m
Operating profit		**48.7**	46.4
Add: Acquisition related charges	11	**5.6**	6.4
Adjusted operating profit	3, 4	**54.3**	52.8
Deduct: Net interest expense	6	**–**	(0.2)
Adjusted profit before tax		**54.3**	52.6
Adjusted earnings per share	9	**34.8p**	33.1p

The notes on pages 74 to 97 form part of these financial statements.

Consolidated Statement of Income and Other Comprehensive Income
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Profit for the year		**34.8**	31.6
Items that will not be reclassified to Consolidated Income Statement			
Actuarial gains/(losses) on defined benefit pension schemes	25	**0.2**	(0.4)
Deferred tax on items that will not be reclassified	7	**–**	0.1
		0.2	(0.3)
Items that may be reclassified to Consolidated Income Statement			
Exchange rate adjustments on foreign currency net investments		**(2.5)**	(2.1)
Losses on fair value of cash flow hedges	19	**–**	(0.4)
Net changes to fair value of cash flow hedges transferred to Consolidated Income Statement	19	**(0.2)**	(0.5)
Deferred tax on items that may be reclassified	7	**0.1**	0.2
		(2.6)	(2.8)
Total comprehensive income for the year		**32.4**	28.5
Attributable to:			
Shareholders of the Company		**32.1**	28.2
Minority interests		**0.3**	0.3
		32.4	28.5

Consolidated Statement of Changes in Equity
For the year ended 30 September 2013

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 2011		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
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
Total comprehensive income		–	(2.5)	(0.2)	34.8	32.1	0.3	32.4
Share-based payments	5	–	–	–	0.5	0.5	–	0.5
Minority interests acquired	21	–	–	–	–	–	(0.1)	(0.1)
Tax on items recognised directly in equity	7	–	–	–	0.6	0.6	–	0.6
Purchase of own shares		–	–	–	(4.7)	(4.7)	–	(4.7)
Dividends	8, 21	–	–	–	(17.4)	(17.4)	(0.2)	(17.6)
At 30 September 2013		**5.7**	**16.2**	**–**	**155.0**	**176.9**	**1.4**	**178.3**

The notes on pages 74 to 97 form part of these financial statements.

Consolidated Statement of Financial Position
As at 30 September 2013

	Note	2013 £m	2012 £m
Non-current assets			
Goodwill	10	**78.5**	79.8
Acquisition intangible assets	11	**26.7**	32.2
Other intangible assets	11	**0.8**	0.7
Investment	12	**0.7**	0.7
Property, plant and equipment	13	**13.9**	12.3
Deferred tax assets	14	**2.1**	2.9
		122.7	128.6
Current assets			
Inventories	15	**46.7**	45.8
Trade and other receivables	16	**42.8**	40.6
Cash and cash equivalents	18	**19.3**	11.4
		108.8	97.8
Current liabilities			
Trade and other payables	17	**(40.0)**	(38.5)
Current tax liabilities		**(1.7)**	(3.5)
Other liabilities	20	**(2.0)**	(2.8)
Borrowings	24	**–**	(3.5)
		(43.7)	(48.3)
Net current assets		**65.1**	49.5
Total assets less current liabilities		**187.8**	178.1
Non-current liabilities			
Retirement benefit obligations	25	**(4.7)**	(5.4)
Other liabilities	20	**(1.0)**	(1.0)
Deferred tax liabilities	14	**(3.8)**	(4.5)
Net assets		**178.3**	167.2
Equity			
Share capital		**5.7**	5.7
Translation reserve		**16.2**	18.7
Hedging reserve		**–**	0.2
Retained earnings		**155.0**	141.2
Total shareholders' equity		**176.9**	165.8
Minority interests	21	**1.4**	1.4
Total equity		**178.3**	167.2

The consolidated financial statements were approved by the Board of Directors on 18 November 2013 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on pages 74 to 97 form part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
Cash flow from operating activities			
Cash flow from operations	23	**55.9**	50.2
Interest paid, net		**(0.2)**	(0.3)
Tax paid		**(14.8)**	(13.7)
Net cash from operating activities		**40.9**	36.2
Cash flow from investing activities			
Acquisition of businesses (net of cash acquired)	22	**(1.2)**	(20.8)
Acquisition of investment	12	**–**	(0.7)
Deferred consideration paid	20	**(0.6)**	(0.8)
Purchase of property, plant and equipment	13	**(4.1)**	(3.3)
Purchase of other intangible assets	11	**(0.5)**	(0.2)
Net cash used in investing activities		**(6.4)**	(25.8)
Cash flow from financing activities			
Acquisition of minority interests	21	**(0.4)**	–
Dividends paid to shareholders	8	**(17.4)**	(14.2)
Dividends paid to minority interests	21	**(0.2)**	(0.1)
Purchase of own shares		**(1.7)**	–
Notional purchase of own shares on exercise of share options		**(3.0)**	–
Repayment of borrowings	24	**(3.5)**	(2.2)
Net cash used in financing activities		**(26.2)**	(16.5)
Net increase/(decrease) in cash and cash equivalents		**8.3**	(6.1)
Cash and cash equivalents at beginning of year		**11.4**	17.8
Effect of exchange rates on cash and cash equivalents		**(0.4)**	(0.3)
Cash and cash equivalents at end of year	18	**19.3**	11.4

Alternative Performance Measures (note 2)

	2013 £m	2012 £m
Free cash flow		
Net increase/(decrease) in cash and cash equivalents	**8.3**	(6.1)
Add: Dividends paid to shareholders	**17.4**	14.2
Dividends paid to minority interests	**0.2**	0.1
Acquisition of businesses/minority interests/investment	**1.6**	21.5
Deferred consideration paid	**0.6**	0.8
Repayment of borrowings	**3.5**	2.2
Free cash flow	**31.6**	32.7

	2013 £m	2012 £m
Net funds		
Cash and cash equivalents	**19.3**	11.4
Borrowings	**–**	(3.5)
Net funds	**19.3**	7.9

The notes on pages 74 to 97 form part of these financial statements.

Notes to the Consolidated Financial Statements
For the year ended 30 September 2013

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 18 November 2013. 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 pages 98 and 99.

