DIPLOMA PLC

Annual Report & Accounts 2014

A strong track record of growth

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, filters, 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.

Contents

Strategic Report
01 Financial Highlights
02 Chairman's Statement
04 Group at a Glance
06 Business Model
08 Growth Strategy
10 Objectives and Key Performance Indicators
12 Chief Executive's Review
18 Finance Review
21 Sector Review
– Life Sciences
– Seals
– Controls
34 Principal Risks and Uncertainties
38 Corporate Responsibility

Governance
40 Directors and Advisors
42 Corporate Governance
47 Audit Committee Report
51 Nomination Committee Report
52 Remuneration Committee Report

Financial Statements
68 Directors' Report
70 Consolidated Income Statement
71 Consolidated Statement of Income and Other Comprehensive Income
71 Consolidated Statement of Changes in Equity
72 Consolidated Statement of Financial Position
73 Consolidated Cash Flow Statement
74 Notes to the Consolidated Financial Statements
91 Group Accounting Policies
98 Parent Company Balance Sheet
99 Notes to the Parent Company Financial Statements
100 Independent Auditor's Report
102 Principal Subsidiaries
103 Financial Calendar and Shareholder Information
104 Five Year Record

Financial Highlights

2014
Year ended 30 September

	2014	Change	2013
Revenue	£305.8m	+7%	£285.5m
Adjusted operating profit[1]	£56.7m	+4%	£54.3m
Adjusted operating margin[1]	18.5%		19.0%
Adjusted profit before tax[1,2]	£56.2m	+3%	£54.3m
Profit before tax	£49.8m	+3%	£48.5m
Free cash flow[3]	£37.8m	+20%	£31.6m

	2014 pence		2013 pence
Adjusted earnings per share[1,2]	36.1	+4%	34.8
Basic earnings per share	31.4	+2%	30.7
Total dividends per share	17.0	+8%	15.7
Free cash flow per share[3]	33.4	+20%	27.9

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

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, free cash flow, trading capital employed and return on adjusted trading capital employed (ROATCE). 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

"The fundamental principle of the Board is to focus on consistently strong cash flow."

John Rennocks
Chairman

Delivering strong returns to shareholders
As previously announced, I will be stepping down from the Board immediately after the AGM on 21 January 2015. I joined the Board in 2002 and became Chairman in 2004, following the retirement of the late Christopher Thomas who had previously been Chief Executive and then Chairman of the Company for over 30 years. His guiding objective for the Company was to focus on consistently strong cash flow which would fund the Group's growth strategy and deliver healthy and growing dividends; this has remained a fundamental principle of the Board during my Chairmanship of the Company over the last ten years.

The Group's strong cash flow is generated from businesses which focus on essential products and services within specialised market segments and deliver sustainable and attractive margins, through the quality of customer service, depth of technical support and value adding activities. It is this business model that has provided the Group with the resources over ten years to invest ca.£160m of our internally generated cash in value enhancing acquisitions to support our growth strategy and deliver strong shareholder value.

The success in pursuing this strategy can be measured against the Group's two principal corporate objectives of growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR"). The target for adjusted EPS is to deliver strong double-digit growth over the business cycle and since 2004 the Group's adjusted EPS has grown at a compound rate of 16% p.a. The objective for TSR growth is to deliver upper quartile performance relative to the FTSE mid-250 Index Group ("FTSE-250") and over the last ten years, Diploma's TSR has grown at a compound rate of 24% p.a. compared with median growth of 13% p.a. in the FTSE-250.

I believe that this sustained performance demonstrates the Board's commitment to a clearly defined and well executed strategy, robust business model and relentless focus on strong cash generation. This has helped Diploma develop into a successful and resilient business capable of delivering strong shareholder value on a consistent basis and I am confident that it will continue to do so for many years.

Results
Group revenues increased in 2014 by 7% to £305.8m (2013: £285.5m) despite the significant strengthening of UK sterling against most major currencies in which the Group operates. With ca.75% of the Group's revenues generated outside the UK, the £17.7m reduction in revenues from currency translation more than offset the contribution to revenue of £15.4m from acquisitions completed during the year.

On an underlying basis, which is after adjusting for acquisitions and for currency effects on translation, Group revenues increased by 8% with each of the Group's business Sectors reporting strong underlying growth during the year.

Adjusted operating margins remained robust at 18.5% (2013: 19.0%) and adjusted

Adjusted EPS growth

+20% p.a.

	pence
2014	36.1
2013	34.8
2012	33.1
2011	27.9
2010	18.9

TSR growth

+36% p.a.

	TSR index 2009 = 100
2014	469
2013	434
2012	306
2011	199
2010	171

Dividend growth

+17% p.a.

	pence
2014	17.0
2013	15.7
2012	14.4
2011	12.0
2010	9.0

operating profit increased by 4% to £56.7m (2013: £54.3m). Gross margins in the Canadian and Australian healthcare businesses were impacted by transactional currency effects, but these were partly mitigated by tight control of operating costs and the benefits arising from the Group's recent Investment for Growth programme which is now substantially complete.

Adjusted profit before tax increased by 3% to £56.2m (2013: £54.3m) and adjusted earnings per share, helped by a lower effective tax rate, increased by 4% to 36.1p (2013: 34.8p).

The Group generated strong free cash flow of £37.8m (2013: £31.6m), despite a larger investment in working capital, reflecting both much lower capital expenditure of £2.2m (2013: £4.6m) and a smaller cash contribution of £1.8m (2013: £4.7m) to the Group's Employee Benefit Trust.

With the acquisition environment improving, the Group invested £16.5m (2013: £2.2m) in acquisitions during the financial year. Shortly after the year end, the Group acquired 80% of TPD, which extends the Healthcare business into Ireland and the UK; this acquisition has taken the acquisition spend to ca.£26m in the 2014 calendar year.

At 30 September 2014 the Group's net cash funds increased by £2.0m to £21.3m after distributing £18.2m (2013: £17.4m) to shareholders during the year.

Dividends

The strong balance sheet and free cash flow, supported by a good set of results has led the Board to recommend an increase in the final dividend of 8% to 11.6p per share (2013: 10.7p). Subject to shareholder approval at the AGM, this dividend will be paid on 28 January 2015 to shareholders on the register at 28 November 2014.

The total dividend per share for the year will be 17.0p (2013: 15.7p) which represents an 8% increase on 2013. The dividend is well covered by adjusted EPS at 2.1 times, in line with the Board's objective of targeting towards a two times level of cover. Dividends have increased progressively in each of the last 15 years and represent a total of almost £100m of cash distributed to shareholders over ten years.

Governance

The Board and its Committees have worked effectively throughout the year, benefiting from a stable year, following a number of years of changes as we developed and refreshed the Board. The work of these Committees and the key achievements this year are set out in the Corporate Governance section of the Annual Report & Accounts.

I should like to thank all my colleagues on the Board, past and present, who have always been both supportive and challenging, as needed. Their wise counsel and experience has made a substantial contribution to the success of the Group.

Finally, I am delighted that in John Nicholas, the Company has a highly successful businessman with broad and relevant experience, who I am confident will chair the Group well on the next stage of its journey and to further success.

Employees

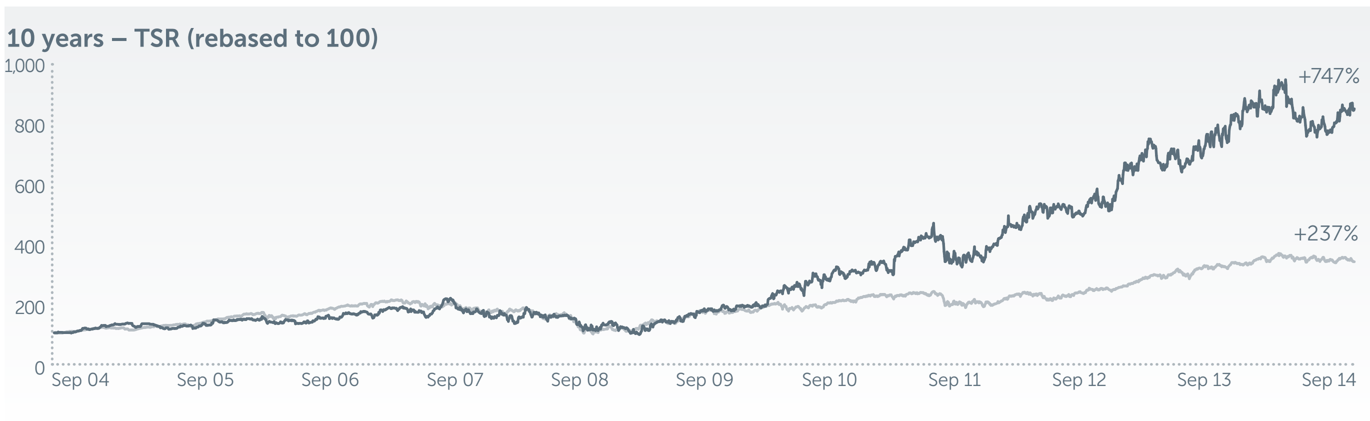
I have very much appreciated the consistently high levels of service, performance and hard work that our employees deliver year after year. I believe that this is largely due to our decentralised organisational structure which allows our employees to understand their responsibilities and gives them space to operate efficiently and effectively. This provides enormous strength to the Diploma businesses and helps explain the Group's sustained success. I wish to sincerely thank all our employees for their tremendous hard work and for all they have achieved during my period with the Company.

Outlook

The Group's performance this year has benefited from greater confidence in its principal markets with strong underlying revenue growth in each of the Group's Sectors. Given the strong comparatives and the uncertain macroeconomic backdrop, the Board expects growth to trend this year towards our target "GDP plus" rates.

The Group has a strong and proven business model, together with a good geographic spread of activities, strong free cash flow and balance sheet. With an improving acquisition environment and a good pipeline of opportunities, prospects for acquisition activity in 2015 are encouraging. This provides the Board with confidence that further progress will be made in the new financial year.

John Rennocks
Chairman
17 November 2014



Group at a Glance

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

CONTROLS

SEALS

LIFE SCIENCES

Healthcare (80% of revenues)
Medical devices and related consumables and services supplied to hospital pathology laboratories, operating rooms and GI Endoscopy suites and clinics.

Environmental (20% of revenues)
Environmental analysers, containment enclosures and emissions monitoring systems.

Principal businesses
DHG, a1-group

30%
of revenues

334
employees worldwide

More about Life Sciences Sector on pages **22–25**

Seals

Aftermarket (60% of revenues)
Next day delivery of seals, sealing products, filters and cylinder components for the repair of heavy mobile machinery.

Industrial OEMs (40% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

Principal businesses
HFPG, FPE Seals, Kentek, M Seals

39%
of revenues

604
employees worldwide

More about Seals Sector on pages **26–29**.

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, Specialty Fasteners, Filcon, Hawco

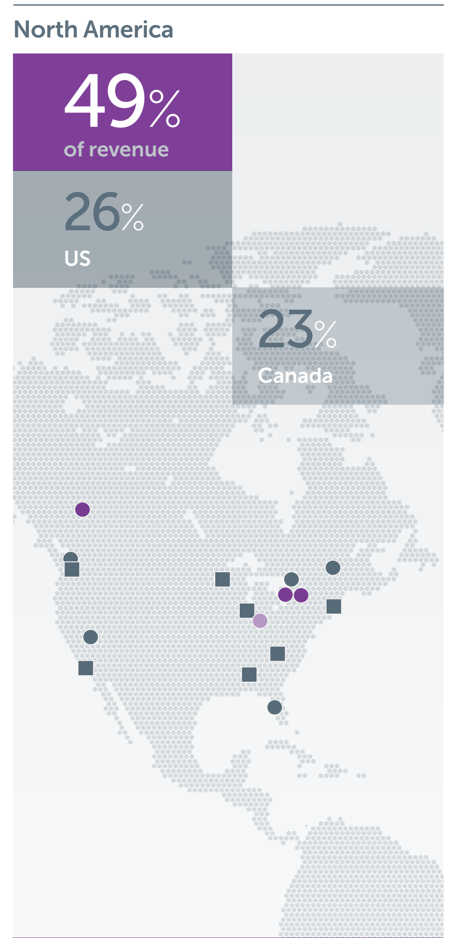
31%
of revenues

312
employees worldwide

More about Controls Sector on pages **30–33**.

The Group is well diversified by geographic and business area.

North America



Europe

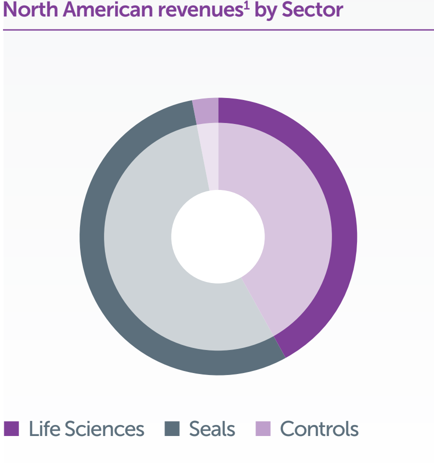
43%
of revenue

23%
UK

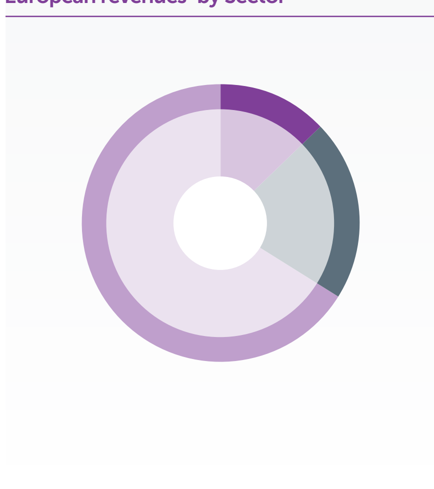
20%
Continental Europe

Rest of World

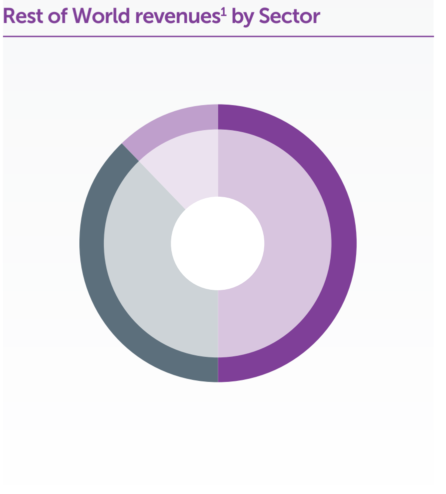
North American revenues[1] by Sector



European revenues[1] by Sector



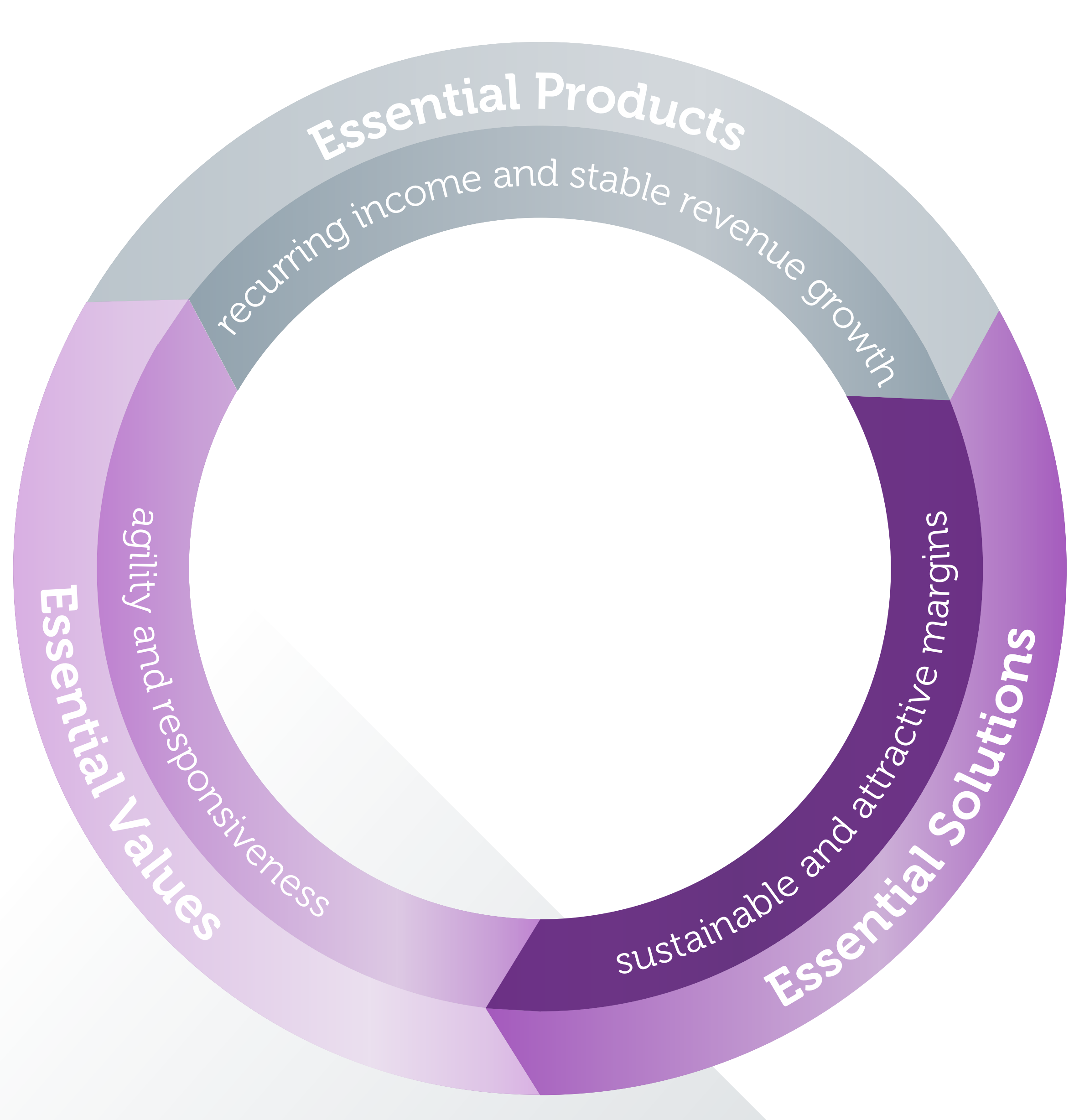
Rest of World revenues[1] by Sector



1 By destination

Business Model

Our business model is designed to make us essential to our customers.



What we put in

Essential Products

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.

Essential Solutions

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.

Essential Values

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.

What we get out

Recurring income and stable revenue growth

Our focus on essential products and services contributes to the Group's record of stable revenue growth over the business cycle.

Our 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.

Sustainable and attractive margins

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

Our businesses achieve sustainable and attractive gross margins by offering strongly differentiated products and customer focused solutions within specialised market segments. By running efficient operations, these gross margins are converted into healthy operating margins.

Agility and responsiveness

Our decentralised organisational model 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.

Growth Strategy

The Group's "Acquire, Build, Grow" strategy is designed to deliver strong, double-digit growth.

A principal focus this year has been on the "Grow" phase of our strategy.

Acquire

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

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

The principal financial criteria are:

- **Track record of stable, profitable growth and cash generation;**
- **Exceed IRR threshold of 13% to ensure 20%+ return on investment.**

Build

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

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

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

Grow

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

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

Typically synergies come in the following areas:

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

THIS YEAR'S GROWTH

The Group invested £16.5m this year in acquisitions designed to build larger, broader based businesses in the Group's three Sectors and extend the Group's geographic coverage. These acquisitions comprised:

Life Sciences
- Chemzyme (Australia)
- DSL (20%) (Australia)

Seals
- Kentek (80%) (Finland, Russia and Baltic States)
- Ramsay (UK)
- AB Seals (UK)
- HPS (49%) (US)

Controls
- SFC (UK)
- Sacee (France)

5%

of Group revenues (ca.£20m on annualised basis) were contributed from businesses acquired in 2014

Objectives and Key Performance Indicators

Principal corporate objectives

Achieve double digit growth in adjusted EPS over the business cycle

Next level objectives

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.

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

Total revenue growth

+14% p.a. compound

Year	Total revenue
2014	£305.8m
2013	£285.5m
2012	£260.2m
2011	£230.6m
2010	£183.5m

Underlying revenue growth

+9% p.a. average

Year	Underlying revenue growth
2014	+8%
2013	+4%
2012	+6%
2011	+17%
2010	+11%

Maintain stable attractive margins

Adjusted 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

18–19% of revenue

Year	Adjusted operating margin
2014	18.5%
2013	19.0%
2012	20.3%
2011	19.6%
2010	17.5%

Generate TSR growth in the upper quartile of the FTSE 250

Deliver progressive dividend growth with two times dividend cover

More about our corporate objectives and KPIs on pages 13–14

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

£16m
p.a. average

Year	Acquisition spend
2014	£16.5m
2013	£2.2m
2012	£22.3m
2011	£28.2m
2010	£11.0m

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

£31m
p.a. average

Year	Free cash flow
2014	£37.8m
2013	£31.6m
2012	£32.7m
2011	£25.0m
2010	£29.8m

Working capital % of revenue

16–17%
average

Year	Working capital % of revenue
2014	17.2%
2013	16.7%
2012	16.5%
2011	16.1%
2010	15.4%

Create value by consistently exceeding 20% ROATCE

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

ROATCE

25%
average

Year	ROATCE
2014	25.8%
2013	25.8%
2012	26.6%
2011	25.4%
2010	22.1%

Chief Executive's Review

"Another year of strong underlying growth with an improving acquisition environment"

Bruce Thompson
Chief Executive Officer

GROUP
LIFE SCIENCES
SEALS
CONTROLS
ACQUISITIONS
GROUP

Year in review

- INVESTMENT FOR GROWTH PROGRAMME HAS ESTABLISHED FIRM FOUNDATION FOR GROWTH
- STRONG CONSUMABLE REVENUES; 9% UNDERLYING GROWTH
- GOOD PROGRESS IN AFTERMARKET AND INDUSTRIAL OEMS; 7% UNDERLYING GROWTH
- GOOD DEMAND ACROSS MARKET SECTORS; 8% UNDERLYING GROWTH
- MORE POSITIVE ACQUISITION ENVIRONMENT WITH IMPROVED PIPELINE
- REPORTED RESULTS HELD BACK BY TRANSITIONAL IMPACT OF STRONG UK STERLING

Underlying revenue growth

8%

Strong performance across all three Sectors

In 2014, the Group has delivered underlying revenue growth of 8% (after adjusting for acquisitions and currency effects) with a strong performance across all three Sectors. Adjusted operating margins remained robust at 18.5% of revenue. In an improving environment for acquisitions, £16.5m was invested in acquisitions which contributed £15.4m to revenues this year. This addition to revenues was offset by the adverse translation effect of the stronger UK sterling which reduced revenues by £17.7m. Free cash flow increased by 20% to £37.8m and return on adjusted trading capital employed ("ROATCE") was maintained at 25.8%.

Business model and growth strategy

The Group's strategy is designed to generate strong, double-digit growth in earnings and shareholder 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 "GDP plus" levels of organic revenue growth over the business cycle. 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 corporate target of strong, double-digit growth, 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 to bring into the Group 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% ROATCE.

Adjusted operating margin

18.5%

Performance against objectives and KPIs

The Group's principal corporate objectives relate to growth in adjusted earnings per share ("EPS") and total shareholder return ("TSR"). Growth in the year in adjusted EPS has been 4% and growth in TSR has been 8%. Over a five year period, compound growth rates for adjusted EPS and TSR have been 20% p.a. and 36% p.a. respectively.

Underpinning the principal corporate objectives are a set of further objectives, with related key performance indicators ("KPIs") which are used to measure performance at the Group level, but also to drill down through the operating businesses. The first of these next level objectives is to generate stable "GDP plus" levels of *underlying revenue growth* over the business cycle.

This year, after adjusting for translational currency effects and acquisitions, the Group increased revenues by 8% on an underlying basis, with strong performance across all three Sectors. Life Sciences benefited from strong consumable revenues across the businesses, offsetting weaker capital equipment and service revenues and delivered 9% underlying revenue growth. In Seals, underlying revenues grew by 7%, reflecting a more favourable performance in the Aftermarket businesses and continuing good growth in the Industrial OEM businesses. Controls returned to growth this year with good demand across its market sectors and particularly strong performances from the Civil Aerospace, Motorsport and Energy markets; underlying revenue growth of 8% was achieved.