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 businesses or 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 before tax, 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 Strategic Report on pages 1 to 37. 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 2013 £m	Life Sciences 2012 £m	Seals 2013 £m	Seals 2012 £m	Controls 2013 £m	Controls 2012 £m	Total 2013 £m	Total 2012 £m
Revenue – existing businesses	**93.2**	78.4	**106.1**	99.9	**84.9**	81.9	**284.2**	260.2
– acquisition	**–**	–	**–**	–	**1.3**	–	**1.3**	–
Revenue	**93.2**	78.4	**106.1**	99.9	**86.2**	81.9	**285.5**	260.2
Adjusted operating profit – existing businesses	**20.9**	18.0	**19.5**	20.4	**13.5**	14.4	**53.9**	52.8
– acquisition	**–**	–	**–**	–	**0.4**	–	**0.4**	–
Adjusted operating profit	**20.9**	18.0	**19.5**	20.4	**13.9**	14.4	**54.3**	52.8
Acquisition related charges (note 11)	**(2.8)**	(2.7)	**(2.0)**	(2.5)	**(0.8)**	(1.2)	**(5.6)**	(6.4)
Operating profit	**18.1**	15.3	**17.5**	17.9	**13.1**	13.2	**48.7**	46.4

	Life Sciences 2013 £m	Life Sciences 2012 £m	Seals 2013 £m	Seals 2012 £m	Controls 2013 £m	Controls 2012 £m	Total 2013 £m	Total 2012 £m
Operating assets	**29.0**	25.9	**38.4**	37.9	**33.5**	32.1	**100.9**	95.9
Investment	**–**	–	**0.7**	0.7	**–**	–	**0.7**	0.7
Goodwill	**47.3**	47.6	**16.6**	16.5	**14.6**	15.7	**78.5**	79.8
Acquisition intangible assets	**12.9**	16.4	**11.3**	13.2	**2.5**	2.6	**26.7**	32.2
	89.2	89.9	**67.0**	68.3	**50.6**	50.4	**206.8**	208.6
Unallocated assets:								
– Deferred tax assets							**2.1**	2.9
– Cash and cash equivalents							**19.3**	11.4
– Corporate assets							**3.3**	3.5
Total assets							**231.5**	226.4
Operating liabilities	**(14.7)**	(14.0)	**(11.6)**	(10.3)	**(13.7)**	(13.5)	**(40.0)**	(37.8)
Unallocated liabilities:								
– Deferred tax liabilities							**(3.8)**	(4.5)
– Retirement benefit obligations							**(4.7)**	(5.4)
– Future purchases of minority interests							**(2.8)**	(3.2)
– Borrowings							**–**	(3.5)
– Corporate liabilities							**(1.9)**	(4.8)
Total liabilities							**(53.2)**	(59.2)
Net assets							**178.3**	167.2
Other segment information								
Capital expenditure	**2.8**	2.3	**0.9**	0.6	**0.9**	0.6	**4.6**	3.5
Depreciation and amortisation	**1.4**	1.2	**0.7**	0.6	**0.4**	0.3	**2.5**	2.1

In 2013 a small business unit within the Controls segment with revenues below £1.0m was transferred to the Life Sciences segment as part of an operational reorganisation. The comparatives have not been restated as these amounts are not material to the consolidated financial statements.

Alternative Performance Measures (note 2)

	Life Sciences 2013 £m	Life Sciences 2012 £m	Seals 2013 £m	Seals 2012 £m	Controls 2013 £m	Controls 2012 £m	Total 2013 £m	Total 2012 £m
Net assets							**178.3**	167.2
Add/(less):								
– Deferred tax, net							**1.7**	1.6
– Retirement benefit obligations							**4.7**	5.4
– Future purchases of minority interests							**2.8**	3.2
– Cash and cash equivalents							**(19.3)**	(11.4)
– Borrowings							**–**	3.5
– Adjustment to goodwill	**(7.3)**	(7.7)	**(1.3)**	(1.2)	**(1.4)**	(1.2)	**(10.0)**	(10.1)
Group trading capital employed							**158.2**	159.4
Corporate (assets)/liabilities, net							**(1.4)**	1.3
Segment trading capital employed	**67.2**	68.2	**54.1**	56.8	**35.5**	35.7	**156.8**	160.7

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2013

4. Geographic Segment Analysis by Origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
United Kingdom	**74.8**	69.8	**12.0**	12.5	**21.3**	21.6	**32.5**	27.5	**1.0**	0.6
Rest of Europe	**40.1**	37.6	**6.3**	5.3	**12.9**	11.6	**20.2**	19.3	**0.4**	0.2
North America	**170.6**	152.8	**36.0**	35.0	**85.7**	91.8	**105.5**	112.6	**3.2**	2.7
	285.5	260.2	**54.3**	52.8	**119.9**	125.0	**158.2**	159.4	**4.6**	3.5

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 their interests in shares of the Company are given in the Remuneration Committee Report on pages 50 to 65. The amount charged against operating profit in the year in respect of Director short term remuneration was in aggregate £1.8m (2012: £2.0m). The charge for share-based payments of £0.5m (2012: £0.8m) relate to the Group's share schemes for the Executive Directors, described in the Remuneration Committee Report. The fair value of services provided as consideration for part of the grant of the LTIP awards has been based on a predicted future value model and was £0.2m (2012: £0.3m).

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

	2013 £m	2012 £m
Wages and salaries	**47.5**	42.8
Social security costs	**5.3**	3.8
Pension costs – defined contribution	**1.5**	1.1
Share-based payments	**0.5**	0.8
	54.8	48.5

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

	2013 Number	2012 Number
Life Sciences	**319**	270
Seals	**513**	489
Controls	**300**	292
Corporate	**13**	11
Number of employees – average	**1,145**	1,062
Number of employees – year end	**1,159**	1,117

6. Financial Expense, net

	2013 £m	2012 £m
Interest and similar income		
– interest receivable on short term deposits	**0.1**	0.1
– notional income from defined benefit pension scheme (note 25)	**0.2**	0.1
	0.3	0.2
Interest expense and similar charges		
– bank commitment fees	**(0.1)**	(0.1)
– interest payable on bank and other borrowings	**(0.2)**	(0.3)
	(0.3)	(0.4)
Net interest expense	**–**	(0.2)
– fair value remeasurement of put options (note 20)	**(0.2)**	(0.2)
Financial expense, net	**(0.2)**	(0.4)

The fair value remeasurement of £0.2m (2012: £0.2m) includes £0.3m (2012: £0.1m) which relates to the unwinding of the discount on the liability for future purchases of minority interests.