The objective for *adjusted operating margins* is to maintain stable attractive margins which reflect the focus on specialised segments, strongly differentiated products and customer focused solutions, combined with efficiently run operations. This year, adjusted operating margins were 18.5% which is comfortably within the five year average range of 18–19%. Gross margins in the Group's Healthcare businesses came under increasing pressure during the year, from the transactional currency effects of the strong depreciation of the Canadian and Australian dollars. However, the impact on Group operating margins was limited by tight control of operating costs in the Healthcare businesses. More broadly, the Group's Investment for Growth programme, started in 2012 and now nearing completion, has started to deliver the benefits we had expected. As revenues have increased, operational leverage has reduced operating costs as a percentage of revenue and these benefits have offset the impact of acquisitions joining the Group with lower initial operating margins.

To achieve the Group's objective of strong double-digit growth, *acquisition spend* at the level of ca.£25m p.a. is targeted. The level of spend this year of £16.5m is below this target level but is close to the five year average of ca.£16m p.a. and is well ahead of the prior year spend of only £2m. After the financial year end in early October 2014, a further acquisition was completed of 80% of Technopath Distribution ("TPD") and this has taken the acquisition spend to ca.£26m in the 2014 calendar year.

The Group continues to focus strongly on *free cash flow*, which funds the growth strategy and allows the Company to provide healthy dividends to shareholders. In 2014, free cash flow was £37.8m, compared with a five year average of £31m p.a. and was equivalent to a conversion rate of over 90% of adjusted after tax earnings. Now that the Investment for Growth programme is approaching completion, capital expenditure is trending back to more normal levels and the principal determinant of free cash flow conversion

> "Free cash flow in the year was £37.8m, a conversion rate of over 90%"

Chief Executive's Review continued

is now the effective management of working capital. The KPI used to measure and monitor this performance is *working capital as a percentage of revenue*; in 2014 this increased to 17.2% compared with both the target and the five year average level of 16–17%.

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

Acquisitions

Acquisitions are an integral part of the Group's strategy, designed to accelerate growth and to facilitate entry into related strategic markets. Despite sustained and increasing resources focused on identifying and completing value-enhancing acquisitions, acquisition spend does ebb and flow over time. The acquisition environment has improved this year after a period when the uncertainty over future economic prospects had made vendors very cautious, resulting in lengthening transaction processes and delayed completions.

ROATCE

25.8%

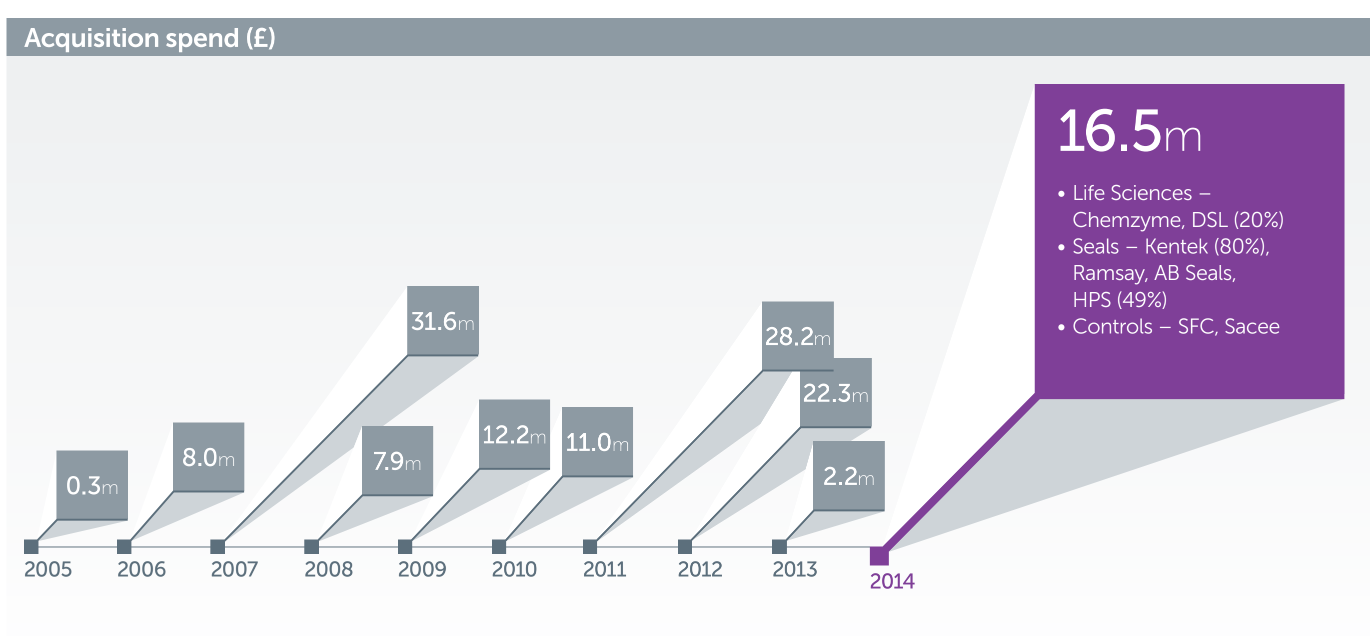
During the year, a number of acquisitions have been completed which are natural extensions of the Group's existing businesses and which have extended the scope of the businesses into new products, market segments and geographies.

In Life Sciences, DHG extended its business in Australia with the acquisition of Chemzyme, which has now been integrated into DHG's principal operations in Melbourne. During the year DHG also acquired the remaining 20% minority shareholdings in DSL and shortly after the year end, acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of DHG's business into the markets of Ireland and the UK, as well as adding important new products and suppliers.

In Seals, the Group acquired 80% of Kentek, a specialised filter distributor which adds a new product line and extends the reach of the Seals activities into the new markets of Finland, Russia and the Baltic States. During the year, two smaller acquisitions were completed in the UK, AB Seals and Ramsay Services, which will be managed by FPE Seals and M Seals respectively. RT Dygert also acquired the remaining 49% in the HPS Industrial OEM seal business in Seattle.

In Controls, the fastener business was strengthened through the acquisition of SFC, a UK fastener distributor which has a strong fit with Clarendon and brings specialist technical and design skills as well as added value assembly expertise. During the year, Filcon also acquired the goodwill and assets of Sacee, a supplier of specialist connectors to the Satellite sector in France; Sacee's operations have been integrated into Filcon in Munich.

With an improving acquisition environment, a good pipeline of opportunities and additional corporate development resources in place, prospects for acquisition activity in 2015 are encouraging.



Life Sciences

% of Group revenue

30%

	2014	2013
Revenue	**£91.4m**	£93.2m
Adjusted operating profit	**£19.7m**	£20.9m
Adjusted operating margin	**21.6%**	22.4%
Free cash flow	**£14.9m**	£14.1m

- **Underlying Sector revenue growth of 9%**
- **In DHG Canada, strong consumable revenues offset weaker capital equipment and service revenues**
- **ERP project well advanced – Somagen completed, Vantage in process and AMT to follow in 2015**
- **DHG Australia building critical mass under single leadership and with consolidated operations; Chemzyme acquired and integrated**
- **Acquisition of TPD after year end extends DHG into Ireland and the UK and adds new products and suppliers**
- **Strong growth in Environmental businesses with stable operating margins**

Performance in the year

Reported revenues of the Life Sciences businesses decreased by 2% because of the translational currency impact from the significant weakening in the Canadian and Australian dollars relative to UK sterling. On a constant currency basis, underlying revenues increased by 9%. Similarly on a reported basis, adjusted operating profit decreased by 6% in UK sterling terms, but increased by 8% on a constant currency basis.

Gross margins in the Healthcare businesses were also significantly impacted on a transactional basis by the strong depreciation of the Canadian and Australian dollars against the US dollar and the Euro. These currency effects were partly mitigated by an increased proportion of higher margin consumable product revenues this year, by price concessions negotiated with suppliers and by tight management of operating costs. There were also benefits starting to accrue from prior year investments and adjusted operating margins decreased by only 80bps to 21.6%.

Free cash flow increased by 6% to £14.9m, reflecting a combination of lower capital expenditure and tax payments, offset in part by investment in higher working capital.

Strategy development

The DHG group of **Healthcare** businesses account for ca.80% 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 technical sales and product application staff, working closely with surgeons, operating room nurses and laboratory technologists. A large proportion of revenues (ca.70%) are secured under multi-year customer contracts.

In Canada, the three principal businesses made good progress during the year in expanding the growth potential of their businesses with new products and new suppliers. Somagen revenues were boosted by the supply of new testing kits used in the roll-out of colorectal cancer screening programmes across three Provinces and made good progress with new best-in-class products in HbA1c diabetes testing and Autoimmunity. AMT continued to increase revenues in its new minimally invasive ("MI") Surgery division, consolidating its position in the supply of specialised surgical instruments used in laparoscopic and other MI Surgery procedures. Vantage launched its new range of endoscopes offering significant benefits in terms of image quality and handling ability.

There remain significant opportunities for DHG in Canada to increase its share in its core specialised segments of Clinical Diagnostics, Electrosurgery, MI Surgery and GI Endoscopy with new products and suppliers. DHG is also actively seeking to extend its business, either organically or by acquisition, into other specialised medical disciplines where its business model can be deployed successfully.

In Australia, BGS and DSL have grown revenues strongly and have now been brought together under a newly formed leadership group and with operations and back office systems consolidated into a single facility in Melbourne. Now that DHG in Australia has established a firm base with sufficient critical mass, it is now looking for further opportunities to grow by adding bolt-on acquisitions. During the year, DHG acquired the assets and goodwill of Chemzyme, a small distributor supplying products to the sterilising departments in hospitals across Australia and New Zealand. Chemzyme has been integrated into the Melbourne operations and has extended the scope of the DHG business in Australia with a supplier which also is a key supplier to Vantage in Canada. DHG also during the year acquired the remaining 20% minority shareholdings in DSL.

Shortly after the year end, DHG acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The acquisition of TPD represents an important first step in extending the scope of DHG's business into the markets of Ireland and the UK as well as adding important new products and suppliers. Once DHG has firmly established its position in these new markets, opportunities will be explored in further new geographic territories.

The a1-group of **Environmental** businesses accounts for ca.20% of Sector revenues and supplies a range of products used in Environmental testing and Health & Safety applications. The a1-group has been successful in recent years by maintaining a sharp focus on attractive niche market segments and this year has delivered strong growth with stable operating margins. While maintaining its focus, the a1-group is also looking for carefully selected bolt-on acquisitions to introduce new growth opportunities.

Chief Executive's Review continued
Seals

% of Group revenue

39%

	2014	2013
Revenue	£119.8m	£106.1m
Adjusted operating profit	£21.7m	£19.5m
Adjusted operating margin	18.1%	18.4%
Free cash flow	£16.4m	£15.9m

- **Underlying Sector revenue growth of 7%**
- **Good growth in HFPG Aftermarket Seals business in North America despite disruption from severe winter weather**
- **Unified European Aftermarket Seals group taking shape, centred on FPE Seals – AB Seals added during the year**
- **Kentek acquisition brings new geographic markets and adds filter products**
- **Continuing strong growth in the Industrial OEM Seals businesses in the US and Europe**
- **M Seals acquired Ramsay Services in the UK and All Seals is opening new branch operation in Houston, Texas**

Performance in the year
The Seals businesses increased revenues by 13%, which included part year contributions from Kentek, acquired in January 2014, and two smaller bolt-on acquisitions in the UK. After adjusting for the additional contribution from these acquisitions and for the impact from currency translation, underlying revenues increased by 7%. The acquisition of Kentek and the continued development of the FPE Seals and M Seals businesses, through organic growth and bolt-on acquisitions, have increased the European region's share of total Seals revenues to ca.25% in 2014.

Across the Seals businesses, gross margins continued to be resilient, underpinned by essential product availability and added value technical service. Operating margins in the HFPG and FPE Seals businesses improved as they benefited from prior year investment in people, facilities and equipment. However, with Kentek joining the Group with lower initial operating margins, adjusted operating margins reduced by 30bps to 18.1%.

Free cash flow increased by £0.5m to £16.4m, as capital expenditure decreased, but increased working capital reduced the contribution from higher operating profits.

Strategy development
The **Aftermarket** Seals businesses account for ca.60% of Sector 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 typically used in the repair and maintenance of equipment after it has completed its initial warranty or lease term. Our businesses act as a one-stop source of replacement components for all main brands of machinery and compared to the OEM dealer network, offer higher levels of customer service and more competitive pricing.

In North America, HFPG continues to penetrate the market through its superior marketing, its relentless sales approach and product development to extend the product line. HFPG is always looking to improve its service to customers and during the year, the level of sales processed online increased by 26% and now accounts for ca.20% of US revenues. Capacity is also expanding in the seal machining centres which respond to the demand from repair shop customers for hard-to-find and outsized seals on a 24 hour basis.

Outside North America, the Group continues to target an increased global footprint for Aftermarket, particularly in Europe and Asia Pacific. During the year, plans to create a more substantial, unified European Aftermarket Seals group continued to take shape, centred on FPE Seals and with operations in the UK and the Netherlands. FPE Seals added AB Seals as a bolt-on to its operations in the UK, strengthening coverage in the important South East region. The Group also acquired 80% of Kentek, a specialised distributor of filters and related products, used in heavy mobile machinery and industrial equipment applications. Kentek extends the reach of the Seals activities into the new markets of Finland, Russia and the Baltic States, as well as adding filters to the Group's product line.

The **Industrial OEM** businesses account for ca.40% 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 their Industrial OEM customers to specify the most appropriate sealing material and design for the customer's application and the most suitable seal manufacturer from which to source the parts. Once the part is designed in to the application, the businesses provide the necessary logistical and technical support, in most cases for the lifetime of the OEM's product.

The Group's growth strategy in the Industrial OEM Seal sector is to build and expand a group of businesses in North America and internationally. During the year, RT Dygert benefited from its investment in new elastomer compounds to penetrate new technically demanding applications. RT Dygert also acquired the remaining 49% in the HPS seal business in Seattle. Both All Seals and J Royal saw good gains in existing and new market segments with the introduction of new higher specification products. All Seals also benefited from its investment in a water-jet gasket cutting machine and in November, will open a branch operation in Houston, Texas. In Europe, M Seals acquired Ramsay Seals, a specialist distributor of O-rings which will give M Seals an entry into the Industrial OEM seal business in the UK, as well as adding strengths in the Aerospace and Oil & Gas sectors.

Controls

% of Group revenue

31%

	2014	2013
Revenue	**£94.6m**	£86.2m
Adjusted operating profit	**£15.3m**	£13.9m
Adjusted operating margin	**16.2%**	16.1%
Free cash flow	**£11.4m**	£10.8m

- **Underlying Sector revenue growth of 8%**
- **Strong growth in Interconnect, driven by improved markets in the UK and Germany, particularly Civil Aerospace, Energy and Motorsport**
- **Acquisition of SFC strengthened the fasteners business and added design skills and added-value assembly expertise**
- **Sacee acquisition extended Filcon's business into Satellite sector in France**
- **In Fluid Controls, significant gains made by Hawco in Food & Beverage sector**
- **Relocation of Hawco's offices, consolidation of warehouse facilities and extension of new ERP system into Abbeychart**

Performance in the year

The Controls businesses increased revenues by 10%, including part year contributions from SFC, a specialty fastener company acquired in June 2014 and Sacee, a small connector distributor acquired in October 2013. After adjusting for the contribution from these acquisitions and for the impact of currency translation, underlying revenues increased by 8%.

Adjusted operating profits increased by 10% to £15.3m and adjusted operating margins were held steady at 16.2%. Overall gross margins in the Controls businesses remained resilient with their focus on specialised markets and added value opportunities. The benefits from investment programmes completed last year, enabled the businesses to gain some operational leverage which offset the impact from the lower initial operating margin of SFC.

Free cash flow increased by £0.6m to £11.4m, with reduced capital expenditure, but with working capital increasing to take advantage of opportunities within existing markets.

Strategy development

The **Interconnect** businesses account for 70% of Controls revenues and supply a range of high performance wiring, connectors, harness components, fasteners and control devices. These products are used in technically demanding applications, often in harsh environments, in industries including Aerospace, Defence, Motorsport, Energy and Medical as well as in other specialised Industrial applications. The products are generally used in refurbishment, upgrade and maintenance programmes for equipment in service and are supplied to major new build programmes only where smaller quantities are required from stock. The businesses act as a single source for a wide range of products, have strong technical knowledge to specify products for customer applications and offer ex-stock availability and a full range of added value services.

A key element of the growth strategy within Interconnect is to broaden the range of high performance products and added value services offered. As part of this strategy, a grouping of specialty fastener businesses is being built and this group was strengthened through the acquisition of SFC, a UK based distributor of fasteners and ancillary products to the Aerospace, Industrial and Motorsport sectors. SFC has a strong fit with Clarendon and brings specialist technical and design skills as well as added value assembly expertise. As the group's supply of fasteners to the premium aircraft seating industry continues to grow strongly, Clarendon is extending production line-side support to key customers and exploiting further opportunities to export to sub-contract manufacturers.

Another important element of the growth strategy is to further penetrate specialised market sectors in Europe. During the year, Filcon acquired the goodwill and assets of Sacee, a supplier of specialist connectors to the Satellite sector in France; Sacee's operations have been successfully integrated into Filcon in Munich. In the Energy market, following its acquisition of Rayquick in late 2012, IS-Sommer was appointed by its key energy products supplier as one of only two master distributors in Germany.

The **Fluid Controls** businesses account for 30% of revenues and supply a range of fluid control products used broadly across 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.

Hawco has had to respond to significant structural changes in its markets and now is seeing the benefits of its repositioning and developmental activities. The trend away from major out-of-town food retail stores and towards convenience stores initially dampened demand for Hawco's equipment, but Hawco is now having good success in both the UK and Europe with its range of scroll compressors which offer a smaller footprint and greater efficiency. Hawco is also seeing growing demand for refrigeration units used in transport applications reflecting the increased use of home shopping and delivery. Sales into the Brewery sector have also been buoyed by the introduction of the scroll compressors and other improved products designed to provide "at source" cooling for smaller outlets such as cafes and bars. The Abbeychart business model and resources applied to the coffee and catering segments are also being reshaped to match changes in end-user tastes and to focus on growth segments where technical expertise can add value. During the year, Hawco's offices were relocated, warehouse facilities were consolidated and the new Hawco ERP system was extended into Abbeychart.

Geographically, the Controls businesses are still very concentrated in Northern Europe and in particular in the UK and Germany, where ca.80% of revenues are generated. The Group continues to look for new growth opportunities to expand into other geographic territories outside of Northern Europe, most likely through acquisitions which share the same specialised business model and stable financial characteristics.

Finance Review

"Strong focus on key performance metrics"

Nigel Lingwood
Group Finance Director

Results in 2014

Diploma reported a strong performance this year, with both underlying revenues and adjusted operating profit increasing by 8% respectively, as the businesses benefited from more positive economic conditions in most of its key markets. Reported revenues and adjusted operating profits were £305.8m and £56.7m respectively. Free cash flow was strong at £37.8m of which £16.5m was spent on acquisitions and the Group's return on adjusted trading capital employed ("ROATCE") remained strong at 25.8%.

Underlying revenues and adjusted operating profits are after adjusting for the contribution from businesses acquired during the year and for the impact on the translation of the results of the overseas businesses from the significant strengthening of UK sterling, in most of the major currencies in which the Group operates.

With ca.75% of the Group's revenues generated overseas, the impact on reported results from currency translation has led to a reduction in revenues and adjusted operating profits of £17.7m and £4.1m respectively, on a constant currency basis. These translational currency effects more than offset contributions from acquisitions of £15.4m in revenue and £2.3m in adjusted operating profit.

The results of the Healthcare businesses, which represent 80% of Life Sciences revenues, were also impacted by the large depreciation of the Canadian and Australian dollars against the currencies in which these businesses purchase their products. This currency transactional exposure led to a 300bps reduction in gross margins in these businesses, despite a substantial amount of this exposure being hedged through to June 2014 by forward currency contracts. As these are replaced by contracts which reflect more current exchange rates, the impact on Healthcare gross margins from the weaker Canadian and Australian currencies will continue well into 2015. Transactional currency exposures in the rest of the Group's businesses were not material.

The weaker gross margins in the Healthcare businesses were partly mitigated by a stronger mix of higher margin consumable revenues in these businesses and by strong control over operating costs. With resilient gross margins continuing in the Seals and Controls businesses and operational benefits now coming through from the Investment for Growth programme, Group adjusted operating margins reduced by only 50bps to 18.5%, compared with 19.0% reported last year.

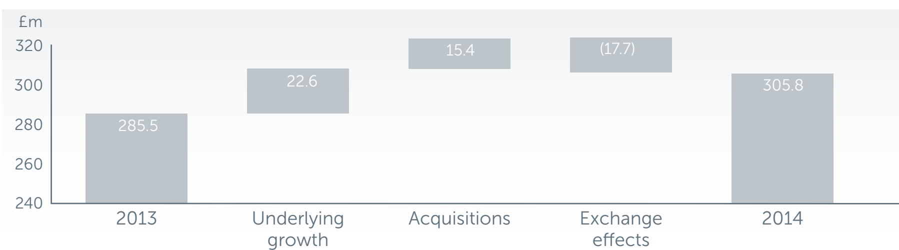
Investment for Growth programme

The Investment for Growth programme which was initiated in 2012 is now approaching completion. The programme comprised a series of specific investments and additional management resources designed to provide the foundation for the next phase of the Group's growth.

By the end of the 2014 financial year, £5.1m had been invested across the Group in modern and expanded facilities and in powerful and efficient new ERP systems. Of this total, £3.6m was in capital expenditure and £1.5m had been expensed. The remaining investment of ca.£0.3m will be spent in 2015 in completing the implementation of a new ERP system in the Canadian Healthcare businesses. The benefits resulting from these investments have started to positively impact in the second half of 2014, delivering greater operating efficiencies and improved management of working capital as revenues increased.

Investment was also made in additional senior managers at the Group's Head Office and in the major businesses to strengthen corporate development resources, adding

Revenue bridge



ca.£1.2m to annual operating costs. Outside the Investment for Growth programme, there was also further investment within the businesses to strengthen sales and business development resources and in regional management. These additional resources were in place at the beginning of 2014 and gave the strong leadership required to extend the businesses into new areas and develop acquisition opportunities.

Adjusted profit before tax, earnings per share and dividends

Adjusted profit before tax increased by 3% to £56.2m (2013: £54.3m). There was a net finance expense this year of £0.5m (2013: £Nil) which included £0.4m of bank facility and commitment fees, following the renewal of the Group's bank facilities in June 2014. A change in the interest rate used to calculate the return on the pension scheme assets, required by IAS19 (revised), led to a net interest charge against profit this year of £0.2m, compared with net interest income of £0.2m last year. Statutory profit before tax was £49.8m (2013: £48.5m), after acquisition related charges of £6.4m (2013: £5.6m) and fair value remeasurements of the put options held over minority interests which this year were net £Nil (2013: £0.2m).

The Group's adjusted effective accounting tax charge fell again in 2014 to 26.3% of adjusted profit before tax (2013: 27.3%). This reflected the benefit of a further reduction in the effective UK corporation tax rates to 22.0% (2013: 23.5%), together with the benefit of current and prior year manufacturing tax relief claims in the US Seals businesses which led to a lower effective tax rate in the US of 35% (2013: 38%). The Group's cash tax rate on adjusted profit before tax fell to 23.1% (2013: 27.3%) as UK tax payments benefited from the exercise of share awards last year under the Group's LTIP.

Adjusted earnings per share ("EPS") increased by 4% to 36.1p, compared with 34.8p last year reflecting the benefit from the lower effective tax rate this year. IFRS basic earnings per share increased to 31.4p (2013: 30.7p).

The Board continues to pursue a policy of increasing dividends to shareholders each year, while targeting towards two times dividend cover (defined as the ratio of adjusted EPS to total dividends paid and proposed for the year). Given the strong underlying performance and encouraging prospects for acquisition activity in 2015, the Directors have recommended an increase in the final dividend of 8% to 11.6p per share. This gives a total dividend per share for the year of 17.0p per share which represents an 8% increase on the prior year dividend of 15.7p. The dividend cover moves to 2.1 times from 2.2 times reported last year.