7. Tax Expense

	2013 £m	2012 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**2.7**	3.3
Overseas tax	**12.1**	11.8
	14.8	15.1
Adjustments in respect of prior year:		
Overseas tax	**(0.3)**	(0.1)
Total current tax	**14.5**	15.0
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**0.1**	(0.1)
Overseas	**(0.9)**	(0.5)
Total deferred tax	**(0.8)**	(0.6)
Total tax on profit for the year	**13.7**	14.4

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 £0.1m (2012: £0.3m) was credited directly to the Consolidated Statement of Income and Other Comprehensive Income. A further £0.6m (2012: £0.6m) was credited to equity which relates to share-based payments made during the year. This represented a current tax credit of £1.3m (2012: £nil) less a deferred tax debit of £0.7m (2012: £0.6m credit).

Factors affecting the tax charge for the year:
The difference between the total tax charge calculated by applying the standard rate of UK corporation tax to the profit before tax and the amounts set out above is as follows:

	2013 £m	2012 £m
Profit before tax	**48.5**	46.0
Tax on profit at UK effective corporation tax rate of 23.5% (2012: 25%)	**11.4**	11.5
Effects of:		
change in UK tax rates	**0.2**	0.2
higher tax rates on overseas earnings	**2.5**	2.7
adjustments to tax charge in respect of previous years	**(0.3)**	(0.1)
other permanent differences	**(0.1)**	0.1
Total tax on profit for the year	**13.7**	14.4

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 24% to 23% on 31 March 2013; however as the Group prepares its consolidated financial statements for the year to 30 September, the effective tax rate for UK corporation tax in respect of the year ended 30 September 2013 was 23.5% (2012: 25%) 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 US are taxed at rates of up to 38%.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and a further reduction to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

These reductions in the UK corporation tax rate are likely to lead to a further reduction in the future UK current tax charge. The UK deferred tax assets and liabilities at 30 September 2013 have been calculated based on the rate of 20% substantively enacted at 30 September 2013.

8. Dividends

	2013 pence per share	2012 pence per share	2013 £m	2012 £m
Interim dividend, paid in June	**5.0**	4.2	**5.6**	4.7
Final dividend of the prior year, paid in January	**10.2**	8.5	**11.8**	9.5
	15.2	12.7	**17.4**	14.2

The Directors have proposed a final dividend in respect of the current year of 10.7p per share (2012: 10.2p) which will be paid on 22 January 2014, subject to approval of shareholders at the Annual General Meeting on 15 January 2014. The total dividend for the current year, subject to approval of the final dividend, will be 15.7p per share (2012: 14.4p).

The Diploma Employee Benefit Trust holds 586,887 (2012: 962,337) shares, which are not eligible for dividends.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2013

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 112,454,287 (2012: 112,373,327) and the profit for the year attributable to shareholders of £34.5m (2012: £31.3m). There are no potentially dilutive shares.

Adjusted earnings per share

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

	2013 pence per share	2012 pence per share	2013 £m	2012 £m
Profit before tax			**48.5**	46.0
Tax expense			**(13.7)**	(14.4)
Minority interests			**(0.3)**	(0.3)
Earnings for the year attributable to shareholders of the Company	**30.7**	27.9	**34.5**	31.3
Acquisition related charges	**4.9**	5.6	**5.6**	6.4
Fair value remeasurement of put options	**0.2**	0.2	**0.2**	0.2
Tax effects on goodwill, acquisition intangible assets and fair value remeasurements	**(1.0)**	(0.6)	**(1.1)**	(0.7)
Adjusted earnings	**34.8**	33.1	**39.2**	37.2

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2011	45.3	14.2	14.9	74.4
Acquisitions	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
Transfers	1.9	–	(1.9)	–
Acquisitions (note 22)	–	–	0.5	0.5
Exchange adjustments	(2.2)	0.1	0.3	(1.8)
At 30 September 2013	**47.3**	**16.6**	**14.6**	**78.5**

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 using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and on the Group's five year strategic plan.

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% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a pre-tax discount rate of ca. 13% (2012: 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 Controls Sectors. However, in the Seals 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 £0.8m. Before any sensitivities and based on the original assumptions in respect of this business in the Seals Sector, the headroom in the cashflow valuation was £1.0m. In the prior year, the sensitivity analysis indicated that a reduction of 2% in revenue growth in the medium term in a business in the Controls Sector would have resulted in an impairment of £0.3m. This business is no longer at risk of impairment in 2013.

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 2011	23.8	16.5	2.6	42.9	2.6
Additions	–	–	–	–	0.2
Acquisitions	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
Additions	–	–	–	–	0.5
Acquisitions (note 22)	0.6	–	–	0.6	–
Disposals	–	–	–	–	(0.3)
Exchange adjustments	(0.4)	(0.6)	–	(1.0)	–
At 30 September 2013	**33.8**	**16.7**	**2.5**	**53.0**	**2.9**
Amortisation					
At 1 October 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
Charge for the year	3.3	2.0	0.3	5.6	0.3
Disposals	–	–	–	–	(0.2)
Exchange adjustments	(0.2)	(0.2)	(0.1)	(0.5)	–
At 30 September 2013	**15.2**	**9.4**	**1.7**	**26.3**	**2.1**
Net book value					
At 30 September 2013	**18.6**	**7.3**	**0.8**	**26.7**	**0.8**
At 30 September 2012	21.5	9.7	1.0	32.2	0.7

Acquisition related charges are £5.6m (2012: £6.4m) and comprise £5.6m (2012: £5.8m) of amortisation of acquisition intangible assets and negligible acquisition expenses (2012: £0.6m).

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 have been valued using a replacement cost model; the amount in respect of supplier relationships and trade names have been 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

	2013 £m	2012 £m
Investment	**0.7**	0.7

The Group holds a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal. The Group has no involvement in the day-to-day operations or management of JRPP. At 30 September 2013, there was no material difference between the book value of this investment and its fair value.

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13. Property, Plant and Equipment

	Freehold properties £m	Leasehold properties £m	Plant & equipment £m	Total £m
Cost				
At 1 October 2011	8.8	1.1	17.6	27.5
Additions	–	0.8	2.5	3.3
Acquisitions	–	0.1	0.2	0.3
Disposals	–	–	(4.0)	(4.0)
At 30 September 2012	**8.8**	**2.0**	**16.3**	**27.1**
Additions	–	0.9	3.2	4.1
Disposals	–	–	(1.0)	(1.0)
Exchange adjustments	–	–	(0.3)	(0.3)
At 30 September 2013	**8.8**	**2.9**	**18.2**	**29.9**
Depreciation				
At 1 October 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**
Charge for the year	0.1	0.2	1.9	2.2
Disposals	–	–	(0.9)	(0.9)
Exchange adjustments	–	–	(0.1)	(0.1)
At 30 September 2013	**2.4**	**1.0**	**12.6**	**16.0**
Net book value				
At 30 September 2013	**6.4**	**1.9**	**5.6**	**13.9**
At 30 September 2012	6.5	1.2	4.6	12.3

Land included within freehold properties above, but which is not depreciated, is £2.0m (2012: £2.0m). Capital commitments contracted, but not provided, were £0.1m (2012: £1.2m).