Free cash flow

The Group continues to generate strong free cash flow which in 2014 was £37.8m (2013: £31.6m), despite funding an increase in working capital to support the stronger trading environment towards the end of the year. Free cash flow, which is before expenditure on acquisitions or returns to shareholders, represented 91% of adjusted profit after tax (2013: 80%).

The increase in funding of working capital of £4.6m (2013: £1.1m) led to a small reduction in operating cash flow of £0.9m to £55.0m (2013: £55.9m). This increase was driven by increased inventory of £4.6m (2013: £0.9m) which reflected a number of operational priorities, including contingencies held against a possible longshoreman's dispute in the United States. The higher level of inventories at the year end led to the Group's KPI metric of working capital as a proportion of revenue increasing to 17.2%, compared with 16.7% last year.

Strong free cash flow

£37.8m

Group tax payments reduced by £1.8m to £13.0m (2013: £14.8m) despite higher profits, primarily because of the tax relief taken on the exercise of the LTIP share awards in 2013 and reflecting the benefit of small prior year tax repayments in the US Seals businesses. On an underlying basis and before the currency effects of translation, cash tax payments remained in line with last year at ca.27% of adjusted profit before tax.

As anticipated last year, capital expenditure reduced to a more normal level of £2.2m (2013: £4.6m) as the Group's Investment for Growth programme reached its final stages. During the year, £0.3m was invested in the ongoing ERP implementation in the Canadian Healthcare businesses which represents the final project in this programme. This compares with £2.0m of capital invested in this programme last year.

Outside of the Investment for Growth programme, the Healthcare businesses in Canada and Australia also reduced their expenditure on acquiring field equipment to support customer contracts with hospitals to £0.7m (2013: £1.7m). Last year this expenditure included £1.0m on funding endoscopy contracts in Vantage structured on a cost per procedure ("CPP") basis; these contracts have been delayed, pending the introduction in 2015 of a new series of endoscopes. In the Seals and Controls Sectors, £0.5m was spent on new tooling and warehouse equipment, including £0.1m on line-side equipment to support a new supply project in the IS Group. A further £0.2m was invested in refurbishing the office and warehouse facilities in Hawco and HKX and £0.5m was spent on upgrading the existing IT hardware and software infrastructure in a number of the Group's businesses.

The Company paid the PAYE income tax liability of £1.8m arising on the exercise of LTIP share awards, in exchange for reduced share awards to participants; the comparable payments last year of £4.7m related to the exercise of several awards which had vested in earlier years under the Company's LTIP.

The Group spent £16.5m of the free cash flow on acquisitions, as described below and £18.4m (2013: £17.6m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested cash of £16.5m (2013: £2.2m) in acquisitions during the year, including £1.5m on acquiring outstanding minority interests and £0.1m of deferred consideration.

Finance Review continued

The largest investment was £9.9m in acquiring 80% of Kentek, a business based in Finland, but with a large proportion of its sales being carried out across Russia in supplying filters and related products for a range of heavy mobile machinery. A further £5.0m, was invested in acquiring several small, but strategically important businesses which extend either the product or geography of the Group's existing businesses. These acquisitions added £9.0m to the Group's acquired intangible assets which at 30 September 2014 were £28.6m, after amortisation of £5.6m (2013: £5.6m). Goodwill increased by £6.0m to £80.2m at 30 September 2014, after making some small fair value adjustments to the assets acquired.

Goodwill is not amortised, but is assessed each year to determine whether there has been any impairment in the historic value of goodwill acquired. This year the assessment has been carried out at a Sector level rather than a business unit level as this more accurately reflects the level at which management monitor the value of goodwill. The exercise to assess whether goodwill has been impaired which is described in note 10 to the consolidated financial statements, concluded that there had been no impairment in the value of goodwill at 30 September 2014.

Net cash at year end

£21.3m

Shortly after the year end, the DHG business completed the acquisition of 80% of Technopath Distribution Limited for cash consideration of £9.6m and debt acquired of £1.5m. Put/call options have also been included which allows the Group to acquire the outstanding minority shares over a period of up to five years.

Liabilities to minority shareholders

At 30 September 2014, the Group's liability to purchase outstanding minority shareholdings had increased modestly to £3.5m (2013: £2.8m). During the year, the outstanding minority interests of 20% in DSL and of 49% in HPS (a small subsidiary of the RT Dygert seals business) were acquired for cash consideration of £1.5m. The acquisition of Kentek in January 2014 included put/call options over the outstanding 20% of share capital held by management in this business which were valued at £2.3m.

At 30 September 2014, the put options over the outstanding minority interests held in M Seals and Kentek were valued at £3.5m, based on the Directors' latest estimate of the Earnings before Interest and Tax ("EBIT") of these businesses when these options are expected to crystallise. The Directors expect to acquire 10% of the outstanding minority interest in Kentek within the next six months, with the remaining interest likely be exercised between the next two and five years.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2014 for deferred consideration of up to £0.5m (2013: £0.2m) primarily relating to acquisitions completed during the year and which, subject to achievement of performance conditions, will be paid before the end of the 2015 calendar year. During the year, deferred consideration of £0.1m was paid to the vendor of BGS, the Australian Healthcare business acquired in 2010 and there remains £0.1m which will be paid shortly.

Return on adjusted trading capital employed and capital management

A key metric that the Group uses to provide an indication of the overall profitability of the Group and its success in creating value for shareholders is the Return on Adjusted Trading Capital Employed ("ROATCE"). This is a pre-tax measure which is applied against the fixed assets and working capital of the Group, together with all the acquisition related charges and goodwill previously written off. At 30 September 2014, the Group ROATCE remained unchanged from last year at 25.8%. Adjusted trading capital employed is set out in note 3 to the consolidated financial statements.

At the Sector level, we have this year amended the basis of the ROATCE calculation to be consistent with that used to calculate Group ROATCE. In particular, all previously written off acquisition related charges and goodwill is now included in each Sector's trading capital employed for the purposes of calculating Sector ROATCE. The comparative ROATCEs for 2013 have been restated on a similar basis.

The Group continues to maintain a strong balance sheet with net cash funds increasing during the year by £2.0m to £21.3m at 30 September 2014. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 28 June 2014, the Group renewed its existing revolving multi-currency credit facility at £25m, with an option for the Group to extend this facility to £50m, subject to market pricing. This facility, which is generally utilised to meet any shortfall in cash to fund acquisitions, is committed until June 2017 and was renewed on more favourable terms than the previous facility.

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 2014 of £1.7m (2013: £1.5m).

The Group also maintains a small legacy defined benefit pension scheme in the UK which has been closed to new entrants and further accruals for many years. The latest triennial actuarial valuation was carried out as at 30 September 2013 and the funding deficit remained unchanged at £2.7m, with strong equity returns in 2013 offsetting the large reduction in bond yields since the last valuation was completed in 2010. The Group continues to make regular cash contributions to the scheme at an annual rate of £0.3m, as agreed with the actuary, with the objective of eliminating the funding deficit over eight years. The Group continues to look for opportunities to provide sufficient security to the Trustees in order to limit any requirement to increase the existing cash contribution to the scheme.

On an accounting basis, a further reduction of ca.0.5% in bond yields since last year was again offset by stronger equity returns and the accounting deficit improved to £4.3m at 30 September 2014 (2013: £4.7m). Scheme assets which are largely represented by equities, increased by £1.6m to £24.9m while pension liabilities increased by £1.2m to £29.2m.

Sector Review

LIFE SCIENCES

% of Group revenue

30%

Geography[1]

67% Canada
19% Europe
14% Rest of World

Customers

81% Clinical
12% Utilities
4% Chemical & Petrochemical
2% Life Sciences Research
1% Other Life Sciences

Products

69% Consumables
23% Instrumentation
8% Service

Employees

334

Principal businesses

Diploma Healthcare Group (DHG)
a1-group

SEALS

% of Group revenue

39%

Geography[1]

68% North America
24% Europe
8% Rest of World

Customers

40% Industrial OEMs
31% Heavy Construction
19% Other Industrial
5% Industrial Aftermarket
3% Dump & Refuse Trucks
2% Logging & Agriculture

Products

46% Seals & Seal Kits
14% O-rings
11% Filters
10% Attachment Kits
10% Cylinders & Other
9% Gaskets

Employees

604

Principal businesses

Hercules Fluid Power Group (HFPG)
FPE Seals
Kentek
M Seals

CONTROLS

% of Group revenue

31%

Geography[1]

58% UK
34% Continental Europe
8% Rest of World

Customers

27% Aerospace & Defence
27% Industrial
19% Food & Beverage
15% Motorsport
8% Energy & Utilities
4% Medical & Scientific

Products

41% Wire & Cable
15% Fasteners
15% Equipment & Components
12% Control Devices
12% Connectors
5% Other Controls

Employees

312

Principal businesses

IS Group
Specialty Fasteners
Filcon
Hawco

1 By destination.

Sector Review continued
Life Sciences

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. In October 2014, DHG extended its operations into Ireland and the UK with the acquisition of Technopath Distribution ("TPD").

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.

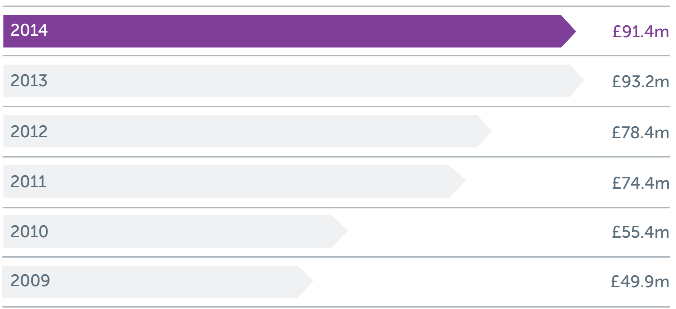
Principal operations

Healthcare	
DHG	
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
Technopath Distribution	Ballina, Co. Tipperary, Ireland

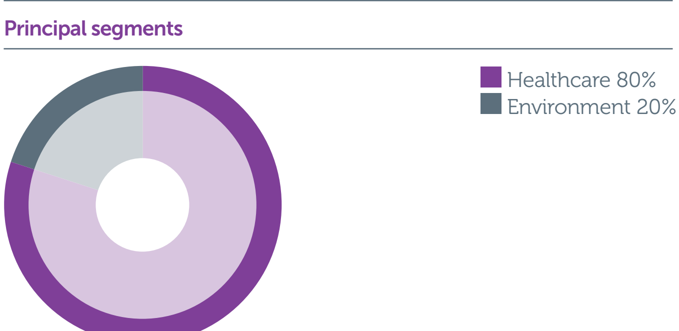
Environmental	
a1-group	
a1-CBISS	Tranmere, UK
a1-envirosciences	Dusseldorf, Germany

Revenue growth

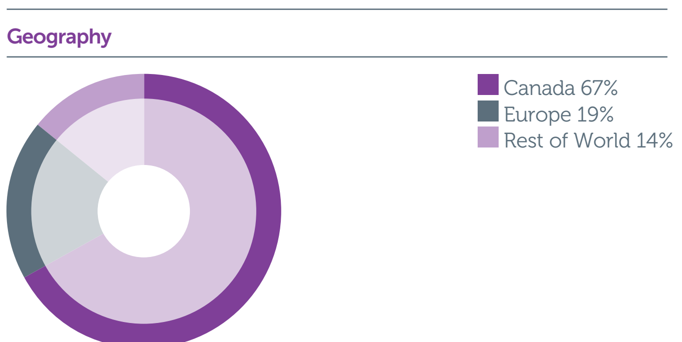
+13% p.a.
compound over five years



Principal segments



Geography



Market drivers

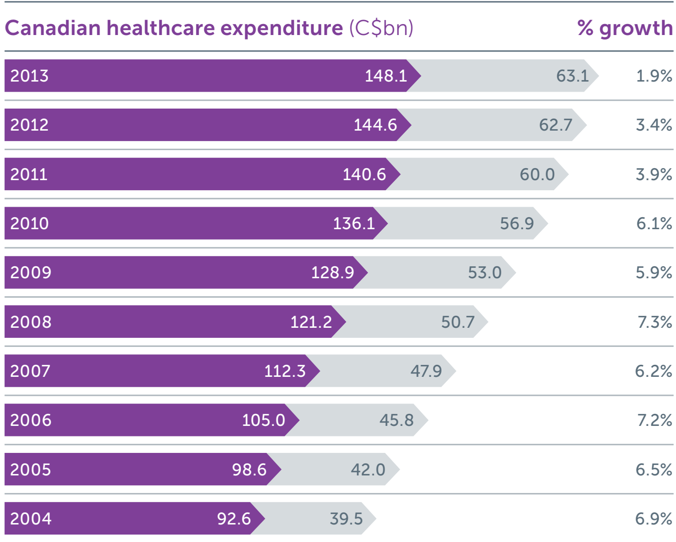
The DHG businesses in Canada supply into areas of **Healthcare** which are predominantly public sector funded. Private sector funding in Canada is mostly focused on areas where DHG does not participate, including dental, cosmetic and eye surgery and pharmaceuticals. The principal demand driver for DHG is therefore the level of healthcare spending funded 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. In periods when the economy is slower, as has been the case in 2013 and 2014, healthcare funding may be constrained. This can be experienced through targeted controls imposed on the number of laboratory tests and operating procedures as well as more rigorous tendering processes for expenditure on capital equipment. Even during such periods, however, healthcare funding has shown positive growth albeit at reduced levels.

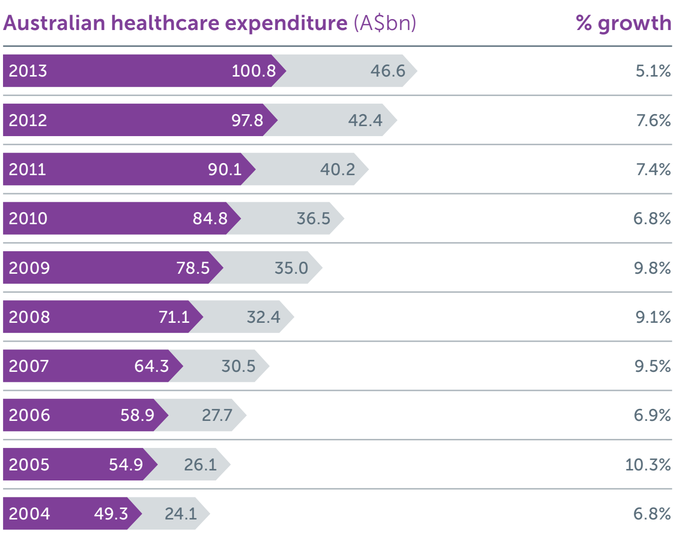
The Healthcare market in Australia shares with Canada many of the same attractive characteristics for specialised distribution. While privately funded healthcare is more prevalent in areas such as surgery and laboratory testing, public sector healthcare funding is still large and supported by a stable, 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 Australian Healthcare market has experienced similar economic pressures to those in Canada but again has shown some growth, driven by increased private sector spending offsetting decreased spending in real terms in the public sector.

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.



Public Private

Source: Canadian Institute for Health Information



Public Private

Source: Australian Institute of Health & Welfare

Total healthcare expenditure as a percentage of GDP

	2009	2010	2011	2012	2013
Canada	11.9%	11.9%	11.7%	11.6%	11.2%
Australia	9.1%	9.4%	9.3%	9.5%	9.7%

Sources: As above

Sector Review continued
Life Sciences

Sector performance

Life Sciences statistics

Revenue

£91.4m

	2014	2013
Revenue	£91.4m	£93.2m
Adjusted operating profit	£19.7m	£20.9m
Adjusted operating margin	21.6%	22.4%
Free cash flow	£14.9m	£14.1m
ROATCE	21.9%	22.3%

Reported revenues of the Life Sciences businesses decreased by 2% to £91.4m (2013: £93.2m) because of the translational currency impact from the significant weakening in the Canadian and Australian dollars relative to UK sterling. On a constant currency basis, underlying revenues increased by 9%. Similarly on a reported basis, adjusted operating profit decreased in UK sterling terms by 6% to £19.7m (2013: £20.9m), but increased by 8% on a constant currency basis.

Gross margins in the Healthcare businesses were significantly impacted by the strong depreciation of the Canadian and Australian dollars against the US dollar and the Euro, which are the currencies in which their products are mostly purchased; the impact was increasingly felt as the year progressed, with existing hedging contracts being replaced by less favourable contracts. These transactional currency effects were partly mitigated by an increased proportion of higher margin consumable product revenues this year and by price concessions negotiated with suppliers. However, Sector gross margins still reduced by 190bps in the first half and by 300bps in the second half, compared to the prior year comparable periods. The impact of these reduced gross margins was limited by tight management of operating costs and the benefits from prior year investments and adjusted operating margins decreased by only 80bps to 21.6% (2013: 22.4%).

Capital expenditure in the Sector was £1.2m (2013: £2.8m), which included £0.7m invested in field equipment for placement in hospitals and clinics by the Healthcare businesses and £0.3m invested in the new ERP systems in Somagen and Vantage as part of the Group's broader Investment for Growth programme. Somagen completed the installation of its new ERP system in February 2014 and the implementation at Vantage is well underway, with plans to go live in the first half of the new financial year. The implementation of the new ERP system in AMT will be completed in the second half of 2015. Free cash flow increased by 6% to £14.9m (2013: £14.1m), reflecting lower capital expenditure and tax payments, offset in part by higher investment in working capital.

Healthcare

Revenues from the DHG group of Healthcare businesses, which account for 80% of Sector revenues, increased by 8% after adjusting for translational currency effects and for the initial contribution from a small business acquired in Australia.

The Canadian Healthcare businesses increased revenues by 6% in local currency, with very strong consumable revenues more than offsetting weaker capital and service revenues. Somagen was the strongest performer with increased consumable revenues across its key suppliers and boosted by the supply of testing kits used in the roll-out of colorectal cancer screening programmes across three Provinces. Capital equipment sales have been at a somewhat reduced level this year, but good progress has been made in establishing Somagen in the HbA1c diabetes testing market with best in class technology and as a key player in the Autoimmunity market. Somagen has also been successful in adding new suppliers and products in specialised market segments including quality control products used in calibrating and monitoring clinical diagnostic instrumentation, automated testing of urine and sterile fluids and specialised immunoassay technology to assess the progression of diseases by tracking specific proteins and antibodies. These efforts have contributed to Somagen entering the new financial year with a good backlog of capital equipment orders and good prospects for sales of new instrumentation.

AMT's core electrosurgery business, led by the new Penevac 1 product (combined electrode and smoke evacuation device), continued to deliver strong double-digit growth in volume terms, though growth in value terms has been constrained by keener pricing in certain central buying group tenders. Though these tenders can put pressure on the pricing of core products such as the Penevac and the Megapad grounding pad, success generally results in higher unit volumes for these core products, as well as the opportunity to achieve preferred status for a broader range of products. AMT also made further progress in its minimally invasive ("MI") Surgery division, consolidating its position in the supply of specialised surgical instruments and devices used in laparoscopic and other MI Surgery procedures. Good advances have been made with core product lines, 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.

Vantage continued to generate strong growth in revenues from consumable products and service which this year accounted for ca.80% of Vantage revenues (2013: ca.65%). In particular there were strong performances from the sale of argon plasma probes, from the specialty chemicals used in endoscope reprocessors and from tubing sets for endoscopes as well as from other endoscopic accessories including specialist retrieval devices. Capital equipment revenues were significantly reduced compared with the prior year, when Vantage had an exceptionally strong year for sales of endoscope reprocessors and argon plasma coagulation units. Vantage's supplier of endoscopes has this year launched its new 600 series endoscope range, offering significant benefits in terms of image quality and handling ability. Vantage has been trialling the new endoscopes with target customers in the second half of the year and the response has been positive which should give momentum to capital sales in the new financial year.

In Australia and New Zealand, revenues from DSL and BGS increased by 19% in local currency. BGS generated strong growth by penetrating the existing market for smoke evacuation products, as well as creating new demand for these products. BGS also continued to deliver steady growth in electrosurgical grounding pads and laparoscopic electrodes. DSL has continued to generate good growth in its consumable products and service business, but had a softer year for capital sales. Encouraging progress was made, however, in developing opportunities in HbA1c diabetes testing, haemoglobin testing and autoimmunity. Following the integration last year of operations and back office functions in Melbourne, DSL and BGS are successfully operating as distinct sales and marketing businesses, benefiting from a single leadership group and shared operations and back office systems in Melbourne – giving the efficiencies and critical mass of a shared services group.

During the year, DHG acquired the remaining 20% minority shareholdings in DSL and in July 2014, DHG acquired the assets and goodwill of Chemzyme Australia, a small distributor of enzymatic cleaning products supplied to the sterilising departments in hospitals across Australia and New Zealand. Chemzyme has been integrated successfully into DHG's operations in Melbourne. The principal supplier to Chemzyme has signed a new ten year exclusive distribution agreement with DHG in Australia as well as extending its agreement with Vantage in Canada.

Shortly after the year end, in early October 2014, DHG acquired 80% of TPD, an established supplier to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK. The principal owner managers of the business will remain as Directors of TPD and retain a 20% minority shareholding with put and call options to allow the Group to acquire the shares over a period of up to five years. TPD employs ca.40 staff at its principal location in Ballina, County Tipperary and shares certain key suppliers with the DHG business in Canada. The acquisition of TPD represents an important first step in extending the scope of the Group's Healthcare businesses into the markets of Ireland and the UK, as well as adding important new products and suppliers.

Environmental

Revenues from the Environmental businesses, which account for 20% of Sector revenues increased by 14% in constant currency terms. The a1-envirosciences business based in Germany increased revenues by 8%, generating good sales of analytical instruments in both the UK and Germany, while increasing the penetration of its laboratory enclosure systems across Europe. The business has also enjoyed an increase in service revenues following an investment in engineering staff last year. During the year, the business's largest supplier of analytical instruments extended its exclusive distribution arrangements with a1-envirosciences to include France.

The a1-CBISS business based in the UK experienced another strong year of trading, with revenues growing by 20%. There was further strong growth in sales of CEMS (continuous emissions monitoring systems) equipment for both alternative energy and conventional electricity generating stations, though more demanding tender requirements had an impact on gross margins. 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 revenues across core Canadian businesses
- Capital and service revenues softer against strong comparatives – but good groundwork completed with new products and suppliers
- Major ERP project well advanced – Somagen went live in February 2014; Vantage in process and targeted for H1 2015; AMT to follow in H2 2015
- Strong growth in Australia, now under single leadership and with consolidated operations giving critical mass and efficiencies
- Acquisition of TPD after year end extends DHG into Ireland and the UK and adds important new products and suppliers

Environmental

- Strong growth in core business revenues with stable operating margins
- Substantial demand for CEMS equipment as the UK seeks to increase electricity generating capacity
- Extension of analyser business into France

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 Healthcare market and then other geographies
- Continue to develop product and geographic spread of Environmental business

Sector Review continued
Seals

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

Aftermarket
The Aftermarket businesses supply sealing and associated 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, gaskets, 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

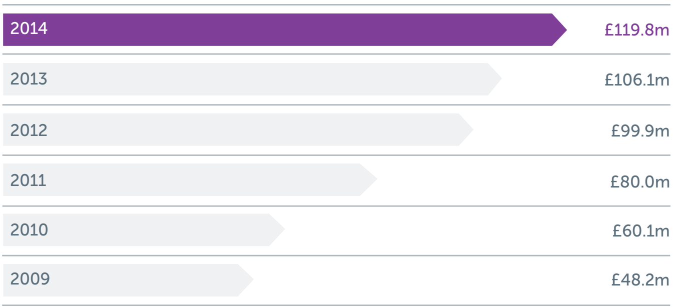
HFPG	
Hercules Bulldog	Clearwater, FL & Reno, NV, US
Hercules Canada	Barrie, ON & Dorval, QC, Canada
HKX	Monroe, WA, US
FPE Seals	Darlington, Doncaster & Gravesend, UK & Breda, The Netherlands
Kentek	Helsinki, Finland
	St. Petersburg & Moscow, Russia
	Tallin, Riga & Vilnius, Baltic States

Industrial OEM

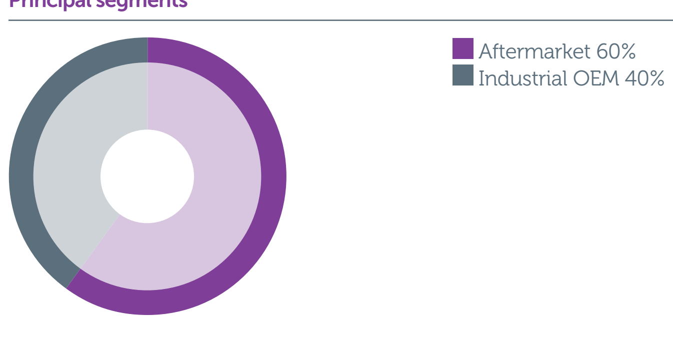
HFPG	
All Seals	Lake Forest, CA, US
J Royal	Clemmons, NC & Barrington, RI, US & Shanghai, China
RT Dygert	Minneapolis, MN & Chicago, IL & Seattle, WA, US
M Seals	Espergaerde, Denmark & Halmstad, Sweden & Tianjin, China
	Gateshead, UK

Revenue growth

+20% p.a.
compound over five years

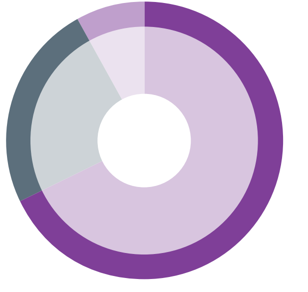


Principal segments



Aftermarket 60%
Industrial OEM 40%

Geography



North America 68%
Europe 24%
Rest of World 8%

Market drivers

The principal market drivers for both the Aftermarket and Industrial OEM Seals businesses is the growth in the general industrial economies, in particular North America where ca.70% of Sector revenues are generated. In 2014, the USA economy is forecast to show annual GDP growth of 2.8% (2013: 2.8%) as the economy contracted during the severe winter weather but then returned to steady growth. In Canada, 2014 GDP growth is forecast to improve to 2.7% (2013: 1.9%). In general , the economic conditions in the principal South and Central American economies served by the Aftermarket businesses have been challenging.

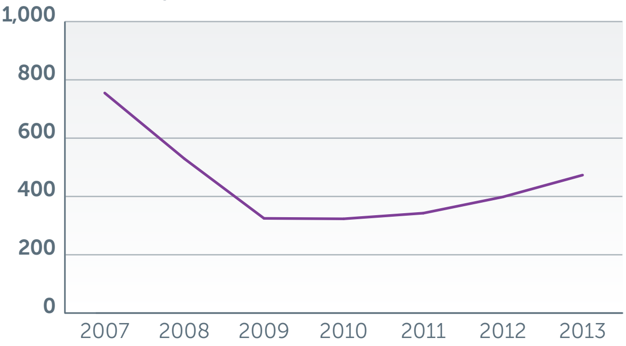
In Europe, where ca.25% of Sector revenues are generated, the industrial economies have been variable in 2013 and 2014. The UK economy showed growth in the early part of 2014, whilst the Continental European markets have remained broadly flat.

For the Aftermarket businesses, activity and spending levels in the US Heavy Construction sector are important, since this market accounts for over 50% of Aftermarket Seals revenues. Statistics on total US Construction Spend include non-residential and infrastructure spend, as well as residential housing activity. Following the significant drop in spending ahead of the 2008 financial crisis the index started to recover in 2010 and the rate of steady annual growth has continued into 2013 and 2014.

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 kit 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 2012 as tighter emissions legislation accelerated machine replacement and hire companies re-equipped their fleets. The rate of growth slowed significantly in 2013 across all heavy mobile equipment types but recovered in 2014.

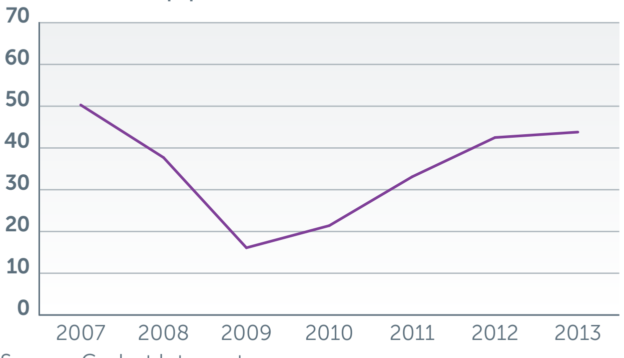
For the Industrial OEM seal businesses, the most appropriate indicator is the US Industrial Production Index, which has continued at a near constant, modest growth rate since the 2008/2009 recession. The index moved above pre-recession levels in the second half of 2013 and has continued to rise in the first half of 2014.

US construction spend ($bn)



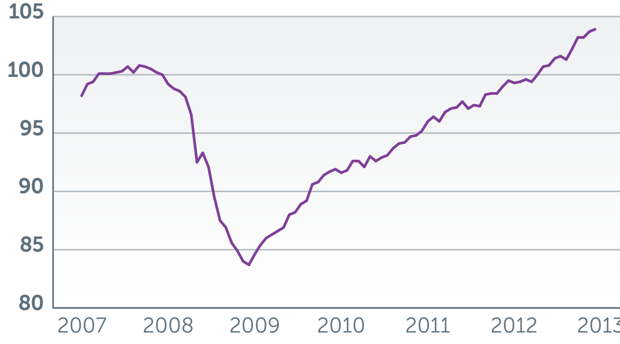
Source: Cyclast Intercast

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

£119.8m

	2014	2013
Revenue	**£119.8m**	£106.1m
Adjusted operating profit	**£21.7m**	£19.5m
Adjusted operating margin	**18.1%**	18.4%
Free cash flow	**£16.4m**	£15.9m
ROATCE	**26.0%**	27.1%

The Seals businesses increased revenues by 13% to £119.8m (2013: £106.1m) which included part year contributions from Kentek, acquired in January 2014 and two smaller bolt-on acquisitions in the UK. After adjusting for the additional contribution from these acquisitions and for the impact from currency translation, underlying revenues increased by 7%. The acquisition of Kentek and the continued development of the FPE Seals and M Seals businesses, through organic growth and bolt-on acquisitions, have increased the European region's share of total Seals revenues from ca.15% in 2013 to ca.25% in 2014.

Adjusted operating profits increased by 11% to £21.7m (2013: £19.5m), but with Kentek joining the Group with lower initial operating margins, adjusted operating margins reduced by 30bps to 18.1% (2013: 18.4%). Across the Seals businesses, gross margins continued to be resilient, underpinned by essential product availability and added value technical service. Operating margins in the HFPG and FPE Seals businesses improved as they benefited from prior year investment in people, facilities and equipment.

Free cash flow increased by £0.5m to £16.4m (2013: £15.9m), as increased working capital, particularly in the US businesses, reduced the contribution from higher operating profits. Capital expenditure decreased to £0.5m (2013: £0.9m) following the completion last year of the Investment for Growth programme. In HKX, £0.3m was invested in new automated tube-bending equipment and on expanding the facility to manage higher growth in this business. Further investment was also made in the Clearwater facility in vertical storage carousels to deliver increased efficiencies in inventory handling.

Aftermarket

The Aftermarket businesses, which now account for ca.60% of Sector revenues, reported a 21% increase in overall revenues. After adjusting for currency translation and the acquisitions of Kentek and AB Seals, underlying revenues increased by 5%.

In the US, Hercules Bulldog grew domestic sales by a robust 6%, despite the disruption caused to general infrastructure projects and heavy construction activities by the severe winter conditions across much of the US which extended through to the end of May. Sales to smaller sub-distributors and OEM cylinder manufacturers increased strongly compared to the prior year and the US business continued to develop its electronic trading capabilities. The level of sales processed online increased by 26% and now accounts for ca.20% of Hercules Bulldog revenues in the US. The seal machining centres in Hercules Bulldog also continued to deliver good growth, with strong demand from repair shop customers looking to source hard-to-find and outsized seals within 24 hours. Capacity will be further expanded with a fourth machine which is on order for delivery in 2015. Revenues from exports outside the US, which account for 25% of Hercules Bulldog sales, decreased by 5% with reduced demand in Mexico, Central America and Saudi Arabia impacting performance, particularly in the first half of the year.

The Hercules Canada businesses in Ontario and Quebec delivered growth at a similar level to the US, supported by strong sales to OEM cylinder manufacturers. The first half of the year was more challenging as the Canadian economy adjusted to the downturn in demand for natural resources, but the businesses continued to be successful in winning key orders as confidence returned in the second half. The operation in Barrie, Ontario successfully completed its move to a new, custom built facility in October 2013, providing Hercules Canada with a first class platform for future growth.

HKX had an excellent year and resumed its upward momentum after a pause in 2013 following several periods of exceptional growth. Revenues increased by 14% with strong demand from the core excavator dealers and from specialist installers linked to the equipment OEMs. During 2014, the new emissions regulations for heavy mobile equipment continued to be implemented, with the machines fitted with Tier 4 Interim technology beginning to be phased out and replaced by Tier 4 Final technology equipment. With OEM engineering resources focused on this technology transition, more excavators were delivered to dealers without attachments which provided increased demand for HKX's attachment kits. In 2014, HKX also successfully introduced new products and a quality enhancement programme. It also invested in improved automated tube-bending equipment and re-engineered process flows in its expanded facility in the US.

In the European region, plans to create a more substantial, unified European Seals Aftermarket group continued to take shape in 2014. These Aftermarket activities are now centred on FPE Seals with its operations in the UK and the Netherlands. FPE Seals delivered strong organic revenue growth of 11% in the year against the background of a positive economic environment in the UK, although Continental Europe remains challenging. There was continued success in expanding sales of hydraulic cylinder metal parts and the seal machining centre installed at the Doncaster operation in late 2013, also contributed to the positive overall result. FPE Seals acquired AB Seals in February 2014, a small addition to its UK operations which is based in Gravesend, Kent and strengthens the FPE Seals coverage of the important South East region of the UK.

Outside the core, directly-served markets in the Americas and Europe, the principal products sold by the Aftermarket businesses are the Bulldog branded seal and gasket kits. With effect from October 2014, FPE Seals will take over responsibility, from Hercules Bulldog, for the sales of these Bulldog products to the Middle East and Africa creating a unified EMEA Aftermarket sales region. Hercules Bulldog will retain responsibility for Bulldog sales in the Americas.

In January 2014, the Group completed the acquisition of 80% of Kentek, 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 the acquisition extends the reach of the Seals activities into these new markets. Kentek has solid, long term relationships with its key suppliers and customers in each of its territories and has performed well and in line with expectations since acquisition. The business has managed the inevitable pressures exerted on the Russian economy and the international supply chain by sanctions imposed following the conflicts in Ukraine and Crimea.

Industrial OEM

The Industrial OEM businesses, which account for ca.40% of Sector revenues, reported a 3% increase in revenues. After adjusting for currency and the small acquisition of Ramsay Services, underlying revenue growth was 8%.

In North America, the Industrial OEM businesses (RT Dygert, J Royal and All Seals) all performed well in a generally positive industrial economy. As in the prior year, the Industrial OEM businesses continued with initiatives to move up the value chain, by procuring higher level technical approvals to meet the more stringent demands of customers. The businesses have continued to gain expertise in the approval processes and in qualifying new products for new and existing OEM customers.

RT Dygert delivered another year of solid growth, increasing revenues by 5% and benefiting from its investment in the development of regulatory-compliant elastomer compounds to penetrate the Pharmaceutical, Water and Petrochemical industries. Solid gains were also made in the supply of parts to catalogue houses and these gains more than offset a small reduction in demand from the traditional mid-West cylinder producers. In July 2014, RT Dygert acquired the outstanding 49% shareholding in the HPS business in Seattle, taking its ownership to 100%. HPS delivered strong growth in 2014 benefiting from demand for its heavy duty and harsh environment seals for specialist construction equipment.

All Seals delivered a strong performance in 2014, increasing revenues by 11%, as the investment in people and equipment in prior periods came through in the results. All Seals reported good gains in the Water, Oil & Gas and Medical sectors with the introduction of new, higher specification products and the addition of new customers. The Seals Sector's first water-jet gasket cutting machine became fully operational during the year, supporting the growing demand for rapid turnaround custom gaskets and contributing to the overall positive revenue growth. In November 2014, All Seals will open a branch operation in Houston, Texas to serve the large Texas Oil & Gas sector.

J Royal delivered 16% revenue growth in 2014, benefiting from the significant investments made last year in management and sales resources. Development lead times can be lengthy for new product introductions as OEM customers, prior to ordering production-level quantities, require the completion of stringent quality control processes. In 2014, J Royal saw the results of its efforts in the successful introduction of many new products to existing OEM customers. J Royal also benefited from exceptionally strong demand from the Water sector and filter manufacturers and was also successful in penetrating new, smaller customer accounts across the Eastern US, as its expanded sales team began to win new business.

In Europe, M Seals had a mixed year in its different markets, but increased overall revenues by 8%, helped by the contribution from the acquisition of Ramsay Services. Revenues in the long-established Danish territory were flat as the Danish markets hovered between contraction and growth in the year. The Swedish operation continued to deliver double-digit growth and the business is now expanding out of its Southern base with the addition of a dedicated sales person for the important industrial region around Stockholm. Sales of large bearing seals to Chinese wind power customers were subdued for a second year as the Chinese wind power industry struggled to regain its earlier momentum. In December 2013, our European Industrial OEM activities were expanded through the acquisition of Ramsay Services, located in Gateshead in the UK. Ramsay is a small, specialist distributor of O-rings and holds the AS9120 accreditation for the Aerospace sector, as well as having valuable expertise in the UK Oil & Gas sector. M Seals has taken full responsibility for the Ramsay operation and the business has performed well since acquisition.

Highlights from the Year

Aftermarket

- **Good growth in North America, resilient performance despite disruption from severe winter weather. Double-digit growth in attachment kit sales at HKX**
- **European Aftermarket Seals group taking shape, centred on FPE Seals – AB Seals acquired and Bulldog branded products transferred to European operation**
- **Kentek acquired and performing well and in line with expectations; it brings a new product portfolio and important territorial expansion**

Industrial OEM

- **Benefits of investments in earlier periods translated into improved results. Excellent growth delivered at All Seals and J Royal**
- **RT Dygert acquisition of remaining shares in HPS, opportunity for further product cross-selling and territorial coverage**
- **Acquisition of Ramsay Services by M Seals, provides a good platform for expansion into UK Industrial OEM market**
- **All Seals opening a new branch operation in Houston, Texas**

Potential for Growth

- **Continue to gain share in the North American Aftermarket through superior marketing and product development**
- **Increase the global footprint for Aftermarket – particularly in Europe and Asia Pacific**
- **Build and expand group of Industrial OEM businesses in North America and internationally**

Sector Review continued
Controls

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

Interconnect
The IS-Group, Specialty Fasteners and Filcon 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 screening, earthing and lightning protection, power shunt connectors, multi-core cables and special fasteners.

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.

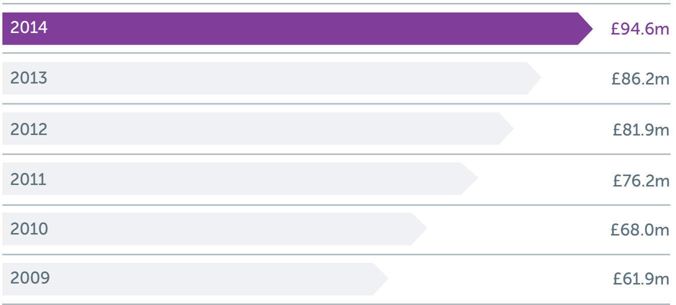
Principal operations

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

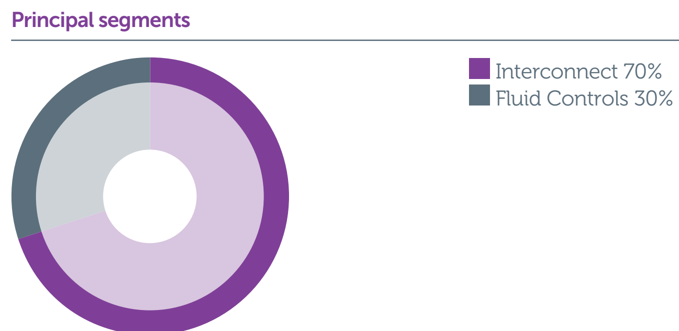
Fluid Controls	
Hawco Group	
Hawco	Guildford & Bolton, UK
Abbeychart	Faringdon, UK

Revenue growth

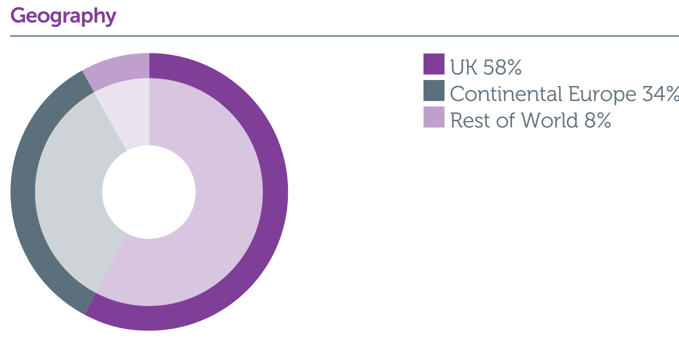
+9% p.a.
compound over five years



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, partial recovery in 2010 and then a continued steady decline in 2011 and 2012. Towards the end of 2012, the index returned to growth and has increased steadily through to 2014. This reflects increased confidence in the UK economy in general, although activity remains below pre-recession levels.

Similarly, the German Production Sector Output Index again tracks the severe decline in 2008 and 2009, but shows a sharper recovery until 2011. The index has since stabilised around pre-recession levels.

Specific industry drivers – Interconnect

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

The Civil Aerospace market continued to grow steadily with growth in World Passenger Traffic averaging 5–6% p.a. New aircraft continue to come into service with the trend towards replacing ageing fleets with more fuel efficient wider bodied aircraft. The Civil Aircraft markets are also seeing increased activity in the interiors market where the wide range of complex seating and entertainment systems is driving growth.

The Defence markets in the UK and Germany remain subdued following the reduction in government spending on defence following the reduction in activity in conflict areas. The recent engagement in conflicts in 2014 may however prompt a review of defence spending levels in the UK and Germany.

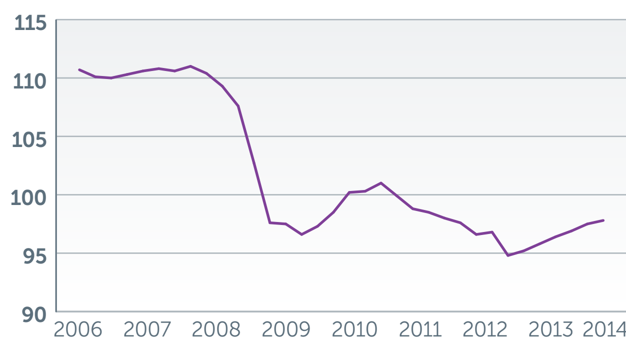
In the UK, the Motorsport market has benefited from change of the Formula 1 engine to the new 1.6 V6 turbo engine and the new ERS (Energy Recovery System) technology. Activity in preparation for the new Formula E series has also gained momentum.

Specific industry drivers – Fluid Controls

The Fluid Controls business generate almost 70% of their revenues from the Food and Beverage sector in the UK. In Food Retailing, there are significant structural changes which are impacting segment growth rates including the trend away from major out-of-town stores to convenience stores and the increase in home shopping and delivery. These trends, along with the increasing need for “at source” cooling in smaller Brewery industry outlets, are driving demand for smaller, more energy efficient components as supplied by Hawco.

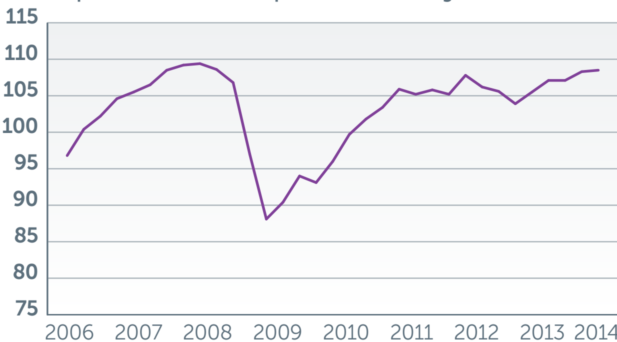
The coffee market sector continues to grow and the UK retail coffee market has reached over £1 billion p.a. Abbeychart supplies both the coffee machine manufacturers and the aftermarket sector, predominately in the UK but also in Europe. The traditional hot and cold drinks vending and pure water operator/contractor sectors are facing a period of consolidation due to limited growth and excess capacity.

UK index of production



Source: UK Office of National Statistics
Calendar and seasonally adjusted, reference year 2010=100

German production sector output index (including construction)



Source: Deutsche Bundesbank
Calendar and 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

£94.6m

	2014	2013
Revenue	£94.6m	£86.2m
Adjusted operating profit	£15.3m	£13.9m
Adjusted operating margin	16.2%	16.1%
Free cash flow	£11.4m	£10.8m
ROATCE	33.2%	32.0%

The Controls businesses increased revenues by 10% to £94.6m (2013: £86.2m), including part year contributions from Specialty Fasteners and Components ("SFC"), acquired in June 2014 and Sacee, a small connector distributor acquired in October 2013. After adjusting for the contribution from these acquisitions and for the impact of currency translation, underlying revenues increased by 8%.

Adjusted operating profits increased by 10% to £15.3m (2013: £13.9m) and adjusted operating margins held steady at 16.2% (2013: 16.1%). Overall gross margins in the Controls businesses remained resilient with their focus on specialised markets and added value opportunities. The benefits from investment programmes completed last year also enabled the businesses to gain some operational leverage which offset the impact from the lower initial operating margin of SFC.

Free cash flow increased by £0.6m to £11.4m (2013: £10.8m), with working capital increasing to take advantage of opportunities within existing markets; this investment more than offset the contribution from increased operating profits. Capital expenditure reduced by £0.4m to £0.5m (2013: £0.9m) following completion last year of the new IS-Rayfast facility and Hawco's investment in a new ERP system, as part of the Group's broader Investment for Growth programme. The IS-Group invested £0.2m in upgrading its IT infrastructure by replacing older servers and adding further functionality to its existing manufacturing systems at IS-Cabletec. Hawco invested £0.2m in the relocation of its sales and administrative offices and extending the new ERP system into the Abbeychart business.

Interconnect

The Interconnect businesses, which account for ca.70% of Sector revenues, increased revenues by 10% in UK sterling terms. After adjusting for acquisitions and currency translation effects, underlying revenues increased by 8%, reflecting good demand across the market sectors and particularly strong performances from the Civil Aerospace, Energy and Motorsport markets.

Aerospace and Defence accounts for ca.40% of Interconnect revenues and in 2014, revenues increased by 5%, with Civil Aerospace maintaining strong positive momentum while the Military segments appeared to be stabilising. In Civil Aerospace, the supply of fasteners to the premium aircraft seating industry continued to grow, with Clarendon extending production line-side support to key customers and exploiting further opportunities to export to sub-contract manufacturers. There was also steady demand for the full range of electrical harnessing and protection products. In Military Aerospace, by contrast, the reduced annual production rate of Eurofighter aircraft continued to have an impact on sales of specialist connectors and bonding leads.

The broader Defence markets in the UK remained subdued but the businesses were still able to deliver modest growth over the prior year. While no new major defence projects were initiated, there were signs that activity levels were higher at several specialist military harness contractors. IS-Rayfast also leveraged its excellent stocking profile to provide a rapid turnaround to support projects including the Astute 6 submarine build and modest upgrades to Hawk and Jaguar aircraft. There was continuing demand for IS-Cabletec's cable protection products and an additional braiding machine was added during the year to meet increased production requirements. In Germany, Filcon's traditionally strong sales of specialist connectors to the larger legacy military radio and engine projects were softer in 2014. As with the UK, however, IS-Sommer saw improved, general demand from German military harness sub-contractors.

Sales to specialised Industrial markets (ca.25% of Interconnect revenues) were positive with revenues growing by 11%. In the UK, there was good, across-the-board demand for specialist tubing and for added value services such as re-spooling wire onto compact spools for repair and refurbishment customers. In Germany, there was also a strong performance in the Industrial markets, despite the uncertain manufacturing environment in the Eurozone countries. IS-Sommer continued to win business through an invigorated field sales team, again supported by superior stocking and value added services. Sales in the US benefited from the generally positive manufacturing environment.