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 unchanged from 30 September 2012 at £0.5m, with a book value of £nil.

14. Deferred Tax

The movement on deferred tax is as follows:

	2013 £m	2012 £m
At 1 October	**(1.6)**	(2.0)
Credit for the year (note 7)	**0.8**	0.6
Acquisitions (note 22)	**(0.2)**	(0.9)
Accounted for in equity (note 7)	**(0.7)**	0.6
Accounted for in Other Comprehensive Income	**0.1**	0.3
Exchange adjustments	**(0.1)**	(0.2)
At 30 September	**(1.7)**	(1.6)

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

	Assets		Liabilities		Net	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Property, plant and equipment	**0.4**	0.4	**(0.8)**	(0.7)	**(0.4)**	(0.3)
Goodwill and intangible assets	**–**	–	**(5.2)**	(6.2)	**(5.2)**	(6.2)
Retirement benefit obligations	**0.9**	1.2	**–**	–	**0.9**	1.2
Inventories	**1.1**	1.0	**–**	–	**1.1**	1.0
Share-based payments	**0.8**	1.5	**–**	–	**0.8**	1.5
Trading losses	**0.4**	0.4	**–**	–	**0.4**	0.4
Other temporary differences	**0.8**	0.9	**(0.1)**	(0.1)	**0.7**	0.8
	4.4	5.4	**(6.1)**	(7.0)	**(1.7)**	(1.6)
Set off of deferred tax	**(2.3)**	(2.5)	**2.3**	2.5	**–**	–
	2.1	2.9	**(3.8)**	(4.5)	**(1.7)**	(1.6)

14. Deferred Tax continued

No deferred tax has been provided on unremitted earnings of overseas Group companies as the Group controls the dividend policies of its subsidiaries. Unremitted earnings may be liable to additional overseas withholding tax (after allowing for double taxation relief) if they were to be distributed as dividends. The aggregate amount for which deferred tax has not been recognised in respect of unremitted earnings was £2.2m (2012: £1.8m).

15. Inventories

	2013 £m	2012 £m
Finished goods and goods held for resale	**46.7**	45.8

Inventories are stated net of impairment provisions of £5.0m (2012: £4.3m). During the year £1.2m (2012: £1.2m) was recognised as a charge against operating profit, comprising the write-down of inventory to net realisable value.

16. Trade and Other Receivables

	2013 £m	2012 £m
Trade receivables	**39.8**	37.4
Less: impairment provision	**(0.3)**	(0.4)
	39.5	37.0
Other receivables	**1.5**	1.9
Prepayments and accrued income	**1.8**	1.7
	42.8	40.6

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

	2013 £m	2012 £m
Sterling	**13.3**	12.9
US dollars	**9.6**	9.1
Canadian dollars	**9.5**	8.9
Euro	**4.7**	4.2
Other	**2.7**	2.3
	39.8	37.4

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

	2013 £m	2012 £m
Not past due	**33.1**	30.3
Past due, but not impaired	**6.4**	6.7
Past due, but partially impaired	**0.3**	0.4
	39.8	37.4

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

	2013 £m	2012 £m
Up to one month past due	**5.3**	5.4
Between one and two months past due	**0.9**	0.8
Between two and four months past due	**0.2**	0.4
Over four months past due	**–**	0.1
	6.4	6.7

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

	2013 £m	2012 £m
At 1 October	**0.4**	0.5
Credited against profit, net	**–**	(0.1)
Utilised by write off	**(0.1)**	–
At 30 September	**0.3**	0.4

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

	2013 £m	2012 £m
Trade payables	23.2	20.5
Other payables	1.5	3.1
Other taxes and social security	2.5	2.3
Accruals and deferred income	12.8	12.6
	40.0	38.5

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

	2013 £m	2012 £m
Sterling	6.2	5.1
US dollars	10.9	9.2
Canadian dollars	0.8	1.1
Euro	4.5	4.2
Other	0.8	0.9
	23.2	20.5

18. Cash and Cash Equivalents

	Sterling £m	US$ £m	C$ £m	Euro £m	Other £m	2013 Total £m	Sterling £m	US$ £m	C$ £m	Euro £m	Other £m	2012 Total £m
Cash at bank	3.9	3.7	1.6	1.0	1.0	11.2	2.3	3.4	2.7	0.7	1.4	10.5
Short term deposits	2.5	1.8	3.2	0.6	–	8.1	–	–	–	0.9	–	0.9
	6.4	5.5	4.8	1.6	1.0	19.3	2.3	3.4	2.7	1.6	1.4	11.4

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, investments, trade and other receivables and trade and other payables, borrowings and other liabilities. Trade and other receivables and trade and other payables arise directly from the Group's day-to-day operations.

The financial risks to which the Group is exposed are those of credit, liquidity, foreign currency, interest rate and capital management. An explanation of each of these risks, how the Group manages these risks and an analysis of sensitivities is set out below and on page 35 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 a provision for impairment that represents its estimate of potential losses in respect of specific trade and other receivables where it is deemed that a receivable may not be recoverable. When the receivable is deemed irrecoverable, the provision is written off against the underlying receivable. 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	
	2013 £m	2012 £m
Trade receivables	39.5	37.0
Other receivables	1.5	1.9
Cash and cash equivalents	19.3	11.4
	60.3	50.3

There is no material difference between the book value of the financial assets and their fair value at each reporting date. An analysis of the ageing and currency of trade receivables and the associated provision for impairment is set out in note 16. An analysis of cash and cash equivalents is set out in note 18.

19. Financial Instruments continued

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 resources are available to meet the Group's requirements in the short, medium and long term. Additionally, compliance with debt covenants are monitored regularly and during 2013 all covenants have been complied with fully.

The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on 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 on 30 June 2014. 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 2013, none of the facility had been drawn down (2012: £3.5m).