Motorsport accounts for ca.20% of Interconnect revenues and this sector delivered revenue growth of 21% in 2014. There were gains in the UK, Germany and the US and across both the harnessing and fastener product groups. It was a record year for Motorsport revenues, primarily driven by the changes introduced to the Formula 1 racing series. For the 2014 season, the new 1.6 litre V6 turbo engine was introduced as well as upgraded Energy Recovery Systems. These changes required substantial development engineering and design work and our businesses closely supported the teams and engine manufacturers to ensure the new technologies were successfully introduced. Beyond Formula 1, the Formula E series prepared for the inaugural race and there was continued success in the US in servicing the Nascar and United Sports Cars series. In Germany, Filcon continued to grow its sales to VW and Porsche for the supply of connectors for the VW World Engine and for the Le Mans and GT car series.

In the Energy market (ca.10% of Interconnect revenues), IS-Sommer supplies components used in repair and refurbishment of low and medium voltage electricity distribution in Germany. In 2014, revenues increased by 13% driven by a higher level of refurbishment work by its customers and benefiting from development work carried out in the prior year. Following its acquisition of Rayquick in late 2012, IS-Sommer secured its appointment as one of only two German master distributors for its key energy products supplier. In the UK, the businesses are focused on a small number of key customers involved in portable electricity generators, subsea power transmission cables and the manufacture of batteries. As the market is concentrated in a small number of key customers, demand can vary significantly and 2014 was a particularly positive year.

In October 2013, Filcon acquired the assets and goodwill of the Sacee business which supplies specialist connectors to the Satellite sector in France; its operations were successfully integrated into Filcon in Munich. In June 2014, the fastener business was strengthened by the acquisition of SFC, a UK based distributor of fasteners and ancillary products to the Aerospace, Industrial and Motorsport sectors. SFC has a strong fit

with Clarendon and brings a long-standing reputation for technical competence, design skills and added-value assembly expertise to our rapidly expanding fastener activities. These acquisitions have strengthened the Group's position in attractive segments of the Interconnect market and the performance of both businesses since acquisition has been good and in line with expectations. .

Fluid Controls

The Fluid Controls businesses, which account for ca.30% of Sector revenues, increased revenues by 9%. The Hawco business made significant gains in the core Food & Beverage sector, following a subdued prior year which had included delayed investments by customers and a hang-over of surplus catering equipment from the 2012 London Olympics.

In Food Retailing, Hawco has had to respond to significant structural changes in the industry and now is seeing the benefits of its repositioning and developmental activities. The trend away from major out-of-town food retail stores and towards convenience stores initially dampened demand for Hawco's equipment, but Hawco is now having good success in both the UK and Europe with its range of scroll compressors which offer a smaller footprint and greater efficiency. Hawco is also seeing growing demand for refrigeration units used in transport applications reflecting the increased use of home shopping and delivery. Sales into the Brewery sector have also been buoyed by the introduction of scroll compressors and other improved products designed to provide at source cooling for smaller outlets such as cafes and bars. This reduces the need for cellar cooling space, is more energy efficient and avoids product waste as the beer is only cooled when needed.

The Abbeychart business faced a mixed environment in its key markets with Coffee and Catering continuing to perform well but with demand from the Vending machine and pure Water applications weakening. In the Coffee and Catering markets, Abbeychart supplies to the equipment OEMs and in the traditional hot and cold drinks Vending market, the primary customers are the equipment operators that supply ingredients and maintain the machines. There have been attempts to drive consolidation in the fragmented Vending operators' market and it may take some time before the results of this activity are clear. The Hawco Group will continue to realign the Abbeychart business model and resources to match changes in end-user tastes and to focus on growth markets where technical expertise can add value.

Highlights from the Year

Interconnect

- Strong performance in Civil Aerospace with further penetration into premium aircraft seating
- The acquisition of SFC, strengthened position in the fasteners business and added design skills and added-value assembly expertise
- Record year for Motorsport, with success across all racing formats in the UK, Germany and the US
- Outstanding sales growth in German Energy sector; deserved return for development activities in earlier periods
- Sacee acquisition extended Filcon's business into the Satellite sector in France

Fluid Controls

- Encouraging gains in the UK Food and Beverage sector; platform for technology transfer to other geographies
- Relocation of Hawco sales and administrative offices and consolidation of warehouse facilities
- Extension of Hawco's new ERP system into Abbeychart, leading to further efficiencies

Potential for Growth

- In Interconnect, further penetrate specialised market sectors in Europe
- Broaden the range of high performance products and added value services
- In Fluid Controls, reposition the businesses to take advantage of structural market changes
- Expand geographical reach outside Northern 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, 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.

Significant global events are closely monitored to determine any potential impact on key markets.

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 10% of Group revenue and only five single suppliers represent more than 2% each of Group revenue.

Relationships with suppliers have normally been built up over many years and a strong degree of interdependence has been established. The average length of the principal supplier relationships in each of the Sectors is over ten years.

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

Mitigation

Actions to mitigate the risks include:

- Long term, multi-year exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition.
- Collaborative projects undertaken 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 comprehensive 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.

The Group's businesses continue to invest in new testing equipment; employees have also undergone product liability training during the year and are regularly reviewed to demonstrate compliance with Group policies and procedures relating to product liability.

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 38, the average length of service for all personnel in the Group is over six 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 in the event of 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 businesses.

Foreign currency – 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 2014, 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 decrease revenue by £17.7m and decrease adjusted operating profit by £4.1m. It is estimated that a further 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 £4.3m (8%), due to currency translation.

Currency exposures also arise on the net assets of the Group's foreign operations. At 30 September 2014, the Group's non-UK sterling net assets in overseas businesses was £144.9m (2013: £132.9m), which represented 77% of the Group's net assets. It is estimated that a further strengthening of UK sterling of 10% against all the non-UK sterling net assets would reduce shareholders' funds by £13.2m.

Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates, used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 28 to the consolidated financial statements.

Mitigation

The Group does not hedge translational exposure.

Foreign currency – Transactional exposure

The Group's UK businesses are 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 18 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 businesses 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.£1m each year, 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 high. In addition the number of working days lost to sickness is ca. 1% a year. These measures remain consistent across each of the Group's Sectors.

Key employee statistics

	2014	2013	2012
Average number of employees in year	**1,264**	1,145	1,062
Females as percentage of total	**35%**	35%	33%
Length of service (years)	**6.3**	6.2	6.0
Average staff turnover	**21.5%**	20.4%	16.7%
Sick days lost per person	**3.0**	2.2	2.3

The increase in sick days lost per person is heavily influenced by a small number of employees who are on long term sick leave.

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

	2014		2013	
	Male	Female	Male	Female
Directors	**6**	**1**	6	1
Senior Managers	**67**	**17**	55	17
Employees	**788**	**445**	695	385
	861	**463**	756	403

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 2014 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 & 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") or similar level courses. Employees are actively encouraged to undertake Continuing Professional Development ("CPD").

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

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 Health & Safety reviews against its specific operational risk profile and local regulatory requirements.

	2014	2013	2012
Minor injuries	**55**	54	21
Reportable lost time incidents[1]	**5**	1	2

1 Three or more days' absence from workplace.

The level of minor injuries has remained constant, despite the increased number of employees and new businesses acquired during the year.

While the number of reportable lost time incidents has increased, only one of the injuries resulted in greater than five days' lost time. The most common types of injury relate to minor cuts, slips/trips or 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 has continued to increase 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 deliver their products to customers and to provide much of their packaging requirements. 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.

Each facility participates in recycling paper, plastic, cardboard, and wood from pallets and continues to focus on minimising energy consumption through the efficient use of heating and lighting. In addition a number of the businesses now use fully recycled and biodegradable filler materials for packaging.

Greenhouse gas emissions

Last 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 & 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 Group have considered the six main Greenhouse Gases ("GHG's") and report emissions in tonnes of CO_2 equivalent (CO_2e) for Scope 1 (direct) and Scope 2 (indirect) emissions. These emissions are calculated following the GHG Protocol and UK Government Environmental Reporting Guidelines. The Group has used DEFRA UK GHG Conversion Factors, US Environmental Protection Agency Emission Factors and International Energy Agency Factors.

As a distributor with no owned logistics or freight, the Group's primary direct energy usage and related CO_2 emissions arise from the Group's facilities. Where possible the Group has reported billed data which represents ca.80% of the Group's global emissions. For the remaining entities the Group has used an estimation using sales data and local conversion factors.

An intensity ratio of CO_2e per £1m turnover has been selected, which will allow a comparison of our performance over time and with other similar types of business.

		Tonnes of Co_2E	
	Source of emissions	2014	2013
Direct emissions (Scope 1)	Natural gas	**822.0**	779.4
	Owned transport	**63.2**	60.1
Indirect emissions (Scope 2)	Electricity	**2,015.1**	1,973.6
Gross emissions		**2,900.3**	2,813.1
Tonnes CO_2e per £1m revenue		**9.5**	9.9

Business ethics

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

Community

The Group believes that good community relations are important to the long term development and sustainability of the operating businesses.

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 highlights from the year include:

In North America

- Various charitable donations made locally at each business by employees for local charities such as United Way, Clothes to Kids, Haven House (abused women), food banks, schools and cancer awareness.
- Hercules Canada sponsorship of charity golf tournaments.
- Educational support via scholarships and schools engagement through the National Fluid Power Association.

In Europe

- IS Group and Clarendon supported Red Bull Racing in their chosen charity Wings for Life, raising over £9,000 for spinal cord injury research. Support included a "Tough Mudder" event, a charity ball, car washes and many other events.
- SFC supported the Race2Recovery charity by supplying products used on two vehicles competing in the 2014 Dakar Rally. The charity supports combat injured team members with life-changing injuries participating in Motorsport.

The Group also contributes to local worthwhile causes and charities and in 2014 the Group made donations of £42,698 (2013: £32,359). 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, 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 and Hunting PLC. John is Senior Independent Director of 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. Over 30 years of 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:
Charles is a non-Executive Director of BMT Group Limited.

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

Members of Board	Attendance
Chairman	
John Rennocks	7/7
Independent non-Executive Directors	
Marie-Louise Clayton	7/7
John Nicholas	7/7
Charles Packshaw	7/7
Executive Directors	
Iain Henderson	7/7
Nigel Lingwood	7/7
Bruce Thompson	7/7

John Rennocks
Chairman

Dear Shareholder
I am pleased to present Diploma's report on Corporate Governance on behalf of our Board.

Set out in this section of the Annual Report & Accounts is a report on the activities of the Board and each of its three Committees which are responsible for ensuring that the Board fully discharges its governance duties and applies the principles of good governance as set out in the 2012 UK Corporate Governance Code ("the Code").

In my Report to shareholders on Governance in 2011, I set out clear objectives for the Board to develop its policies and processes to ensure that the Board would be able to meet the stringent governance standards required for a Company that is now firmly established in the FTSE 250 constituent group. I am pleased that, as I come to the end of my term with the Company, we have made good progress in meeting those objectives with a refreshed set of non-Executive members of the Board and its Committees. Further amendments in the Board's existing governance processes will be required next year as the FRC continues to revise and expand the scope of the Code with the publication of the 2014 Code.

The Committees have been focused this year on ensuring that the Board's governance polices remain both robust and in line with best practice and appropriate to manage the development of the Group as it continues to broaden its activities into new markets and geographies. As part of this work, the *Remuneration Committee* has reviewed further the appropriateness of the Group's remuneration policies, which has included a consultation exercise with the Company's larger shareholders.

Following the announcement of my intention to retire from the Board in 2015, the *Nomination Committee* has worked diligently with the Chief Executive Officer to ensure that a transparent and orderly process has been followed to identify and appoint John Nicholas as my replacement as Chairman of the Company.

The Nomination Committee has also begun an exercise to identify and appoint a new non-Executive Director which will ensure that the Company continues to maintain an appropriate composition and structure for the Board and its Committees, with the right balance of skills and experience to lead Diploma as it continues to grow.

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 43 to 67 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 with the exception of one; namely the Company's evaluation of the Board has not been externally facilitated at least every three years, as explained further on page 45. In addition and as explained in the 2013 Annual Report & Accounts, the Company had not identified a Senior Independent Director from 1 October 2013 until 15 November 2013 when John Nicholas was appointed as Senior Independent Director.

The Company's auditor Deloitte LLP, is 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.

The *Audit Committee* has had to extend its activities to ensure that the Group's newly acquired Russian businesses comply fully with new international sanctions. The Committee has also worked with management to develop further its procedures for maintaining compliance with the Group's anti-Bribery and Corruption policy.

Finally, as always I would like to encourage shareholders to find the time to attend our AGM on Wednesday, 21 January 2015. It provides an excellent opportunity to meet the Executive Directors and the independent non-Executive Directors on the Board whose Committees' Reports are set out in the following pages of this Report on Governance.

John Rennocks
17 November 2014

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 internal control and risk management systems.
- Approval of major corporate transactions and commitments.
- Succession planning, 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: six

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 systems and risk management procedures and also monitors issues relating to fraud and whistleblowing.

Nomination Committee

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

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: eight

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 59. The biographical details of the Board members are set out on pages 40 and 41.

The existing Chairman has confirmed that he will stand down from his role as Chairman and retire from the Board at the conclusion of the Annual General Meeting on 21 January 2015.

The Board has appointed John Nicholas, who is currently a non-Executive Director and the Senior Independent Director of the Company, as Chairman-designate. As a consequence of this appointment, the Board has also asked the Nomination Committee to set up an appropriate process to identify and recommend for appointment a new non-Executive Director. This process has not yet concluded as at the date of this Report.

Activities of the Board

The Company's governance framework is set out on page 43 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 set out the separate and distinct roles of the Chairman and the Chief Executive.

The Chairman is responsible for the overall leadership and 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 and risk management.

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. It is intended that the next formal review of the Company's strategy will be carried out by the Board in June 2015 at one of the Group's businesses based in the US. The previous formal strategy development review took place in October 2012 at the Group's business in Swindon, UK.

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 42.

Each Director is expected to attend all meetings of the Board or Committees of which they are a member. In addition senior management from across the Group and advisors attend certain 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 businesses, the implementation of strategy and the changing dynamics of the markets in which the businesses operate.

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. The Chairman-designate, John Nicholas is considered by the Board to be independent.

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 appointments 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 51.

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 last year, a managed 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. Meetings were held individually between each of the non-Executive Directors and the Executive Directors and with some of 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 the Group's businesses, 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 each 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 had intended this year to carry out an evaluation of the Board using external facilitation. However, with the impending appointment of a new Chairman and as the current non-Executive Directors have only been members of the Board for a relatively short period, it was decided to postpone this externally facilitated evaluation of the Board until 2015.

The Board therefore continued with its normal internal evaluation exercise this year, as described above. This exercise was completed in September 2014 and identified the following areas that the Board wished to address in 2015:

- strengthen the Board's competencies through appointment of a new non-Executive Director with broad industrial experience gained in an international environment;
- seek more regular presentations at Board meetings from senior management across the Group; and
- target a meeting of the Board to focus on management of risk and review of effectiveness of Group's risk management and internal control systems.

The Board will report next year on the progress it has made with these objectives.

The decision to postpone the externally facilitated evaluation this year has led to the Company not being in compliance with the Code Provision which requires that such an external facilitation is carried out at least every three years.

Re-election

All Directors to the Board are subject to election by the shareholders at the first AGM following their appointment by the Board and in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Conflicts of interest

Directors are subject to a statutory duty under the Companies Act 2006 ("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.

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.

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. It also reviews the effectiveness of these systems through the work of the Audit Committee as reported on in the Report of the Audit Committee on pages 47 to 50.

Corporate Governance continued

The key risks which the Board has focused on this year are set out in the Principal Risks and Uncertainties section on page 34 to 37. 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 three 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 is available on request for shareholders to meet the Chairman or Senior Independent Director, separately from the Executive Directors.

Electronic communications to shareholders include the Notice of the AGM 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 AGM 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 best practice, to conduct a poll on each resolution proposed at the AGM. The results of the AGM resolutions, including details of votes cast, are published on the Company's website.

Audit Committee Report

Members of Committee:	Attendance
Marie-Louise Clayton (Chairman)	6/6
John Nicholas	6/6
Charles Packshaw	6/6

Marie-Louise Clayton
Chairman of Audit Committee

Dear Shareholder
I am pleased to present my report on the activities of the Audit Committee in the year ended 30 September 2014.

It has been another busy year for the Committee and much has been reviewed and reported from across the Group. The Committee held six meetings during the year, during which it focused in particular on the integrity of the Group's financial reporting and on the effectiveness of both the internal and external audit.

The Committee also focused attention on ensuring that the Group's policies relating to anti-Bribery and Corruption continue to develop. This is a significant challenge in a decentralised group such as ours with businesses operating over a wide spread of geographies and markets. The Committee was pleased to support management's response to these challenges by developing a comprehensive e-learning training programme which will initially focus on anti-bribery training, before being extended to other matters of governance. This training will be provided to all employees across the Group and is due to commence early in the new financial year.

The acquisition of Kentek Oy and subsequent political upheaval in Ukraine has also challenged the Committee to closely review the scope of international sanctions applied against certain Russian operations and to ensure that appropriate procedures are in place in the Group's Russian businesses to ensure that compliance with these sanctions is maintained.

I have continued to meet separately with the Company's auditor to seek their views on the strength and depth of financial reporting and internal control processes over the Group's activities. Based on this discussion and on the report the Committee receives from the Group's Internal Audit manager, I am satisfied that management maintains a strong focus on ensuring that robust systems of internal control are in place across the Group's businesses.

Marie-Louise Clayton
17 November 2014

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 in fulfilling 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 the 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 and the anti-Bribery and Corruption policies.
- Reviews effectiveness of the Internal Audit function and makes recommendations to the Board.
- Approves the Internal Audit work programme and reviews the results of the work undertaken.
- Reviews the basis on which the Company and its principal subsidiaries continue to prepare their financial statements on a going concern basis.
- Reports to the Board on how it has discharged its responsibilities.

Audit Committee Report continued

Audit Committee

The Committee is chaired by Marie-Louise Clayton and comprises independent non-Executive Directors. The Chairman of the Committee 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 financial statements of the Group and of the Company. The audit includes the review and testing 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 its 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 in 2013 in place of the previous lead engagement partner who had completed a term of five years in that role.

During the year, the Committee carried out an assessment of the effectiveness of the external audit process. The assessment was led by the Chairman of the Committee, assisted by the Group Finance Director and focused on certain criteria which the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of audit staff, the planning and execution of the audit and the role of management in the audit process. Following this assessment, the Committee concluded that the external audit process remained effective and that it provides an appropriate independent challenge of the Group's senior management.

The Committee remains satisfied that Deloitte continues to provide a robust and effective audit and supports the work of the Committee through clear and objective communication on developments in financial reporting and governance. The Committee supports the requirement of the Code that the audit should be put out to tender at least once every ten years. The Committee will be reviewing the Company's audit tender timetable and processes as part of a wider review of the Competition & Markets Authority Order which is effective from 1 January 2015.

Audit Committee Agenda – 2014

- Reviewed and agreed the scope of work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the Annual Report & Accounts and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement. Reviewed the processes necessary to ensure that the Board was able to confirm that the Annual Report & Accounts are "fair, balanced and understandable".
- Reviewed the report from the Group Finance Director on the controls in place to mitigate fraud risk.
- Reviewed the Interim Management Statements and Trading Updates at meetings held in January, March, July and September.
- Invited 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 to agree the scope and focus of Internal Audit work to be carried out in the following year.
- Reviewed the Half Year Announcement and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the effectiveness of the Group's internal control and risk management procedures and made recommendations to the Board on areas for improvement.
- Reviewed the Group's policy on anti-Bribery and Corruption and the procedures being developed to ensure compliance across the Group.
- Reviewed the scope of sanctions issued during the year by the European Union and the US and the procedures set up to monitor compliance by the Group's businesses.
- Reviewed the effectiveness of the external audit process and recommended the re-appointment of the Group's external auditors.
- Reviewed the Group's policy on non-audit services which may be provided by the auditor and the Group's policy on whistleblowing.
- Reviewed the Audit Committee Terms of Reference.

Financial reporting and significant judgements

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

The main issues reviewed in the year ended 30 September 2014 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. In particular, the Committee discussed with management and the external auditor the background to the change of the level at which goodwill is assessed for impairment, as described further in note 10 to the consolidated financial statements. The Committee was satisfied that this change was reasonable and appropriate. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the business or Sector being tested for impairment. These judgements are primarily the calculation of the discount rate, 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 business, 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 external auditor.

Recoverability of accounts receivable:
The Committee reviewed the Report of the Group Finance Director that set out the gross balances by business, 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; the appropriateness of provisions held against the carrying value of accounts receivable were also considered, having regard to the age and creditworthiness of the customer. These matters were also discussed with the Group Finance Director and the external 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.

In addition to the main issues reviewed above, the Committee also seeks confirmation from the auditor that the Group's businesses follow appropriate policies to recognise material streams of revenue and that the audit work carried out more generally has assessed any instances where management may be able to override key internal controls designed to guard against fraud or material misstatement. The auditor also reports to the Committee on other less material matters relating to the Group's small defined pension scheme, the Group's taxation position and any legal provisions existing at the reporting date.

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 implement 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 annually reviews 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 34 to 37.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2013 to the date of this Report. Taking into account the results of this year's business risk assessment process and the reports from the Internal Audit manager, the Board, with the advice of the Committee, 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 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 set 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 matters identified in the internal audits undertaken during the year, but recommendations were made in relation to ensuring the completeness and sufficiency of cycle counts of inventories and to ensuring that the procedures for chasing older receivable balances remained robust and were consistently applied. The Internal Audit manager also assisted the Committee in its oversight of the Group's controls designed to ensure compliance with the policy on anti-Bribery and Corruption. As part of this work Internal Audit work ensured that appropriate support was provided in relation to employee's claims for reimbursement of expenditure on entertaining customers and suppliers.

The Internal Audit manager also reported to the Committee that good progress had been made by the Group's businesses in implementing recommendations made last year and in particular in improving 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 required at this time.

Non-audit fees

The Committee has 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 last year and relate to advisory services where the auditor's detailed knowledge of the Group's affairs means that it 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 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. During the year the Company continued to use the tax department of Deloitte LLP to provide advice to the Company in connection with legislation relating to controlled foreign companies. This legislation was significantly amended by HM Government during the year and the implications are currently being assessed by the Company with the assistance of Deloitte LLP tax advisors. As this is not a significant assignment, the Committee remains satisfied that the work is sufficiently ring-fenced so as not to conflict with the duties of Deloitte LLP as auditor.

In other circumstances, proposed assignments are generally 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 provide 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 £12,000 paid to Deloitte LLP during the year are set out in note 27 to the financial statements.

Sanctions

In January 2014, the Company acquired Kentek, a specialised distributor of filters and related products which is based in Finland and with substantial operations in Russia and the Baltic States. Shortly after completion of the acquisition, and in response to political developments in Ukraine, the EU and US implemented various sanctions against a growing list of market sectors, corporations and individuals based in Russia. As a consequence, the Audit Committee worked with senior management of the Company, in conjunction with local management of Kentek, to determine the scope and reach of these sanctions and have implemented a system to ensure ongoing compliance with this new sanctions regime. The Committee has received reports on compliance with these sanctions and will continue to monitor developments until the sanctions are suspended or revoked.

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 Group developed an e-learning training programme on anti-Bribery and Corruption which will be undertaken by all Group employees during the new financial year and periodically thereafter.

During the year, the Committee formally reviewed 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 are investigated and reported to the Committee, together with details of corrective action taken. The Group's Whistleblowing Policy is monitored by the Committee and no matters were reported to the Committee under this policy during the year.

Nomination Committee Report

The Nomination Committee is chaired by John Rennocks, the Chairman of the Company. The Committee is 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 a Secretary to the Committee.

Chairmanship

During the year, John Rennocks after 12 years' service on the Board, indicated his intention to retire from the Board. At this stage, John did not specify the actual timing of his retirement, as he was keen to ensure that an orderly succession took place with the full support of the existing members of the Board.

The Committee carefully considered the process it should follow to appoint a Chairman and concluded, in view of the relatively small Board size and the importance of close but challenging working relationships, that it was in the best long term interests of the Company to appoint a Chairman with good knowledge and experience of the Company and the Board. The Committee invited the Chief Executive and the existing Chairman to lead the selection process.

The Committee took informal soundings from existing members of the Board and from the Company's advisors. At the conclusion of this exercise and in light of his demonstrable commitment and suitability for the role, the Committee proposed to the Board that John Nicholas should replace John Rennocks as Chairman of the Board.