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

	2013 £m	2012 £m
Expiring within one year	**20.0**	–
Expiring after one year but within two years	**–**	16.5

The Group's financial liabilities are as follows:

	Carrying amount 2013 £m	Carrying amount 2012 £m
Trade payables	**23.2**	20.5
Other payables	**1.5**	3.1
Other liabilities	**3.0**	3.8
Borrowings	**–**	3.5
	27.7	30.9
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**26.8**	26.4
One-two years	**1.1**	3.5
Two-five years	**–**	1.2
	27.9	31.1
Less: Discount	**(0.2)**	(0.2)
	27.7	30.9

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

c) Currency risk

The Group's 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 gains of £0.1m (2012: £0.1m losses) were recognised in operating profit for the year.

The Group holds forward foreign exchange contracts in certain of the Group's businesses to hedge forecast transactional exposure to movements in the US dollar, Canadian dollar and Euro. These forward foreign exchange contracts are classified as cash flow hedges and are stated at fair value. The notional value of forward contracts as at 30 September 2013 was £15.4m (2012: £13.4m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2013 was negligible (2012: £0.3m liability). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was £0.2m debit (2012: £0.5m debit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was negligible (2012: £0.4m debit).

The currency risk arising from both translational and transactional risks are described further on page 35 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 rate. 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.

Notes to the Consolidated Financial Statements continued
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19. Financial Instruments continued

e) Fair values

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

Derivatives

Forward exchange contracts are 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 12 months from the year end.

Trade and other receivables/payables

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

Other liabilities

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

f) Capital management risk

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

The Group is not subject to any externally imposed capital requirements and 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

	2013 £m	2012 £m
Future purchases of minority interests	**2.8**	3.2
Deferred consideration	**0.2**	0.6
	3.0	3.8
Analysed as:		
Due within one year	**2.0**	2.8
Due after one year	**1.0**	1.0

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

	2013 £m	2012 £m
At 1 October	**3.2**	2.0
Acquisition of minority interest	**(0.6)**	–
Put options entered into during the year	**–**	1.0
Unwinding of discount	**0.3**	0.1
Fair value remeasurements	**(0.1)**	0.1
At 30 September	**2.8**	3.2

At 30 September 2013 the Group retained put options to acquire minority interests in M Seals, DSL and HPS all of which are exercisable within the next 18 months. On 8 January 2013, the Group acquired the remaining 20% minority interest in Big Green Surgical Pty Limited ("BGS"), as explained in note 21.

At 30 September 2013 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 2013. This led to a remeasurement of the fair value of these put options and the liability was reduced by £0.1m (2012: increased £0.1m). This reduction was offset by the charge from unwinding the discount on the liability and in aggregate £0.2m (2012: £0.2m) has been charged to the Consolidated Income Statement.

20. Other Liabilities continued

At 30 September 2013 deferred consideration of £0.2m related to amounts payable to the vendor of BGS in connection with the sale of his outstanding minority interest during the year. This is payable in two instalments in November 2013 and 2014. Deferred consideration of £0.3m was paid on 27 September 2013 to the vendors of CMI in full and final satisfaction of their outstanding deferred consideration and £0.3m was paid on 17 July 2013 to the vendor of Amfast in final settlement of the performance payment.

21. Minority Interests

	£m
At 1 October 2011	0.5
Acquisition of subsidiary	0.7
Share of profit	0.3
Dividends paid	(0.1)
At 30 September 2012	1.4
Minority interests acquired	(0.1)
Share of profit	0.3
Dividends paid	(0.2)
At 30 September 2013	**1.4**

On 8 January 2013, the Group acquired the outstanding 20% share capital in Big Green Surgical ("BGS"), held by the previous owner, Mr A Bennett. The maximum consideration payable is £0.9m (A$1.4m), including deferred consideration of £0.5m (A$0.8m), based on the achievement of certain gross profit targets for FY2013 and FY2014. On completion, the initial cash consideration paid was £0.4m (A$0.6m) and £0.2m (A$0.3m) has been provided as deferred consideration at 30 September 2013.

22. Acquisition of Business

On 2 November 2012, the Group acquired the trade and net assets of Rayquick GmbH ("Rayquick") for consideration of £1.2m (€1.4m) from Mr S Rinas, which was settled in cash. Acquisition intangible assets of £0.6m and goodwill of £0.5m arose on this acquisition. The goodwill is represented by prospects for revenue growth from new customers. Goodwill and acquisition intangible assets relating to these acquisitions of £1.1m will be allowable for a tax deduction (£0.2m) in future years.

From the date of acquisition to 30 September 2013, the Rayquick business contributed £1.3m to revenue and £0.4m to adjusted operating profit; if this acquisition had been completed at the beginning of the financial year, the contribution to revenue and adjusted operating profit would not have been materially different.

23. Reconciliation of Cash Flow from Operating Activities

	2013 £m	2012 £m
Operating profit	**48.7**	46.4
Acquisition related charges (note 11)	**5.6**	6.4
Adjusted operating profit	**54.3**	52.8
Depreciation or amortisation of tangible and other intangible assets	**2.5**	2.1
Share-based payments expense	**0.5**	0.8
Cash paid into defined benefit schemes (note 25)	**(0.3)**	(0.3)
Operating cash flow before changes in working capital	**57.0**	55.4
Increase in inventories	**(0.9)**	(4.1)
Increase in trade and other receivables	**(2.5)**	(1.2)
Increase in trade and other payables	**2.3**	0.1
Cash flow from operating activities, before acquisition expenses	**55.9**	50.2

Notes to the Consolidated Financial Statements continued
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24. Net Funds
The movement in net funds during the year is as follows:

	2013 £m	2012 £m
Net increase/(decrease) in cash and cash equivalents	**8.3**	(6.1)
Decrease in borrowings	**3.5**	2.2
	11.8	(3.9)
Effect of exchange rates	**(0.4)**	(0.4)
Movement in net funds	**11.4**	(4.3)
Net funds at beginning of year	**7.9**	12.2
Net funds at end of year	**19.3**	7.9
Comprising:		
Cash and cash equivalents	**19.3**	11.4
Borrowings	**–**	(3.5)
Net funds at 30 September	**19.3**	7.9

The Group has a committed £20m revolving bank facility which expires on 30 June 2014. Interest on this facility is payable at between 150 and 195 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 reviews using the projected unit method.