On 11 November 2014, John Rennocks confirmed to the Board that he would retire as Chairman at the conclusion of the Annual General Meeting ("AGM") on 21 January 2015. Following this decision, the Board confirmed its intention to appoint John Nicholas as successor to John Rennocks as Chairman of the Board, with effect from the conclusion of the AGM in 2015.

The Committee has now commenced a formal search, using the appointment process described below, for a new independent non-Executive Director to preserve balance on the Board. In this search process, the Committee is working with Norman Broadbent LLP, which has no other connection with the Company. The Committee has also commenced plans to appoint a new Senior Independent Director and make changes to Board Committees which will be required following the change of Chairman. These new appointments will formally be announced once they have been confirmed by the Board.

Succession planning

The Board annually reviews succession planning for the Executive Directors and for the senior management cadre comprising ca.80 senior managers across the Group's businesses. The next review will take place in January 2015 in conjunction with the Remuneration Committee's review of compensation for the senior management cadre. The Board will also focus more substantially on future succession plans at the Board Strategy Review meeting to be held in June 2015.

Appointment of Directors

As part of any appointment process for new Directors, the Committee determines the selection criteria for each Director which takes account of diversity, including gender and sets out a detailed description of the requirements for the role. The Committee works with external search agencies as appropriate, who draw up a long-list of candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist is prepared of suitable candidates that most closely meet the selection criteria and these candidates are interviewed by members of the Committee. Following these interviews, the Committee recommends to the Board the appointment of a Director.

The Committee implements the Board's policy on diversity as set out on page 45.

Members of Committee	Attendance
John Rennocks (Chairman)	2/2
Marie-Louise Clayton	2/2
John Nicholas	2/2
Charles Packshaw	2/2

Key Duties

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

- Reviews the size, composition and structure of the Board and the Board Committees.
- Ensures the right balance of skills, knowledge, experience and diversity on the Board.
- Identifies, evaluates and nominates candidates to fill Board and Committee vacancies.
- Reviews succession planning for the Board and senior executives, taking account of experience, knowledge, skills and diversity.
- Reviews the Group policy on conflicts of interest and register and ensure there are no material conflicts of interest.
- Reviews, as part of the annual evaluation exercise, the time commitment of non-Executive Directors to the role and externally.

Agenda 2014

- Considered and progressed the process for Chairman succession.
- Evaluated the balance of skills, knowledge and experience on the Board and its diversity, including gender.
- Commenced search with Norman Broadbent for a further non-Executive Director and prepared a description of the role and capabilities for candidates for appointment.
- Considered succession planning in relation to the Executive Directors and senior management.
- Reviewed and recommended appointment of Senior Independent Director and changes to membership of Committees.
- Reviewed and updated Board members' register of conflicts of interest.
- Reviewed Committee Terms of Reference.

Remuneration Committee Report

Members of Committee:	Attendance
John Nicholas (Chairman)	8/8
Marie-Louise Clayton	8/8
Charles Packshaw	8/8
John Rennocks	8/8

John Nicholas
Chairman of the Remuneration Committee

Dear Shareholder

At the time of last year's Report, I advised shareholders that the Committee intended to undertake a review of its Remuneration Policy for Executive Directors to ensure that it met investors' preference for simplicity and transparency, as well as remaining appropriate as the Company develops.

As part of this review, the Committee sought the view of the Company's larger shareholders representing over 50% in value of the Group's shares. This review has now concluded and as a result, the Committee proposes to make a number of changes to its Remuneration Policy. I summarise these below and they are described in more detail later in this Report.

It is important that the Remuneration Policy maintains the correct balance between delivering reward for shorter term execution of the Group's strategy of delivering GDP+ annual growth in earnings, whilst also encouraging the long term creation of value by executing the Group's acquisition strategy to deliver significant value to shareholders. As a result the Committee intends to make the following changes to the remuneration arrangements for Executive Directors:

- The base salaries of the Executive Directors' will be re-positioned from 1 October 2014 through a one-off increase of 8% which in aggregate, amounts to ca.£79,000. This adjustment recognises that base salaries of the Executive Directors were not competitive when compared with peers of a similar size or in a similar sector. General pay inflation increases will normally apply thereafter.
- In future the Company will only grant long term incentive awards under the Performance Share Plan ("PSP") within the Company's Long Term Incentive Plan ("LTIP"). No new awards will be made under the Share Matching Plan ("SMP").
- The size of the awards under the LTIP will be reduced to 175% (from 200%) and the award at threshold vesting will be reduced to 25% (from 30%).
- The vesting of 50% of awards under the PSP is based on growth in adjusted Earnings Per Share ("EPS") (the other 50% is based on relative TSR performance). In future the target for adjusted EPS will be an absolute target and will no longer be inflation linked. It is currently intended that the adjusted EPS growth target for maximum vesting will be 14% p.a.; however these targets will be reviewed annually to ensure they remain demanding and stretching.
- Going forward, future Executive Director appointees will be subject to deferral arrangements. The Committee does not believe it appropriate to defer share awards for existing Executive Directors as each Executive Director is already aligned to shareholders' interests through their substantial shareholdings in the Company.
- The Committee will no longer retain any general overriding discretion in relation to the remuneration arrangements for Executive Directors.

The revised Remuneration Policy, including the changes to PSP awards and performance conditions are subject to shareholder approval at the Company's AGM in January. Full details will be set out in the Notice of AGM.

The Company's continuing strong financial performance is reflected in another year of growth in total shareholder return which, for the past six years has delivered a 468% return, compared with 143% for the FTSE 250 Index. This excellent performance has again pushed the Company to the upper quartile of TSR performance in the FTSE 250 Index and has contributed to the Executive Directors receiving 61% of their awards under the Company's three year LTIP.

With respect to short term performance, Diploma has delivered strong underlying growth of 8% in revenues and adjusted profits during the year. Adjusted EPS increased by 4% on a reported basis, which represented 12% when translated on a constant currency basis and after adjusting for the IAS19 accounting policy change. The thresholds for operating margins, free cash flow and ROATCE have all been comfortably exceeded and personal objectives fully achieved. On the basis of this performance, the Committee have approved annual bonuses for the Chief Executive of 65% of the maximum and 66% of the maximum for the other Executive Directors.

As well as reviewing the Remuneration Policy this year, the Committee has also completed a thorough review of the service contracts of each of the Executive Directors. These contracts were issued many years ago and changes to legislation and governance over the past ten years has meant that the existing contracts needed to be substantially updated. However in completing this exercise, no substantive changes were made to the underlying conditions of employment.

Turning to next year, the Committee intends to address the new guidance on Executive Director remuneration recently set out in the new 2014 UK Corporate Governance Code

I hope that shareholders will be pleased with the progress made by the Committee this year and that you will join me in supporting the two resolutions in respect of this year's Remuneration Committee Report, together with the resolution that proposes changes to the PSP rules, at the Company's AGM on 21 January 2015.

John Nicholas
17 November 2014

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 the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations SI 2013/1981 which came into force on 1 October 2013.

The Remuneration Committee Report

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

- Directors' Remuneration Policy – set out on pages 54 to 59.
- Annual Report on Remuneration – set out on pages 60 to 67.

During the year the Committee undertook a detailed review of its Remuneration Policy for Executive Directors to ensure that it remains appropriate as the Company develops. This review has now concluded and as a result, the Committee proposes to make a number of changes to the Remuneration Policy which was approved by the shareholders at last year's AGM.

These changes are reflected in the revised Directors' Remuneration Policy which will be subject to a binding vote of shareholders at the forthcoming AGM on 21 January 2015. 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 promotes the long term success of the Company;
- supports the creation of sustainable long term shareholder value;
- provides an appropriate balance between remuneration elements which include performance related elements which are transparent, stretching and rigorously applied; 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 54 and 55 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 arrangements work can be found on page 56.

Key Duties

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

- Sets, reviews and recommends to the Board for approval the Group's overall remuneration policy and strategy.
- Sets, reviews and approves individual remuneration arrangements for the Executive Directors, including terms and conditions of employment and any policy changes.
- Reviews and monitors remuneration arrangements for the senior managers of the operating businesses, including terms and conditions of employment and any policy changes.
- Approves the rules and design of any Group share-based incentive plans, and the granting of awards under any such plans.
- Sets, reviews and approves the fees of the Chairman.

Agenda 2014

- Reviewed policy on remuneration for Executive Directors; receiving reports and advice from New Bridge Street and Stephenson Harwood LLP.
- Carried out a consultation with the Company's major shareholders on the proposed changes to the Remuneration Policy for Executive Directors.
- Reviewed Chairman's fees.
- Carried out a detailed review and update of Executive Directors' service contracts; receiving advice from Ashurst LLP
- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets for 2014 and the subsequent Bonus awards for 2014.
- Approved new PSP and SMP awards to Executive Directors under the LTIP and confirmation of the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP and SMP awards made in 2011 which matured in 2014.
- Approved the exercise of nil cost options.
- Approved the 2014 Remuneration Committee Report.

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") replaces the Policy approved by shareholders at the AGM held on 15 January 2014 and, if approved by shareholders at the AGM on 21 January 2015, will apply from 21 January 2015 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 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

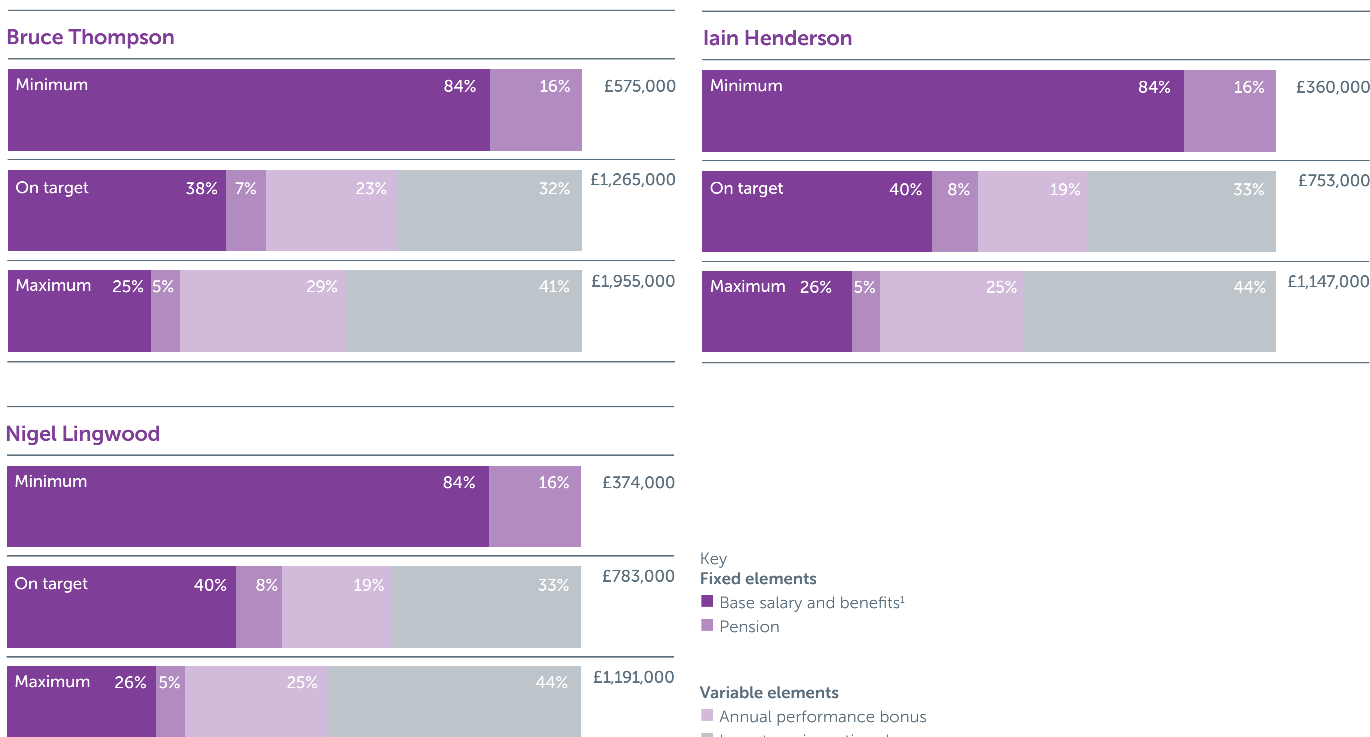
Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain talent by ensuring that salaries are competitive. To reflect the individual's experience and role within the Group.	Salaries are paid monthly and are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries are targeted at a mid-market range for equivalent roles in similar companies.	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	To provide a competitive package of benefits.	Payment in lieu of a company car. Life assurance, income protection, 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 base salary for the Chief Executive Officer and 100% for other Executive Directors. On target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.	Adjusted EPS is the principal metric. Discretion related to minimum thresholds for operating margin, free cash flow and ROATCE. 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 dividends accrued up to time of vesting, but not thereafter.	Opportunity as a percentage of salary is 175% for each award made to the Executive Directors under the 2011 Performance Share Plan. Committee has discretion to increase awards under the Performance Share Plan to 250% of salary in exceptional circumstances. Dependent on the level of dividends as applied to the number of unvested PSP awards.	• 50% on adjusted EPS relative to a set of absolute performance targets set by the Committee. • 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.

The changes made to the Policy approved last year comprise new performance metrics which will apply to the PSP awards, a new award limit of 175% for PSP awards and revised provisions on dividend equivalent payments. In addition no new awards will be made under the SMP. These changes were made in order to better reflect current best practice in remuneration policies for Executive Directors.

Executive Director's potential value of 2015 remuneration package



1 Base salary is as at 1 October 2014; benefits are as set out on page 60.

On target remuneration assumes an annual performance bonus of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 175% of base salary applies to each PSP award. On target vesting of PSP awards assumes adjusted EPS growth of 8% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. In all cases, for simplicity no share price growth or dividend accrual 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.80 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 level of bonus payable for achieving the minimum target is 5% of base salary. No bonus is payable if adjusted EPS does not meet the minimum target.

The definition of adjusted EPS is consistent with the Group's financial statements, however the Committee has discretion to modify the definition in the event of changes in accounting policy and/or material operational, market, exchange rate or environmental factors in order to more appropriately reflect management performance. The Committee has discretion to reduce awards if minimum thresholds are not achieved for operating margins, free cash flow and return on adjusted trading capital employed ("ROATCE"). Where used, the rationale for the exercise of this discretion will be disclosed in the next Remuneration Committee Report.

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 Plan
The Company operates a long term incentive plan for Executive Directors, being the Diploma PLC 2011 Performance Share Plan ("PSP"). The PSP is designed to promote the long term success of the Company, while also aligning the Directors' interests with those of Diploma PLC shareholders.

The PSP 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.

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 175% 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 250% in exceptional circumstances.

All awards will normally vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. 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. 25% of the PSP 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 in which he then becomes entitled, a dividend equivalent in respect of the dividends (excluding any tax credit) which would have been paid to the participant in respect of shares vesting between the date of the award and the time of vesting. These dividend equivalent payments 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.

The Executive Directors' service contracts, copies of which are held at the Company's registered office, were updated during the year to recognise developments in law and best practice relating to such contracts during recent years. These service contracts contain provisions for compensation in the event of early termination or change of control, equal to the value of salary and contractual benefits for the Directors' notice period. The Company may make a payment in lieu of notice in the event of early termination and the Company may make any such payment in instalments with the Director being obliged in appropriate circumstances to mitigate loss (for example by gaining new employment).

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	24 March 2014	Rolling	1 year	1 year
Iain Henderson	24 March 2014	Rolling	1 year	1 year
Nigel Lingwood	24 March 2014	Rolling	1 year	1 year

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 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 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 plan 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 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 provide for compensation equal to the value of salary and contractual benefits for the notice period.

In the event of a change in control, vesting of award shares under the Company's LTIP 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 apply to awards made since 1 October 2012 under the Company's LTIP 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.

The Committee intends to give further consideration in 2015 to the requirements set out in the revised 2014 UK Governance Code, including application of clawback provisions to awards made from 2015 onwards.

Remuneration for new appointments

The Committee has determined that new Executive Directors will receive a compensation package in accordance with the terms of the Group's approved Remuneration Policy in force at the time of appointment.

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;
- 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;
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with Diploma's approved Policy detailed above with an exceptional maximum aggregate variable pay opportunity of 375% of salary. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual, and the point in the financial year that the executive joined.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses/an expatriate allowance paid if appropriate.

Remuneration Committee Report continued

Directors' Remuneration Policy

- In the case of an external recruitment and after having taken into account any variable pay awards to be granted to the executive, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, deferral arrangements will apply, to be set according to the circumstances of individual appointments and will involve a requirement to acquire shares with a proportion of any post tax annual bonus and/or retention of a proportion of LTIP shares received (after tax), in either case, any such shares to be retained for at least two years after vesting or until the mandated shareholding guidelines have been met.
- Fees for a new Chairman or non-Executive Director will be set in line with the approved Policy.

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 (e.g. the LTIP) or by the Board (e.g. the Annual Performance Bonus Plan). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Policy is fair both to the Executive 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.

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 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.

During the year, the Committee consulted with major shareholders on proposed changes to the Policy for the Executive Directors. This consultation exercise was carried out through a combination of correspondence, meetings and telephone conversations.

The Committee carefully considered the views expressed by shareholders and made certain amendments to the proposed changes to the Policy. A summary of the results of this consultation exercise, setting out the final proposed changes to the Policy, were then communicated to the shareholders by letter in September 2014. This consultation exercise has now been concluded.

The Committee has not consulted with employees on setting the 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.80 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 AGM 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 AGM held on 15 January 2014 and his appointment will continue until the end of the AGM to be held on 21 January 2015 when he will retire as Chairman and as a non-Executive Director.

John Nicholas was appointed as a non-Executive Director of the Company with effect from 1 June 2013 and on 11 November 2014 was appointed as Chairman with effect from 21 January 2015. His appointment is subject to annual re-election by shareholders at the AGM.

Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of election/ re-election	Expiry of term
John Rennocks	12 Jul 02	15 Jan 14	21 Jan 15
Marie-Louise Clayton	12 Nov 12	15 Jan 14	12 Nov 15
John Nicholas	1 Jun 13	15 Jan 14	1 Jun 16
Charles Packshaw	1 Jun 13	15 Jan 14	1 Jun 16

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 Policy for all Directors for the year ended 30 September 2014. 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 54 to 59 and subject to approval of the shareholders at the AGM on 21 January 2015 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 2014 and 2013

	Bruce Thompson		Iain Henderson		Nigel Lingwood	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Salary	**417**	401	**260**	250	**270**	260
Benefits[1]	**23**	23	**17**	16	**18**	18
Pensions	**83**	80	**52**	50	**54**	52
Annual performance bonus	**339**	164	**172**	108	**179**	112
Short term remuneration (cash)	**862**	668	**501**	424	**521**	442
Long term incentive plan – performance element	**474**	720	**295**	440	**308**	460
Long term incentive plan – share appreciation element	**510**	888	**318**	542	**331**	566
Long term incentive plan – dividend equivalent	**–**	125	**–**	75	**–**	75
Long term share price based remuneration (non-cash)	**984**	1,733	**613**	1,057	**639**	1,101
Total	**1,846**	2,401	**1,114**	1,481	**1,160**	1,543

1 Benefit figures restated for 2013 to include life assurance and income protection.

The aggregate short term remuneration paid to the Executive Directors in the year ended 30 September 2014 was £1.9m (2013: £1.5m).

Base salary

The average base salary increase for Executive Directors which applied from 1 October 2013 was 4%, compared with 6% for the Group's senior management cadre. On 11 November 2014, the Committee approved an increase of 10% in base salaries for the Executive Directors which will apply in respect of the year beginning 1 October 2014. This change includes an increase of 8% which represents a one-off re-alignment of base salaries to a broadly mid-market level when compared with prior year data from companies of similar market capitalisation, plus an inflation increase of 2%.

Benefits

	2014				2013			
	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000
Bruce Thompson	**13**	**9**	**1**	**23**	13	9	1	23
Iain Henderson	**10**	**6**	**1**	**17**	10	5	1	16
Nigel Lingwood	**11**	**6**	**1**	**18**	11	6	1	18

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% (2013: 20%) of base salary were applied as follows:

	2014			2013		
	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	**83**	**–**	**83**	80	–	80
Iain Henderson	**52**	**–**	**52**	50	–	50
Nigel Lingwood	**54**	**–**	**54**	52	–	52

Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2014 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 2014	Overall assessment against targets
Adjusted EPS	The minimum performance target was 0% growth in adjusted EPS, on target performance was 5.0% growth and the maximum target was at least 15.0% growth. Adjusted EPS grew by 4% in reported terms and 12% on a constant currency basis. After adjusting for the IAS19 accounting policy change and in accordance with the rules of the Annual Performance Bonus Plan the Committee used 6% growth in calculating the finance performance element. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE.	55% of maximum (CEO 65% of maximum[1]).

1 The Committee increased the amount payable to the Chief Executive ("CEO") by 10% of the maximum bonus (as allowed for in the rules of the Annual Performance Bonus Plan) to reflect the performance of the CEO in delivering strong growth in a challenging environment, while also strengthening the Group's acquisition pipeline.

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

The performance of Iain Henderson and Nigel Lingwood was assessed against a range of specific individual objectives under the following headings:

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.	100% of 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.	100% of maximum

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2014 is as follows:

	2014 actual bonus – as a % of 2014 base salary					2014 bonus delivered as cash
	On target	Maximum	Financial objectives	Individual performance objectives	Total bonus	£000
Bruce Thompson	63%	125%	81%		**81%**	**339**
Iain Henderson	50%	100%	41%	25%	**66%**	**172**
Nigel Lingwood	50%	100%	41%	25%	**66%**	**179**

The annual performance bonus for the financial year beginning 1 October 2014 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 plan

Performance conditions

Set out below is a summary of the performance conditions that apply to both the LTIP awards maturing in 2014 and the outstanding LTIP awards, including those granted in 2012 and 2013.

With effect from 1 October 2014 and subject to shareholder approval at the AGM on 21 January 2015, new LTIP awards will be granted under the PSP at 175% of base salary; no further awards will be made under the SMP although existing SMP awards will continue to mature with the final awards maturing in November 2016. The performance conditions applying to new awards made under the PSP will be revised from those set out below for existing awards granted in 2011, 2012 and 2013.

The first performance condition for the LTIP awards 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. For the new awards, the adjusted EPS targets will be specified as absolute figures, not relative to RPI. The performance conditions are as follows:

Existing awards	% of existing awards vesting		New awards	% of new awards vesting
Adjusted EPS growth (over 3 years)	PSP	SMP	Adjusted EPS growths (over 3 years)	PSP
RPI + 15% p.a. or above	100	100		
RPI + 12% p.a.	100	50	14% p.a	100
RPI + 3% p.a.	30	15	5% p.a	25
Below RPI + 3% p.a.	Nil	Nil	Below 5 % p.a	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 and this definition remains consistent with the definition of adjusted 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). The performance conditions are as follows:

Existing awards	% of existing awards vesting		New awards	% of new awards vesting
TSR relative to FTSE 250 Index (over 3 years)	PSP	SMP		PSP
Median + 15% p.a. or greater	100	100		
Median + 12% p.a.	100	50	Upper Quartile	100
Median	30	15	Median	25
Below Median	Nil	Nil	Below Median	Nil

Where the Company's TSR performance is between these percentage bands, vesting of the award is on a straight-line basis. 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 2014
The PSP and SMP awards made to the Executive Directors on 16 and 19 December 2011 respectively, were subject to independently operating performance conditions, assessed over a three year period ended 30 September 2014, as set out in the table above. The outcome of each award is shown in the table below:

Adjusted Earnings per Share:

	Base EPS*	EPS at 30 Sept 2014	CAGR in EPS	RPI +12%/15%	Maximum award	Vested award
PSP	27.6p	**36.1**	9.4%	14.7%	50%	**29%**
SMP	27.6p	**36.1**	9.4%	17.7%	50%	**15%**

* Amended to reflect change in accounting policy for notional pension interest.

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

	TSR at 30 Sept 2014	Median	Median +12%/15%	Maximum award	Vested award
PSP	**116%**	59%	114%	50%	**50%**
SMP	**116%**	59%	129%	50%	**29%**

As a result of meeting the above performance conditions, 79% and 43% respectively 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 2014 pence	Proportion of award vesting	Shares vested Number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson	– PSP	332.0p	689.5p	**79%**	**92,353**	**307**	**330**	**637**
	– SMP	332.0p	689.5p	**43%**	**50,364**	**167**	**180**	**347**
					142,717	**474**	**510**	**984**
Iain Henderson	– PSP	332.0p	689.5p	**79%**	**57,571**	**191**	**206**	**397**
	– SMP	332.0p	689.5p	**43%**	**31,396**	**104**	**112**	**216**
					88,967	**295**	**318**	**613**
Nigel Lingwood	– PSP	332.0p	689.5p	**79%**	**59,971**	**199**	**214**	**413**
	– SMP	332.0p	689.5p	**43%**	**32,704**	**109**	**117**	**226**
					92,675	**308**	**331**	**639**

1 The performance element represents the face value of awards granted on 16 and 19 December 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 2014.

Dividend equivalent payments

There were no dividend equivalent payments paid in respect of outstanding nil cost options which were exercised during the year:

	2014		2013	
	Options exercised Number	Dividend equivalent Payments £000	Options exercised Number	Dividend equivalent payments £000
Bruce Thompson	**246,154**	–	539,700	125
Iain Henderson	**150,428**	–	325,777	75
Nigel Lingwood	**157,264**	–	328,492	75

Long Term Incentive Plan – awards granted in the year

The Executive Directors received grants of PSP and SMP awards on 9 December 2013, 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 SMP, the Executive Directors are required to pledge shares for a minimum period of three years; these shares were pledged on an after tax basis and awards were 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 61 and 62.

Outstanding share-based performance awards

Set out below is a summary of the share-based awards outstanding at 30 September 2014, 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 61 and 62 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	Maturity date	Shares over which awards held at 1 Oct 2013	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held as at 30 Sep 2014
Bruce Thompson									
16 December 2011	332.0p	385	30 Sep 2014	30 Sep 2014	116,314	–	**(92,353)**	**(23,961)**	–
19 December 2012	502.0p	401	30 Sep 2015	30 Sep 2015	79,880	–	–	–	**79,880**
9 December 2013	700.0p	417	30 Sep 2016	30 Sep 2016		**59,571**	–	–	**59,571**
Iain Henderson									
16 December 2011	332.0p	240	30 Sep 2014	30 Sep 2014	72,508	–	**(57,571)**	**(14,937)**	–
19 December 2012	502.0p	250	30 Sep 2015	30 Sep 2015	49,801	–	–	–	**49,801**
9 December 2013	700.0p	260	30 Sep 2016	30 Sep 2016		**37,143**	–	–	**37,143**
Nigel Lingwood									
16 December 2011	332.0p	250	30 Sep 2014	30 Sep 2014	75,529	–	**(59,971)**	**(15,558)**	–
19 December 2012	502.0p	260	30 Sep 2015	30 Sep 2015	51,793	–	–	–	**51,793**
9 December 2013	700.0p	270	30 Sep 2016	30 Sep 2016		**38,571**	–	–	**38,571**

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	Maturity date	Shares over which awards held at 1 Oct 2013	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held as at 30 Sep 2014
Bruce Thompson										
19 December 2011	332.0p	385	27,915	30 Sep 2014	30 Sep 2014	116,314	–	(50,364)	(65,950)	–
20 December 2012	502.0p	401	19,171	30 Sep 2015	30 Sep 2015	79,880	–	–	–	79,880
9 December 2013	700.0p	417	15,786	30 Sep 2016	30 Sep 2016	–	59,571	–	–	59,571
Iain Henderson										
19 December 2011	332.0p	240	17,402	30 Sep 2014	30 Sep 2014	72,508	–	(31,396)	(41,112)	–
20 December 2012	502.0p	250	11,952	30 Sep 2015	30 Sep 2015	49,801	–	–	–	49,801
9 December 2013	700.0p	260	9,843	30 Sep 2016	30 Sep 2016	–	37,143	–	–	37,143
Nigel Lingwood										
19 December 2011	332.0p	250	18,127	30 Sep 2014	30 Sep 2014	75,529	–	(32,704)	(42,825)	–
20 December 2012	502.0p	260	12,430	30 Sep 2015	30 Sep 2015	51,793	–	–	–	51,793
9 December 2013	700.0p	270	10,221	30 Sep 2016	30 Sep 2016	–	38,571	–	–	38,571

The PSP and SMP awards vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period.

Both the PSP and SMP 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 2014 are set out on page 66.

Services from external advisors

Stephenson Harwood LLP provides legal advice to the Remuneration Committee on remuneration matters and Ashurst LLP provide advice on employment matters. During the current year, this advice related to the changes to certain elements of Executive Directors' Remuneration Policy proposed by the Committee and to updating the Executive Director service contracts.

The Committee also received advice from New Bridge Street on the proposed changes to the Policy. The Committee engages MEIS to provide certain data analyses 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
Ashurst LLP	Committee	Legal advice	General legal advice	£10,000
Stephenson Harwood LLP	Committee	Legal advice	None	£21,800
New Bridge Street	Committee	General advice on Remuneration Policy	None	£24,676
MEIS	Committee	Data analysis	None	£7,000

Shareholder voting at previous Annual General Meeting (unaudited)

The Remuneration Committee's Annual Report ("Report") and the Remuneration Committee's Report on Directors' Remuneration Policy ("Policy") for the year ended 30 September 2013 were approved by shareholders at the AGM held on 15 January 2014, with the following votes being cast:

	Policy		Report	
Votes for	67,514,494	93.75%	88,497,059	99.6%
Votes against	4,500,423	6.25%	385,448	0.4%
Withheld	19,186,751		2,319,161	

Aligning pay with performance (unaudited)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the six year period ended 30 September 2014 against the FTSE 250 Index.

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

CEO remuneration compared with annual growth in TSR

	2014	2013	2012	2011	2010	2009
Annual growth in TSR	**+8%**	+42%	+54%	+16%	+71%	+21%
	£000	£000	£000	£000	£000	£000
Salary, pensions and benefits	**523**	504	484	454	435	429
Annual performance bonus	**339**	164	367	360	345	102
Short term remuneration	**862**	668	851	814	780	531
Long term incentive plans (including dividend equivalent)	**984**	1,733	979	887	507	303
CEO total remuneration	**1,846**	2,401	1,830	1,701	1,287	834
Actual bonus as a percentage of the maximum	**65%**	33%	95%	100%	100%	30%
Actual share award vesting as a percentage of the maximum	**61%**	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%	+107%	**+29%**
Senior management cadre	6%	2%	0%	+17%	**+8%**

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)

	FY2014 £m	FY2013 £m	Change £m
Total employee remuneration	**57.1**	54.8	**+2.3**
Total dividends paid	**18.2**	17.4	**+0.8**

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 reflects an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The nil cost options outstanding at 30 September 2014 and the movement during the year are as follows:

	Year of vesting	Options as at 1 Oct 2013	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2014[5]	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	2013	246,154	(246,154)[1]	–	–	£1	Nov 2013	Jan 2021
	2014	–	–	**142,717**	**142,717**	£1	Nov 2014	Dec 2021
Iain Henderson	2013	150,428	(150,428)[2]	–	–	£1	Nov 2013	Jan 2021
	2014	–	–	**88,967**	**88,967**	£1	Nov 2014	Dec 2021
Nigel Lingwood	2013	157,264	(157,264)[3]	–	–	£1	Nov 2013	Jan 2021
	2014	–	–	**92,675**	**92,675**	£1	Nov 2014	Dec 2021

1 Bruce Thompson exercised 246,154 options on 21 November 2013, at a market price of 676.0p per share and the total proceeds before tax were £1,664,001.
2 Iain Henderson exercised 150,428 options on 21 November 2013, at a market price of 676.0p per share and the total proceeds before tax were £1,016,893.
3 Nigel Lingwood exercised 157,264 options on 21 November 2013, at a market price of 676.0p per share and the total proceeds before tax were £1,063,104.
4 On 21 November 2013, the aggregate number of shares received by the participants was reduced by 260,307 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 676.0p.
5 The closing price of an ordinary share on 30 September 2014 was 689.5p (2013: 653.0p).

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:

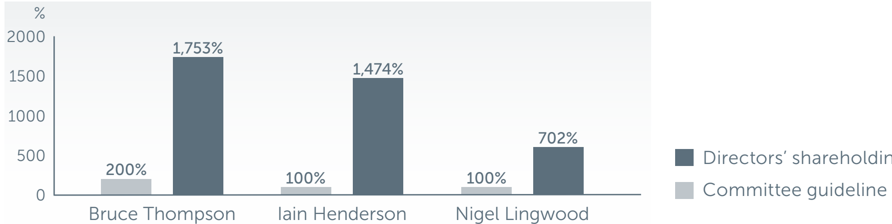
	As at 30 Sep 2014				As at 30 Sep 2013			
			Interest in shares with performance measures				Interest in shares with performance measures	
	Ordinary shares	Options vested but unexercised	PSP	SMP	Ordinary shares	Options vested but unexercised	PSP	SMP
Bruce Thompson	**1,060,462**	**142,717**	**139,451**	**139,451**	1,040,000	246,154	196,194	196,194
Iain Henderson	**559,727**	**88,967**	**86,944**	**86,944**	510,000	150,428	122,309	122,309
Nigel Lingwood	**275,000**	**92,675**	**90,364**	**90,364**	250,000	157,264	127,322	127,322

Interests in ordinary shares include investment shares pledged under the Company's 2011 SMP and shares held through personal saving vehicles. As of 14 November 2014 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 14 November 2014, all Executive Directors exceeded the applicable shareholding guidelines.

Shareholdings at 30 September 2014 against guidelines



Chairman and non-Executive Directors' remuneration

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

	Total fees	
	2014 £000	2013 £000
John Rennocks	**130**	125
Marie-Louise Clayton	**45**	42
John Nicholas	**45**	14
Charles Packshaw	**45**	14

The non-Executive Directors received a basic annual fee during the year and there were no additional fees paid in 2014 and 2013 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 2014, the Board approved an increase of 2% in the Chairman's fees to £133,000 per annum and in the annual fees paid to non-Executive Directors to £46,000, both to take effect from 1 October 2014.

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 2014	As at 1 Oct 2013
John Rennocks	**80,000**	80,000
Marie-Louise Clayton	**5,000**	5,000
John Nicholas	**2,000**	–
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.

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 39; the Strategic Report on pages 1 to 39 incorporates the requirements of the Companies Act 2006 (the "Act").

Annual General Meeting

The Annual General Meeting ("AGM") will be held at midday on Wednesday, 21 January 2015 in the Brewers Hall, Aldermanbury Square, London EC2V 7HR. A circular setting out the proposed resolutions, including a resolution to re-appoint Deloitte LLP as the auditor, will be set out in the Notice of the AGM which is a separate document which will be sent to all shareholders and published on the Group's website.

Substantial shareholdings

At 14 November 2014 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.	7.96%
Standard Life Investments Ltd	5.84%
Royal London Asset Management Ltd.	4.42%
BlackRock Inc.	4.15%
Mawer Investment Management Limited	3.39%
Baillie Gifford & Co.	3.32%
Fidelity Management & Research Co.	3.28%
Invesco PLC	3.07%
Schroders PLC	3.05%

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 ("SMP"), 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.

Restrictions on transfer of shares

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

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

Participants in the Company's SMP 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.

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.

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 15 January 2014. In the year ended 30 September 2014, the Company has not allotted any shares. These powers will expire at the conclusion of the 2015 AGM and resolutions to renew the Directors' powers are therefore included within the Notice of the AGM in 2015.

Authority to make market purchases of own shares

An authority to make market purchases of shares was given to the Directors by a special resolution at the AGM of the Company held on 15 January 2014. In the year to 30 September 2014 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2015 AGM and a resolution to renew the authority is therefore included within the Notice of the AGM in 2015.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £35.5m (2013: £34.5m). The Directors recommend a final dividend of 11.6p per ordinary share (2013: 10.7p), to be paid, if approved, on 28 January 2015. This, together with the interim dividend of 5.4p (2013: 5.0p) per ordinary share paid on 18 June 2014 amounts to 17.0p for the year (2013: 15.7p).

The results are shown more fully in the consolidated financial statements on pages 70 to 97 and summarised in the Finance Review on pages 18 to 20.

Details of post balance sheet events are included in note 29 to the consolidated financial statements.

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 39. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 18 to 20. 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 multi-currency revolving bank facility of £25m which expires on 23 June 2017. At 30 September 2014, the Group had cash funds of £21.3m 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the Group's consolidated financial statements, prepared in accordance with 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 17 November 2014 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 2014

	Note	2014 £m	2013 £m
Revenue	3, 4	**305.8**	285.5
Cost of sales		**(194.2)**	(178.6)
Gross profit		**111.6**	106.9
Distribution costs		**(6.4)**	(6.4)
Administration costs		**(54.9)**	(51.8)
Operating profit	3	**50.3**	48.7
Financial expense, net	6	**(0.5)**	(0.2)
Profit before tax		**49.8**	48.5
Tax expense	7	**(13.7)**	(13.7)
Profit for the year		**36.1**	34.8
Attributable to:			
Shareholders of the Company		**35.5**	34.5
Minority interests	21	**0.6**	0.3
		36.1	34.8
Earnings per share			
Basic and diluted earnings	9	**31.4p**	30.7p

Alternative Performance Measures (note 2)

	Note	2014 £m	2013 £m
Operating profit		**50.3**	48.7
Add: Acquisition related charges	11	**6.4**	5.6
Adjusted operating profit	3, 4	**56.7**	54.3
Deduct: Net interest expense	6	**(0.5)**	–
Adjusted profit before tax		**56.2**	54.3
Adjusted earnings per share	9	**36.1p**	34.8p

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 2014

	Note	2014 £m	2013 £m
Profit for the year		**36.1**	34.8
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial gains in defined benefit pension scheme	25c	**0.3**	0.2
Deferred tax on items that will not be reclassified		**–**	–
		0.3	0.2
Items that may be reclassified to Consolidated Income Statement			
Exchange rate losses on foreign currency net investments		**(8.7)**	(2.5)
Gains on fair value of cash flow hedges	19	**0.4**	–
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	**–**	(0.2)
Deferred tax on items that may be reclassified	7	**(0.1)**	0.1
		(8.4)	(2.6)
Total comprehensive income for the year		**28.0**	32.4
Attributable to:			
Shareholders of the Company		**27.7**	32.1
Minority interests		**0.3**	0.3
		28.0	32.4

Consolidated Statement of Changes in Equity

For the year ended 30 September 2014

	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 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
Total comprehensive income		–	(8.7)	0.3	36.1	27.7	0.3	28.0
Share-based payments	5	–	–	–	0.7	0.7	–	0.7
Acquisition of businesses		–	–	–	–	–	2.3	2.3
Minority interest put option	21	–	–	–	(2.3)	(2.3)	–	(2.3)
Minority interests acquired	21	–	–	–	0.9	0.9	(0.9)	–
Tax on items recognised directly in equity	7	–	–	–	0.5	0.5	–	0.5
Notional purchase of own shares		–	–	–	(1.8)	(1.8)	–	(1.8)
Dividends	8, 21	–	–	–	(18.2)	(18.2)	(0.2)	(18.4)
At 30 September 2014		**5.7**	**7.5**	**0.3**	**170.9**	**184.4**	**2.9**	**187.3**

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

Consolidated Statement of Financial Position
As at 30 September 2014

	Note	2014 £m	2013 £m
Non-current assets			
Goodwill	10	**80.2**	78.5
Acquisition intangible assets	11	**28.6**	26.7
Other intangible assets	11	**0.8**	0.8
Investment	12	**0.7**	0.7
Property, plant and equipment	13	**13.1**	13.9
Deferred tax assets	14	**0.9**	2.1
		124.3	122.7
Current assets			
Inventories	15	**54.1**	46.7
Trade and other receivables	16	**46.3**	42.8
Cash and cash equivalents	18	**21.3**	19.3
		121.7	108.8
Current liabilities			
Trade and other payables	17	**(43.9)**	(40.0)
Current tax liabilities		**(2.3)**	(1.7)
Other liabilities	20	**(1.6)**	(2.0)
		(47.8)	(43.7)
Net current assets		**73.9**	65.1
Total assets less current liabilities		**198.2**	187.8
Non-current liabilities			
Retirement benefit obligations	25a	**(4.3)**	(4.7)
Other liabilities	20	**(2.4)**	(1.0)
Deferred tax liabilities	14	**(4.2)**	(3.8)
Net assets		**187.3**	178.3
Equity			
Share capital		**5.7**	5.7
Translation reserve		**7.5**	16.2
Hedging reserve		**0.3**	–
Retained earnings		**170.9**	155.0
Total shareholders' equity		**184.4**	176.9
Minority interests	21	**2.9**	1.4
Total equity		**187.3**	178.3

The consolidated financial statements were approved by the Board of Directors on 17 November 2014 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 2014

	Note	2014 £m	2013 £m
Operating profit		**50.3**	48.7
Acquisition related charges	23	**6.4**	5.6
Non-cash items	23	**2.9**	2.7
Increase in working capital	23	**(4.6)**	(1.1)
Cash flow from operating activities		**55.0**	55.9
Interest paid, net		**(0.3)**	(0.2)
Tax paid		**(13.0)**	(14.8)
Net cash from operating activities		**41.7**	40.9
Cash flow from investing activities			
Acquisition of businesses (including expenses)	22	**(14.9)**	(1.2)
Deferred consideration paid	20	**(0.1)**	(0.6)
Purchase of property, plant and equipment	13	**(1.9)**	(4.1)
Purchase of other intangible assets	11	**(0.3)**	(0.5)
Proceeds from sale of property, plant and equipment		**0.1**	–
Net cash used in investing activities		**(17.1)**	(6.4)
Cash flow from financing activities			
Acquisition of minority interests	21	**(1.5)**	(0.4)
Dividends paid to shareholders	8	**(18.2)**	(17.4)
Dividends paid to minority interests	21	**(0.2)**	(0.2)
Purchase of own shares		**–**	(1.7)
Notional purchase of own shares on exercise of share options		**(1.8)**	(3.0)
Repayment of borrowings	24	**–**	(3.5)
Net cash used in financing activities		**(21.7)**	(26.2)
Net increase in cash and cash equivalents		**2.9**	8.3
Cash and cash equivalents at beginning of year		**19.3**	11.4
Effect of exchange rates on cash and cash equivalents		**(0.9)**	(0.4)
Cash and cash equivalents at end of year	18	**21.3**	19.3

Alternative Performance Measures (note 2)

	2014 £m	2013 £m
Net increase in cash and cash equivalents	**2.9**	8.3
Add: Dividends paid to shareholders	**18.2**	17.4
Dividends paid to minority interests	**0.2**	0.2
Acquisition of businesses and minority interests	**16.4**	1.6
Deferred consideration paid	**0.1**	0.6
Repayment of borrowings	**–**	3.5
Free cash flow	**37.8**	31.6
Cash and cash equivalents	**21.3**	19.3
Borrowings	**–**	–
Net cash	**21.3**	19.3

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 2014

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 17 November 2014. 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 ("EU") and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The financial statements of the Parent Company, Diploma PLC, have been prepared in accordance with "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, adjustments to deferred consideration (collectively, "acquisition related charges"), the costs of restructuring or rationalisation of operations and the profit or loss relating to the sale of businesses or property. The Directors believe that adjusted operating profit is an important measure of the 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 adjusted operating profit, after finance expenses (before fair value remeasurements under IAS 39 in respect of future purchases of minority interests) and before tax. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

2.3 Adjusted earnings per share
"Adjusted earnings per share" ("EPS") 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 EPS 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 and ROATCE
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 and acquisition liabilities in respect of future purchases of minority interests and deferred consideration. Adjusted trading capital employed is reported as being trading capital employed plus goodwill and acquisition related charges previously written off (net of deferred tax on acquisition intangible assets). Return on adjusted trading capital employed ("ROATCE") at the Group and Sector level is defined as the adjusted operating profit, divided by adjusted trading capital employed and adjusted for the timing effect of major acquisitions and disposals. The Directors believe that ROATCE is an important measure of the underlying performance of the Group.

3. Business sector analysis
For management reporting purposes, the Group is organised into three main business Sectors: Life Sciences, Seals and Controls. These Sectors form the basis of the primary reporting format disclosures below. The principal activities of each of these Sectors is described in the Strategic Report on pages 1 to 39. Sector revenue represents revenue from external customers; there is no inter-Sector revenue. Sector results, assets and liabilities include items directly attributable to a Sector, as well as those that can be allocated on a reasonable basis.

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

3. Business sector analysis continued

	Life Sciences		Seals		Controls		Group	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Revenue – existing businesses	**91.3**	93.2	**106.4**	106.1	**92.7**	86.2	**290.4**	285.5
– acquisitions	**0.1**	–	**13.4**	–	**1.9**	–	**15.4**	–
Revenue	**91.4**	93.2	**119.8**	106.1	**94.6**	86.2	**305.8**	285.5
Adjusted operating profit – existing businesses	**19.6**	20.9	**19.8**	19.5	**15.0**	13.9	**54.4**	54.3
– acquisitions	**0.1**	–	**1.9**	–	**0.3**	–	**2.3**	–
Adjusted operating profit	**19.7**	20.9	**21.7**	19.5	**15.3**	13.9	**56.7**	54.3
Acquisition related charges (note 11)	**(2.3)**	(2.8)	**(3.2)**	(2.0)	**(0.9)**	(0.8)	**(6.4)**	(5.6)
Operating profit	**17.4**	18.1	**18.5**	17.5	**14.4**	13.1	**50.3**	48.7

	Life Sciences		Seals		Controls		Group	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Operating assets	**29.3**	29.0	**45.0**	38.4	**37.2**	33.5	**111.5**	100.9
Investment	**–**	–	**0.7**	0.7	**–**	–	**0.7**	0.7
Goodwill	**44.2**	47.3	**21.0**	16.6	**15.0**	14.6	**80.2**	78.5
Acquisition intangible assets	**10.1**	12.9	**15.8**	11.3	**2.7**	2.5	**28.6**	26.7
	83.6	89.2	**82.5**	67.0	**54.9**	50.6	**221.0**	206.8
Unallocated assets:								
– Deferred tax assets							**0.9**	2.1
– Cash and cash equivalents							**21.3**	19.3
– Corporate assets							**2.8**	3.3
Total assets	**83.6**	89.2	**82.5**	67.0	**54.9**	50.6	**246.0**	231.5
Operating liabilities	**(14.7)**	(14.7)	**(14.6)**	(11.6)	**(14.9)**	(13.7)	**(44.2)**	(40.0)
Unallocated liabilities:								
– Deferred tax liabilities							**(4.2)**	(3.8)
– Retirement benefit obligations							**(4.3)**	(4.7)
– Acquisition liabilities							**(4.0)**	(3.0)
– Corporate liabilities							**(2.0)**	(1.7)
Total liabilities	**(14.7)**	(14.7)	**(14.6)**	(11.6)	**(14.9)**	(13.7)	**(58.7)**	(53.2)
Net assets	**68.9**	74.5	**67.9**	55.4	**40.0**	36.9	**187.3**	178.3
Other Sector information								
Capital expenditure	**1.2**	2.8	**0.5**	0.9	**0.5**	0.9	**2.2**	4.6
Depreciation and amortisation	**1.3**	1.4	**0.7**	0.7	**0.5**	0.4	**2.5**	2.5

Alternative Performance Measures (note 2)

	Life Sciences		Seals		Controls		Group	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Net assets	**68.9**	74.5	**67.9**	55.4	**40.0**	36.9	**187.3**	178.3
Add/(less):								
– Deferred tax, net							**3.3**	1.7
– Retirement benefit obligations							**4.3**	4.7
– Future purchases of minority interests							**4.0**	3.0
– Cash and cash equivalents							**(21.3)**	(19.3)
Reported trading capital employed							**177.6**	168.4
– Historic goodwill and acquisition related charges, net of deferred tax	**22.3**	19.1	**19.6**	17.3	**7.7**	6.7	**49.6**	43.1
Adjusted trading capital employed	**91.2**	93.6	**87.5**	72.7	**47.7**	43.6	**227.2**	211.5
ROATCE[1]	**21.9%**	22.3%	**26.0%**	27.1%	**33.2%**	32.0%	**25.8%**	25.8%

1 ROATCE is calculated after adjusting for the timing of acquisitions completed during the year.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
United Kingdom	**85.7**	74.8	**13.8**	12.0	**23.8**	21.3	**39.7**	34.2	**0.5**	1.0
Rest of Europe	**53.2**	40.1	**7.9**	6.3	**22.0**	12.9	**32.2**	21.7	**0.1**	0.4
North America[2]	**166.9**	170.6	**35.0**	36.0	**76.9**	85.7	**105.7**	112.5	**1.6**	3.2
	305.8	285.5	**56.7**	54.3	**122.7**	119.9	**177.6**	168.4	**2.2**	4.6

1 Non-current assets exclude the investment and deferred tax assets.
2 North America includes the Australian Healthcare businesses.