Pension deficit included in the Consolidated Statement of Financial Position:

	2013 £m	2012 £m
Market value of Scheme assets		
Equities	**18.6**	16.1
Bonds	**4.7**	4.5
Cash	**–**	0.1
	23.3	20.7
Present value of Scheme liabilities	**(28.0)**	(26.1)
Pension scheme net deficit	**(4.7)**	(5.4)

Amounts credited to the Consolidated Income Statement:

	2013 £m	2012 £m
Charged to operating profit	**–**	–
Interest cost	**(1.2)**	(1.2)
Expected return on Scheme assets	**1.4**	1.3
Credited to financial income (note 6)	**0.2**	0.1
Amount credited to the Consolidated Income Statement	**0.2**	0.1

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

	2013 £m	2012 £m
Experience adjustments on Scheme assets	**1.9**	1.3
Changes in assumptions on Scheme liabilities	**(1.4)**	(1.1)
Experience adjustments on Scheme liabilities	**(0.3)**	(0.6)
Actuarial gain/(loss) on Scheme liabilities	**0.2**	(0.4)

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Income and Other Comprehensive Income, since the transition to IFRS, is £4.7m (2012: £4.9m).

25. Retirement Benefit Obligations continued

Analysis of movement in the pension deficit:

	2013 £m	2012 £m
At 1 October	**5.4**	5.4
Amounts credited to Consolidated Income Statement	**(0.2)**	(0.1)
Contributions paid by employer	**(0.3)**	(0.3)
Actuarial (gain)/loss	**(0.2)**	0.4
At 30 September	**4.7**	5.4

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

	2013 £m	2012 £m
At 1 October	**26.1**	23.6
Interest cost	**1.2**	1.2
Actuarial loss	**0.3**	0.6
Loss on changes in assumptions	**1.4**	1.1
Benefits paid	**(1.0)**	(0.4)
At 30 September	**28.0**	26.1

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

	2013 £m	2012 £m
At 1 October	**20.7**	18.2
Expected return on assets	**1.4**	1.3
Actuarial gain	**1.9**	1.3
Contributions paid by employer	**0.3**	0.3
Benefits paid	**(1.0)**	(0.4)
At 30 September	**23.3**	20.7

The actual return on Scheme assets during the year was a £3.3m gain (2012: £2.6m gain).

Principal actuarial assumptions for the Scheme at balance sheet dates:

		2013	2012	2011
Inflation rate	– RPI	**3.3%**	2.6%	3.2%
	– CPI	**2.6%**	1.9%	2.5%
Expected rate of pension increases	– CPI	**2.6%**	1.9%	2.5%
Discount rate		**4.6%**	4.6%	5.1%
Number of years a current pensioner is expected to live beyond age 65				
Men		**22.5**	22.4	22.3
Women		**24.9**	24.8	24.6
Expected return on Scheme assets[1]				
Analysed as:				
Equities		**n/a**	7.8%	8.0%
Bonds		**n/a**	4.3%	3.8%
Cash		**n/a**	1.0%	1.0%

1 The historical expected return for each class of scheme assets is based on a combination of historical performance, current market yields and advice from investment managers. This will no longer be relevant from 1 October 2013 as IAS 19 (revised) requires the replacement of the expected return on pension scheme assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate.

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)

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2013

25. Retirement Benefit Obligations continued
Sensitivities:
The sensitivity of the 2013 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%	9.6	2.7
Inflation	Increase by 0.5%	3.9	1.1
Life expectancy	Increase by 1 year	1.4	0.4

Cash funding:
Accounting costs do not impact on the incidence or amount of cash contributions for defined benefit plans. Future cash contributions are determined based upon the 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% p.a. pre-retirement and 0.80% p.a. post-retirement
Post retirement mortality table	S1NA
Post retirement mortality projections	CMI 2010 with long term improvement rate of 1.25% p.a.
Contributions per annum to remove the deficit	£320,000 increasing at 2% p.a.
Period over which the deficit is expected to be removed	1 October 2010 – 30 September 2021
Expected contributions during FY2014	£332,900
Current investment strategy	80% Equities and 20% Bonds
Number of deferred members at date of actuarial valuation	344

History of experience gains and losses:
All experience adjustments are recognised directly in equity, net of related tax.

	2013	2012	2011	2010	2009
Experience adjustments arising on Scheme assets:					
Amount (£m)	**1.9**	1.3	(1.8)	0.3	0.7
% of Scheme assets	**8%**	6%	10%	2%	5%
Changes in assumptions arising on present value of Scheme liabilities:					
Amount (£m)	**(1.4)**	(1.1)	2.1	(2.2)	(3.8)
% of present value of Scheme liabilities	**5%**	4%	9%	10%	20%
Experience adjustments arising on present value of Scheme liabilities:					
Amount (£m)	**(0.3)**	(0.6)	(0.5)	0.1	–
% of present value of Scheme liabilities	**1%**	2%	2%	–	–
Present value of Scheme liabilities	**(28.0)**	(26.1)	(23.6)	(21.6)	(18.8)
Market value of Scheme assets	**23.3**	20.7	18.2	16.3	14.1
Deficit	**(4.7)**	(5.4)	(5.4)	(5.3)	(4.7)

26. Commitments
At 30 September 2013 the Group has outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases in respect of the following years:

	Land and Buildings	
	2013 £m	2012 £m
Within one year	**1.8**	1.8
For years two to five	**4.0**	4.3
After five years	**1.1**	0.9
	6.9	7.0

Operating lease payments made in respect of land and buildings during the year were £2.1m (2012: £2.1m).

27. Auditor's Remuneration

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

	2013 £m	2012 £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 £71,000 (2012: £13,500) were paid to the Group's auditor primarily for a tax assignment and for reviewing the Half Year Announcement, which is unaudited.

28. Exchange Rates

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

	Average		Closing	
	2013	2012	2013	2012
US dollar (US$)	**1.56**	1.58	**1.62**	1.61
Canadian dollar (C$)	**1.59**	1.59	**1.66**	1.59
Australian dollar (A$)	**1.58**	1.53	**1.73**	1.55
Euro (€)	**1.19**	1.22	**1.20**	1.26

29. Subsequent Events

On 5 November 2013 the Group signed contracts in connection with the acquisition of 80% of Kentek Oy for consideration of up to £11.2m (€13.3m), subject to completion of competition enquiries by the authorities in Russia and certain other conditions precedent. The business is based in Finland, but much of its activities are carried out across Russia in supplying filters and related products for a range of heavy mobile machinery and industrial applications. Kentek Oy will form part of the Seals Sector.

On 17 October 2013 the Group acquired certain trade and goodwill from Sacee International SAS, based in France, for a maximum consideration of £0.3m (€0.3m). The business distributes connectors to the Satellite industry and will be absorbed into Filcon in the Controls Sector.

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2013

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.

Other than presentational changes to the Consolidated Statement of Income and Other Comprehensive Income to identify amounts which will and will not be reclassified to the Consolidated Income Statement as set out on page 71, there were no new standards, amendments and interpretations to existing standards which have been published and endorsed by the EU which have any impact on the results, financial position or presentation of the consolidated financial statements for the year ended 30 September 2013.

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 68.

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 Consolidated 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.

1.6 Employee benefits 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 Consolidated Income Statement:

– Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised in operating profit;
– Interest cost on the 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 Consolidated 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.

Proposed changes to IAS19 and the impact on the Group have been outlined in note 1.19 below.

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

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

1.7 Foreign currencies

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

(a) Reporting foreign currency transactions in functional currency:

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

(i) Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising on the settlement or retranslation of monetary items are recognised in the Consolidated Income Statement;
(ii) Non-monetary items measured at historical cost in a foreign currency are not retranslated; 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 Consolidated Income Statement, any exchange component of that gain or loss is also recognised in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2013

1.7 Foreign currencies continued

(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 the Consolidated Statement of Income and Other Comprehensive Income; these cumulative exchange differences are recognised in the Consolidated Income Statement in the period in which the foreign operation is disposed of.

(c) Net investment in foreign operations:

Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognised in the Income Statement in the separate financial statements of the reporting entity or the foreign operation as appropriate. In the consolidated financial statements such exchange differences are initially recognised in the Consolidated Statement of Income and Other Comprehensive Income as a separate component of equity and subsequently recognised in the Consolidated Income Statement on disposal of the net investment.

1.8 Taxation

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

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

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

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

(a) Research and development costs
Research expenditure is written off as incurred. Development costs are written off as incurred until it can be demonstrated that the conditions for capitalisation as described in IAS 38 "Intangible Assets" are met. At which point further costs are capitalised as intangible assets up until the intangible asset is readily available for production and amortised on a straight-line basis over the asset's estimated useful life.

Costs are capitalised as intangible assets unless physical assets, such as tooling, exist when they are classified as property, plant and equipment.

(b) Computer software costs
Where computer software is not integral to an item of property, plant or equipment its costs are capitalised as other intangible assets. Amortisation is provided on a straight line basis over its useful economic life of between three and seven years.

(c) Acquired intangible assets – business combinations
Intangible assets that are acquired as a result of a business combination, including, but not limited to, customer lists, supplier lists, databases, technology and software and patents and that can be separately measured at fair value, on a reliable basis, are separately recognised on acquisition at the fair value, together with the associated deferred tax liability. Amortisation is charged on a straight line basis to the Consolidated 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, tangible and current assets and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. 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.

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2013

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 Consolidated 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 Consolidated 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.

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.

1.13 Financial instruments continued

(d) Put options held by minority interests

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

(e) Derivative financial instruments and hedge accounting

The Group 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 in the Consolidated Statement of Income and 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, when it is recognised in the Consolidated Income Statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity 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 Investments available for sale financial assets

The investment held by the Group comprises equity shares which are not held for the purposes of equity trading and in accordance with IAS 39 is classified as available for sale. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the Consolidated Statement of Income and Other Comprehensive Income.

1.15 Leases

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

Notes to the Consolidated Financial Statements continued
Group Accounting Policies
For the year ended 30 September 2013

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 cumulative recognised income and expense 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 2013. Set out below are those which are considered most relevant to the Group:
- IAS 19 "Employee Benefits": makes changes to the recognition and measurement of defined benefit pension expense and to the disclosures of certain employee benefits;
- 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; and
- IFRS 13 "Fair Value Measurement": replacement of existing guidance on fair value measurement in different IFRSs.

Other than as relates to IAS 19 which is discussed further below, the Group has considered the impact of these in future periods and no significant impact is expected on reported profit or net assets.

The amendments to IAS 19, which become effective for the Group from 1 October 2013, will impact the Consolidated Income Statement due to the change in the interest rate used to calculate the return on assets; they will also require additional disclosure in the notes to the consolidated financial statements. If the Group had adopted these amendments to IAS 19 in the year ended 30 September 2013, the notional income from the defined benefit scheme of £0.2m set out in notes 6 and 25 would have been a notional charge of £0.2m.

1.20 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:

1.20.1 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 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.

1.20.2 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.

1.20.3 Inventory and trade receivable provisions

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 receivables.

The decision to make an impairment charge is based on the facts available at the time the consolidated 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.

1.20.4 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 the assumption that year end exchange rates will remain consistent until the exercise of the option. 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 2013

	Note	2013 £m	2012 £m
Fixed assets			
Investments	c	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(37.4)**	(42.1)
Total assets less current liabilities		**34.6**	29.9
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account		**28.9**	24.2
		34.6	29.9

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 18 November 2013 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

Reconciliation of Movement in Shareholders' Funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 October 2012	5.7	24.2	29.9
Retained profit for the year	–	5.7	5.7
Transfers of own shares (net)	–	(1.0)	(1.0)
At 30 September 2013	**5.7**	**28.9**	**34.6**

The notes on page 99 form part of these financial statements.

Notes to the Parent Company Financial Statements
For the year ended 30 September 2013

a) Accounting Policies

a.1 Basis of accounting
These financial statements have been prepared on a going concern basis, as discussed on page 68, 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. The Company's profit after tax for the year was £22.7m (2013: £14.4m).

a.2 Investments and dividends
Investments are stated at cost less provision for impairment. Dividend income is recognised when received. Final dividend distributions are recognised in the Company's financial statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

a.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.

a.4 Cash flow statement
The Company is exempt from the requirements of FRS1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a Consolidated Cash Flow Statement, as part of the consolidated financial statements.

a.5 Related parties
The Company has taken advantage of paragraph 3(c) of FRS8 ("Related Party Disclosures") not to disclose transactions with Group entities or interests of the Group qualifying as related parties.

a.6. Auditor's remuneration
Fees payable to the auditor for the audit of the Company's accounts of £3,500 (2012: £3,500) were borne by a fellow Group undertaking.

b) Directors' and employees' remuneration
No emoluments are paid directly by the Company; information on the Directors' remuneration and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 50 to 65. The Company had no employees (2012: none).

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2013 and 1 October 2012	**72.0**

Details of the principal subsidiaries are set out on page 102.

d) Share Capital

	2013 Number	2012 Number	2013 £m	2012 £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 675,450 shares (2012: 132,175) were transferred from the Trust to participants in connection with the exercise of options in respect of awards which have vested under the 2004 Long Term Incentive Plan. During the year the Trust purchased a further 300,000 shares for an aggregate amount of £1.7m. At 30 September 2013 the Trust held 586,887 (2012: 962,337) ordinary shares in the Company representing 0.5% of the called up share capital. The market value of the shares at 30 September 2013 was £3.8m (2012: £4.6m).

Independent Auditor's Report to the members of Diploma PLC

Opinion on financial statements of Diploma PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and Other Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the related notes 1 to 29 and the Group Accounting policies. This also comprises the Parent Company Balance Sheet, the Reconciliation of Movement in Shareholders' Funds and its related notes (a) to (d) and the Parent Company Accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 68 that the Group is a going concern. We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- the assessment of the carrying value of goodwill and intangible assets;
- the valuation of inventory including appropriateness of judgements applied within the obsolescence provision; and
- the recoverability of trade receivables.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined planning materiality for the Group to be £2.5 million, which is approximately 5% of pre-tax profit.

We agreed with the Audit Committee that we would report to them all audit differences in excess of £50,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit scope focussed primarily on the audit work at 7 locations. Each of these 7 locations was subject to a full scope audit. An additional 5 locations were subject to specific agreed upon audit procedures which address each of the significant balances and significant risks within these entities. Together the work at these 12 locations represent the principal business units of the Group and account for 79% of the Group's revenues and 96% of the Group's profit before tax. Our audit work at the 12 principal business units was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

The Group audit team has designed and implemented a rotational country visit programme to ensure that the Senior Statutory Auditor or another senior member of the group audit team visits these locations. Each year this programme of visits includes the three most significant territories (being the US, Canada and UK) which comprise 10 locations and 71% of Group revenue. Where no visits are carried out, the Senior Statutory Auditor or another senior member of the team has held discussions with the lead partner. We have performed analytical procedures for those locations making up the remaining revenue and operating profit.

The way in which we scoped our response to the risks identified above was as follows:

- we challenged management's assumptions used in the impairment model for goodwill and intangible assets, described in note 10 to the financial statements, including specifically the cash flow projections, the discount and perpetuity rates applied to those cash flows, and the sensitivities considered;
- we tested the existence of stocks and tested that the book value does not exceed the net realisable value of stocks. We challenged management's inventory provisions and assessed their adequacy; and
- we challenged management's calculation of the bad debt provision and tested the recoverability of trade receivables.

The Audit Committee's consideration of these risks is set out on page 47.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records.

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the 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 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.

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 either 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.

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 and 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Edward Hanson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

18 November 2013

Principal Subsidiaries

	Group percentage of equity capital	Country of incorporation or registration
Life Sciences		
a1-CBISS Limited	100%	England
a1-envirosciences GmbH	100%	Germany
Hitek Limited	100%	England
Somagen Diagnostics Inc	100%	Canada
AMT Electrosurgery Inc	100%	Canada
Vantage Endoscopy Inc	100%	Canada
Big Green Surgical Company Pty Limited	100%	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
Hawco Limited	100%	England
Abbeychart 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	15 January 2014
Annual General Meeting (2013)	15 January 2014
Half Year Results announced	12 May 2014
Second Interim Management Statement released	30 July 2014
Preliminary Results announced	17 November 2014
Annual Report posted to shareholders	4 December 2014
Annual General Meeting (2014)	14 January 2015

Dividends (provisional dates):

Interim announced	12 May 2014
Paid	18 June 2014
Final announced	17 November 2014
Paid (if approved)	21 January 2015

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	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Revenue	**285.5**	260.2	230.6	183.5	160.0
Adjusted operating profit	**54.3**	52.8	45.2	32.1	25.6
Finance (expense)/income	**–**	(0.2)	(0.3)	0.1	(0.1)
Adjusted profit before tax	**54.3**	52.6	44.9	32.2	25.5
Acquisition related charges	**(5.6)**	(6.4)	(4.8)	(3.5)	(3.1)
Fair value remeasurements	**(0.2)**	(0.2)	(0.9)	(2.0)	(1.9)
Profit before tax	**48.5**	46.0	39.2	26.7	20.5
Tax expense	**(13.7)**	(14.4)	(11.6)	(8.8)	(7.1)
Profit for the year from continuing businesses	**34.8**	31.6	27.6	17.9	13.4
Profit from discontinued businesses	**–**	–	–	5.1	0.9
Profit for the year	**34.8**	31.6	27.6	23.0	14.3
Capital structure					
Equity shareholders' funds	**176.9**	165.8	151.4	136.1	121.4
Minority interest	**1.4**	1.4	0.5	3.1	2.7
Add/(less): cash and cash equivalents	**(19.3)**	(11.4)	(17.8)	(30.1)	(21.3)
borrowings	**–**	3.5	5.6	–	–
retirement benefit obligations	**4.7**	5.4	5.4	5.3	4.7
future purchases of minority interests	**2.8**	3.2	2.0	13.2	13.1
deferred tax, net	**1.7**	1.6	2.0	1.3	2.0
adjustment to goodwill in respect of deferred tax	**(10.0)**	(10.1)	(8.9)	(6.6)	(6.5)
Trading capital employed	**158.2**	159.4	140.2	122.3	116.1
Net increase/(decrease) in net funds	**11.8**	(3.9)	(18.0)	8.6	2.2
Add: dividends paid	**17.6**	14.3	14.8	10.2	9.1
acquisition of businesses	**2.2**	22.3	28.2	11.0	12.2
Free cash flow	**31.6**	32.7	25.0	29.8	23.5
Per ordinary share (pence)					
Basic earnings	**30.7**	27.9	24.0	14.6	10.8
Adjusted earnings	**34.8**	33.1	27.9	18.9	14.8
Dividends	**15.7**	14.4	12.0	9.0	7.8
Total shareholders' equity	**156**	146	134	120	107
Dividend cover	**2.2**	2.3	2.3	2.1	1.9
Ratios	**%**	%	%	%	%
Return on trading capital employed	**25.8**	26.6	25.4	22.1	19.0
Working capital: revenue	**16.7**	16.5	16.1	15.4	17.6
Operating margin	**19.0**	20.3	19.6	17.5	16.0
Continuing and discontinued businesses	**£m**	£m	£m	£m	£m
Revenue	**285.5**	260.2	230.6	188.8	175.7
Adjusted profit before tax	**54.3**	52.6	44.9	31.6	26.7
Adjusted earnings per ordinary share (pence)	**34.8**	33.1	27.9	18.5	15.6

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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