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 52 to 67. The amount charged against operating profit in the year in respect of Director short term remuneration was in aggregate £2.2m (2013: £1.7m). The charge for share-based payments of £0.7m (2013: £0.5m) relates to the Group's Long Term Incentive Plan ("LTIP"), 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 (2013: £0.2m).

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

	2014 £m	2013 £m
Wages and salaries	**49.5**	47.5
Social security costs	**5.2**	5.3
Pension costs – defined contribution	**1.7**	1.5
Share-based payments	**0.7**	0.5
	57.1	54.8

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

	2014 Number	2013 Number
Life Sciences	**334**	319
Seals	**604**	513
Controls	**312**	300
Corporate	**14**	13
Number of employees – average	**1,264**	1,145
Number of employees – year end	**1,324**	1,159

6. Financial expense, net

	2014 £m	2013 £m
Interest and similar income		
– interest receivable on short term deposits	**0.1**	0.1
– interest income on the defined benefit pension scheme (note 25b)	**–**	0.2
	0.1	0.3
Interest expense and similar charges		
– bank facility and commitment fees	**(0.4)**	(0.1)
– interest payable on bank and other borrowings	**–**	(0.2)
– interest expense on the defined benefit pension scheme (note 25b)	**(0.2)**	–
	(0.6)	(0.3)
Net interest expense	**(0.5)**	–
– fair value remeasurement of put options (note 20)	**–**	(0.2)
Financial expense, net	**(0.5)**	(0.2)

The fair value remeasurement of £Nil (2013: £0.2m) includes £0.1m (2013: £0.3m) which relates to the unwinding of the discount on the liability for future purchases of minority interests.

As described further in note 25b, the Group has adopted the amendments set out in IAS19 (revised) 'Employee Benefits' which has given rise to an interest expense on the defined benefit pension scheme of £0.2m, compared with interest income of £0.2m last year. If this amendment had been adopted last year, the interest income of £0.2m on the defined pension scheme would have been an interest expense of £0.2m. The comparative however has not been restated as the amount is not material.

7. Tax expense

	2014 £m	2013 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**2.6**	2.7
Overseas tax	**12.1**	12.1
	14.7	14.8
Adjustments in respect of prior year:		
UK corporation tax	**(0.1)**	–
Overseas tax	**(0.4)**	(0.3)
Total current tax	**14.2**	14.5
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**–**	0.1
Overseas	**(0.5)**	(0.9)
Total deferred tax	**(0.5)**	(0.8)
Total tax on profit for the year	**13.7**	13.7

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 was charged (2013: £0.1m credit) directly to the Consolidated Statement of Income and Other Comprehensive Income. A further £0.5m (2013: £0.6m) was credited to the Consolidated Statement of Changes in Equity which relates to share-based payments made during the year, comprising a current tax credit of £1.0m (2013: £1.3m credit) less a deferred tax charge of £0.5m (2013: £0.7m charge).

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 of 22.0% to the profit before tax of £49.8m and the amounts set out above is as follows:

	2014 £m	2013 £m
Profit before tax	**49.8**	48.5
Tax on profit at UK effective corporation tax rate of 22.0% (2013: 23.5%)	**11.0**	11.4
Effects of:		
– change in UK tax rates	**–**	0.2
– higher tax rates on overseas earnings	**3.2**	2.5
– adjustments to tax charge in respect of previous years	**(0.5)**	(0.3)
– other permanent differences	**–**	(0.1)
Total tax on profit for the year	**13.7**	13.7

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 23.0% to 21.0% on 31 March 2014; 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 2014 was 22.0% (2013: 23.5%) 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 ca.38%.

A reduction in the UK corporation tax rate from 21.0% to 20.0% (effective from 1 April 2015) was substantively enacted on 2 July 2013.

This reduction in the UK corporation tax rate is likely to lead to a further reduction in the future UK current tax charge. The UK deferred tax assets and liabilities at 30 September 2014 have been calculated based on the rate of 20.0% substantively enacted at 30 September 2014.

8. Dividends

	2014 pence per share	2013 pence per share	2014 £m	2013 £m
Interim dividend, paid in June	**5.4**	5.0	**6.1**	5.6
Final dividend of the prior year, paid in January	**10.7**	10.2	**12.1**	11.8
	16.1	15.2	**18.2**	17.4

The Directors have proposed a final dividend in respect of the current year of 11.6p per share (2013: 10.7p) which will be paid on 28 January 2015, subject to approval of shareholders at the Annual General Meeting ("AGM") on 21 January 2015. The total dividend for the current year, subject to approval of the final dividend, will be 17.0p per share (2013: 15.7p).

The Diploma Employee Benefit Trust holds 293,348 (2013: 586,887) shares, which are not eligible for dividends.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

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 112,893,129 (2013: 112,454,287) and the profit for the year attributable to shareholders of £35.5m (2013: £34.5m). There are no potentially dilutive shares.

Adjusted earnings per share

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

	2014 pence per share	2013 pence per share	2014 £m	2013 £m
Profit before tax			**49.8**	48.5
Tax expense			**(13.7)**	(13.7)
Minority interests			**(0.6)**	(0.3)
Earnings for the year attributable to shareholders of the Company	**31.4**	30.7	**35.5**	34.5
Acquisition related charges	**5.7**	4.9	**6.4**	5.6
Fair value remeasurement of put options	**–**	0.2	**–**	0.2
Tax effects on acquisition related charges and fair value remeasurements	**(1.0)**	(1.0)	**(1.1)**	(1.1)
Adjusted earnings	**36.1**	34.8	**40.8**	39.2

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2012	47.6	16.5	15.7	79.8
Transfers	1.9	–	(1.9)	–
Acquisitions	–	–	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
Acquisitions (note 22)	0.3	5.0	0.7	6.0
Exchange adjustments	(3.4)	(0.6)	(0.3)	(4.3)
At 30 September 2014	**44.2**	**21.0**	**15.0**	**80.2**

The Group tests goodwill for impairment generally twice a year. For the purposes of impairment testing, goodwill is allocated to each of the Group's three operating Sectors. This represents a change from the prior year and reflects the lowest level within the Group at which goodwill is monitored by management and better reflects the Group's strategy of acquiring businesses to drive synergies across a Sector, rather than in an individual business. The impairment test requires a "value in use" valuation to be prepared for each Sector using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and the Group's five year strategic plan. Beyond five years cash flow projections utilise a perpetuity growth rate of 2%.

The key assumptions used to prepare the cash flow forecasts relate to gross margins, 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 for the next five years represent the budgeted amounts for 2015 and thereafter, average growth rates for each Sector; these annual growth rates then trend down to 2% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca.13% (2013: 13%). This single rate is based on the characteristics of lower risk, non-technically driven, distribution businesses operating generally in well developed markets and geographies and with robust capital structures. As these features are consistent between each of the Group's Sectors the Board considers that it is more appropriate to use a single discount rate applied to each Sector's cash flow forecasts.

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

The Directors have also carried out sensitivity analysis on the key assumptions noted above to determine whether a "reasonably possible change" in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a "reasonably possible change" would be not give rise to an impairment charge to goodwill in any of the three Sectors. Given the significant headroom in the Group's impairment calculations, an impairment would not have arisen had goodwill continued to have been assessed on a business unit basis.

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 2012	33.6	17.3	2.5	53.4	2.7
Additions	–	–	–	–	0.5
Acquisitions	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
Additions	–	–	–	–	0.3
Acquisitions (note 22)	9.0	–	–	9.0	–
Disposals	–	–	–	–	(0.2)
Exchange adjustments	(1.5)	(1.1)	–	(2.6)	(0.1)
At 30 September 2014	**41.3**	**15.6**	**2.5**	**59.4**	**2.9**
Amortisation					
At 1 October 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
Charge for the year	3.9	1.6	0.1	5.6	0.3
Disposals	–	–	–	–	(0.2)
Exchange adjustments	(0.6)	(0.5)	–	(1.1)	(0.1)
At 30 September 2014	**18.5**	**10.5**	**1.8**	**30.8**	**2.1**
Net book value					
At 30 September 2014	**22.8**	**5.1**	**0.7**	**28.6**	**0.8**
At 30 September 2013	18.6	7.3	0.8	26.7	0.8

Acquisition related charges are £6.4m (2013: £5.6m) and comprise £5.6m (2013: £5.6m) of amortisation of acquisition intangible assets and £0.8m of acquisition expenses (2013: negligible).

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

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

12. Investment

	2014 £m	2013 £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 2014, there was no material difference between the book value of this investment and its fair value.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

13. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Total £m
Cost				
At 1 October 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
Additions	–	0.2	1.7	1.9
Acquisitions	–	–	0.3	0.3
Disposals	–	(0.1)	(3.3)	(3.4)
Exchange adjustments	(0.2)	(0.2)	(0.9)	(1.3)
At 30 September 2014	**8.6**	**2.8**	**16.0**	**27.4**
Depreciation				
At 1 October 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
Charge for the year	0.1	0.2	1.9	2.2
Disposals	–	(0.1)	(3.2)	(3.3)
Exchange adjustments	0.1	–	(0.7)	(0.6)
At 30 September 2014	**2.6**	**1.1**	**10.6**	**14.3**
Net book value				
At 30 September 2014	**6.0**	**1.7**	**5.4**	**13.1**
At 30 September 2013	6.4	1.9	5.6	13.9

Land included within freehold properties above, but which is not depreciated, is £2.0m (2014: £2.0m). Capital commitments contracted, but not provided, were £0.1m (2013: £0.1m).

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 at 30 September 2014 is £1.0m (2013: £0.5m), with a book value of £Nil.

14. Deferred tax

The movement on deferred tax is as follows:

	2014 £m	2013 £m
At 1 October	**(1.7)**	(1.6)
Credit for the year (note 7)	**0.5**	0.8
Acquisitions (note 22)	**(1.7)**	(0.2)
Accounted for in equity (note 7)	**(0.5)**	(0.7)
Accounted for in Other Comprehensive Income	**(0.1)**	0.1
Exchange adjustments	**0.2**	(0.1)
At 30 September	**(3.3)**	(1.7)

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	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Property, plant and equipment	**0.3**	0.4	**(0.8)**	(0.8)	**(0.5)**	(0.4)
Goodwill and intangible assets	**–**	–	**(5.7)**	(5.2)	**(5.7)**	(5.2)
Retirement benefit obligations	**0.9**	0.9	**–**	–	**0.9**	0.9
Inventories	**1.0**	1.1	**–**	–	**1.0**	1.1
Share-based payments	**0.2**	0.8	**–**	–	**0.2**	0.8
Trading losses	**0.3**	0.4	**–**	–	**0.3**	0.4
Other temporary differences	**0.6**	0.8	**(0.1)**	(0.1)	**0.5**	0.7
	3.3	4.4	**(6.6)**	(6.1)	**(3.3)**	(1.7)
Deferred tax offset	**(2.4)**	(2.3)	**2.4**	2.3	**–**	–
	0.9	2.1	**(4.2)**	(3.8)	**(3.3)**	(1.7)

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 £3.0m (2013: £2.2m).

15. Inventories

	2014 £m	2013 £m
Finished goods	**54.1**	46.7

Inventories are stated net of impairment provisions of £5.3m (2013: £5.0m). During the year £1.3m (2013: £1.2m) was recognised as a charge against operating profit, comprising the write-down of inventories to net realisable value.

16. Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**42.3**	39.8
Less: impairment provision	**(0.5)**	(0.3)
	41.8	39.5
Other receivables	**2.6**	1.5
Prepayments and accrued income	**1.9**	1.8
	46.3	42.8

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

	2014 £m	2013 £m
UK sterling	**14.1**	13.3
US dollars	**10.3**	9.6
Canadian dollars	**9.0**	9.5
Euro	**5.3**	4.7
Other	**3.6**	2.7
	42.3	39.8

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

	2014 £m	2013 £m
Not past due	**34.5**	33.1
Past due, but not impaired	**7.3**	6.4
Past due, but partially impaired	**0.5**	0.3
	42.3	39.8

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

	2014 £m	2013 £m
Up to one month past due	**6.0**	5.3
Between one and two months past due	**1.0**	0.9
Between two and four months past due	**0.2**	0.2
Over four months past due	**0.1**	–
	7.3	6.4

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

	2014 £m	2013 £m
At 1 October	**0.3**	0.4
Charged against profit, net	**0.1**	–
Set up on acquisition	**0.1**	–
Utilised by write-off	**–**	(0.1)
At 30 September	**0.5**	0.3

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

17. Trade and other payables

	2014 £m	2013 £m
Trade payables	**26.1**	23.2
Other payables	**1.2**	1.5
Other taxes and social security	**2.7**	2.5
Accruals and deferred income	**13.9**	12.8
	43.9	40.0

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

	2014 £m	2013 £m
UK sterling	**7.8**	6.2
US dollars	**11.5**	10.9
Canadian dollars	**0.8**	0.8
Euro	**5.1**	4.5
Other	**0.9**	0.8
	26.1	23.2

18. Cash and cash equivalents

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2014 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2013 Total £m
Cash at bank	**3.4**	**5.6**	**1.3**	**2.3**	**1.4**	**14.0**	3.9	3.7	1.6	1.0	1.0	11.2
Short term deposits	**3.0**	**–**	**2.4**	**1.7**	**0.2**	**7.3**	2.5	1.8	3.2	0.6	–	8.1
	6.4	**5.6**	**3.7**	**4.0**	**1.6**	**21.3**	6.4	5.5	4.8	1.6	1.0	19.3

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

19. Financial instruments

The Group's principal financial instruments, other than a small 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 37 within Principal Risks and Uncertainties, all of which have been audited.

a) Credit risk

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

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

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

Exposure to counterparty credit risk with financial institutions is controlled by the Group treasury team which establishes and monitors counterparty limits. Centrally managed funds are invested entirely with counterparties whose credit rating is "AA" or better.

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

	Carrying amount	
	2014 £m	2013 £m
Trade receivables	**41.8**	39.5
Other receivables	**2.6**	1.5
Cash and cash equivalents	**21.3**	19.3
	65.7	60.3

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 cash and forecasts cash flows to ensure that sufficient resources are available to meet the Group's requirements in the short, medium and long term. Additionally, compliance with debt covenants are monitored regularly and during 2014 all covenants were complied with fully.

The Group is highly cash generative and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on deposits. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses, but the Group also has a committed £25m revolving bank facility (with an option to increase its facility to £50m, subject to market pricing) which expires on 23 June 2017. Interest on this facility is payable at between 120 and 170bps over LIBOR, depending on the ratio of net debt to EBITDA. At 30 September 2014 none of the facility had been drawn down (2013: £Nil).

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

	2014 £m	2013 £m
Expiring within one year	–	20.0
Expiring after two years	**25.0**	–

The Group's financial liabilities are as follows:

	Carrying amount	
	2014 £m	2013 £m
Trade payables	**26.1**	23.2
Other payables	**1.2**	1.5
Other liabilities (note 20)	**4.0**	3.0
	31.3	27.7
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**28.9**	26.8
One to two years	–	1.1
Two to five years	**3.3**	–
	32.2	27.9
Less: Discount	**(0.9)**	(0.2)
	31.3	27.7

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 (2013: £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, Euro and Japanese yen. 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 2014 was £31.0m (2013: £15.4m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2014 was £0.3m (2013: negligible). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was negligible (2013: £0.2m debit). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £0.4m (2013: negligible).

The currency risk arising from both translational and transactional risks are described further on page 37 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
For the year ended 30 September 2014

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 18 months from the year end.

Trade and other receivables/payables

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

Other liabilities

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

f) Capital management risk

The Group's 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 comprises 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 change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or increase bank borrowings.

20. Other liabilities

	2014 £m	2013 £m
Future purchases of minority interests	**3.5**	2.8
Deferred consideration	**0.5**	0.2
	4.0	3.0
Analysed as:		
Due within one year	**1.6**	2.0
Due after one year	**2.4**	1.0

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

	2014 £m	2013 £m
At 1 October	**2.8**	3.2
Acquisition of minority interest	**(1.6)**	(0.6)
Put options entered into during the year	**2.3**	–
Unwinding of discount	**0.1**	0.3
Fair value remeasurements	**(0.1)**	(0.1)
At 30 September	**3.5**	2.8

At 30 September 2014, the Group retained put options to acquire minority interests in Kentek and M Seals which are exercisable between 2015 and 2022. As described in note 22, put/call options were recognised during the year at a value of £2.3m (€2.7m) in respect of the 20% minority interest in Kentek, acquired on 13 January 2014. On 13 January 2014 and 31 July 2014, the Group acquired the outstanding minority interests in DSL for an aggregate of £0.9m (A$1.6m). On 31 July 2014 the Group acquired the outstanding minority interest in HPS for £0.7m (US$1.2m), including deferred consideration of £0.1m (US$0.1m).

At 30 September 2014 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 2014. This led to a remeasurement of the fair value of these put options and the liability was reduced by £0.1m (2013: reduced by £0.1m). This reduction was offset by the charge from unwinding the discount on the liability and in aggregate £Nil (2013: £0.2m) has been charged to the Consolidated Income Statement.

20. Other liabilities continued

At 30 September 2014 deferred consideration of £0.5m relates to £0.1m payable to the vendor of Specialty Fasteners & Components Limited ("SFC"), £0.1m (A$0.2m) payable to the vendor of BGS, £0.2m (€0.2m) payable to the vendor of Kentek and £0.1m (US$0.1m) payable to the vendor of HPS. The amount payable to the vendor of BGS represents the third and final instalment of deferred consideration, having paid a second instalment of deferred consideration of £0.1m (A$0.2m) during this year.

21. Minority interests

	£m
At 1 October 2012	1.4
Share of net assets acquired	(0.1)
Share of profit	0.3
Dividends paid	(0.2)
At 30 September 2013	1.4
Acquisition of Kentek Oy	2.3
Share of net assets acquired	(0.9)
Share of profit	0.6
Dividends paid	(0.2)
Exchange adjustments	(0.3)
At 30 September 2014	**2.9**

On 13 January 2014 and 31 July 2014 the Group acquired 6% and 14% respectively of the outstanding 20% share capital in DSL from the previous owners for cash consideration of £0.9m (A$1.6m). On 31 July 2014, the Group acquired the outstanding 49% shareholding in HPS for a maximum consideration of £0.7m (US$1.1m). On completion, the initial consideration was £0.6m (US$1.0m) with a further payment of up to £0.1m (US$0.1m) dependent on the achievement of certain performance criteria in the 12 months ending on 30 September 2015.

22. Acquisition of businesses

On 13 January 2014, the Group acquired 80% of Kentek Oy ("Kentek") for maximum consideration of £11.0m (€13.3m). The initial cash paid on acquisition was £8.9m (€10.7m), with a further £0.8m (€1.0m) paid on 14 May 2014 relating to net assets at acquisition. Deferred consideration of up to £1.3m (€1.6m) is also payable depending on the operating profit of Kentek in the 12 months ending 31 December 2014. The fair value of the 20% minority interest in Kentek of £2.3m has been calculated based on the net present value of the projected performance of the business between 2015 and 2018, when the put options become exercisable.

On 3 June 2014, the Group acquired SFC for a maximum consideration of £2.8m. The initial cash on acquisition was £2.7m and up to a further £0.1m is payable based on the operating profit of the business in the 12 months ended 31 December 2014.

In addition, during the year the Group made a number of smaller acquisitions, all of which were paid for in cash, which were as follows:

17 October 2013	Sacee	£0.3m (€0.3m)
19 December 2013	Ramsay Services Limited ("Ramsay")	£1.3m
28 February 2014	AB Seals Limited ("AB Seals")	£0.5m
10 July 2014	Chemzyme Australia	£0.6m (A$1.2m)
31 July 2014	Maxwell Seals	£0.2m

Acquisition expenses of £0.8m were incurred on these acquisitions, of which £0.6m related to the acquisition of Kentek, including local stamp duty taxation.

From the date of acquisition to 30 September 2014, the newly acquired Kentek business contributed £12.4m to revenue and £1.7m to adjusted operating profit and the other newly acquired businesses contributed £3.0m to revenue and £0.6m to adjusted operating profit. If all of these businesses had been acquired at the beginning of the financial year, they would have contributed £20.6m to revenue and £2.7m to adjusted operating profit, in aggregate; however these amounts should not be viewed as indicative of the results of these businesses that would have occurred, if these acquisitions had been completed at the beginning of the year.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

22. Acquisition of business continued
Set out below is an analysis of the provisional net book values and fair values relating to these acquisitions.

	Kentek		Other		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	–	6.5	–	2.5	–	9.0
Property, plant and equipment	0.2	0.2	0.1	0.1	0.3	0.3
Inventories	2.9	2.7	1.5	1.3	4.4	4.0
Trade and other receivables	1.0	0.9	1.1	1.1	2.1	2.0
Trade and other payables	(1.6)	(1.6)	(1.2)	(1.2)	(2.8)	(2.8)
Deferred tax	–	(1.2)	–	(0.5)	–	(1.7)
Net assets acquired	2.5	7.5	1.5	3.3	4.0	10.8
Goodwill	–	4.3	–	1.7	–	6.0
Minority share of net assets (including goodwill)	–	(2.3)	–	–	–	(2.3)
	2.5	9.5	1.5	5.0	4.0	14.5
Cash paid		9.7		5.6		15.3
Cash acquired		(0.4)		(0.8)		(1.2)
Expenses of acquisition		0.6		0.2		0.8
Net cash paid, after acquisition expenses		**9.9**		**5.0**		**14.9**
Deferred consideration payable		0.2		0.2		0.4
Less: Expenses of acquisition		(0.6)		(0.2)		(0.8)
Total consideration		**9.5**		**5.0**		**14.5**

Goodwill arising on these acquisitions of £6.0m represents the product know-how held by employees and the prospect for revenue growth from new customers. Goodwill and acquisition intangible assets relating to these acquisitions of £0.2m will be allowable for a tax deduction in future years.

23. Reconciliation of cash flow from operating activities

	2014 £m	2014 £m	2013 £m	2013 £m
Operating profit		**50.3**		48.7
Acquisition related charges (note 11)		**6.4**		5.6
Adjusted operating profit		**56.7**		54.3
Depreciation or amortisation of tangible and other intangible assets	**2.5**		2.5	
Share-based payments expense	**0.7**		0.5	
Cash paid into defined benefit schemes (note 25e)	**(0.3)**		(0.3)	
Non-cash items		**2.9**		2.7
Operating cash flow before changes in working capital		**59.6**		57.0
Increase in inventories	**(4.6)**		(0.9)	
Increase in trade and other receivables	**(3.1)**		(2.5)	
Increase in trade and other payables	**3.1**		2.3	
Increase in working capital		**(4.6)**		(1.1)
Cash flow from operating activities, before acquisition expenses		**55.0**		55.9

24. Net cash

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

	2014 £m	2013 £m
Net increase in cash and cash equivalents	**2.9**	8.3
Decrease in borrowings	**–**	3.5
	2.9	11.8
Effect of exchange rates	**(0.9)**	(0.4)
Movement in net cash	**2.0**	11.4
Net cash at beginning of year	**19.3**	7.9
Net cash at end of year	**21.3**	19.3
Comprising:		
Cash and cash equivalents	**21.3**	19.3
Borrowings	**–**	–
Net cash at 30 September	**21.3**	19.3

The Group has a committed multi-currency £25m revolving bank facility with an accordion option to increase this facility to £50m, subject to market pricing. This facility expires on 23 June 2017. Interest on this facility is payable between 120 and 170bps over LIBOR, depending on the ratio of net debt to EBITDA.

25. Retirement benefit obligations

Diploma Holdings PLC ("the Company") operates a defined benefit pension arrangement called the Diploma Holdings PLC UK Pension Scheme ("the Scheme"). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. Defined contribution schemes operated by the Group's businesses are not included in these disclosures.

The Scheme is subject to a Statutory Funding Objective under the Pensions Act 2004 which requires that a valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The most recent triennial actuarial valuation carried out as at 30 September 2013 reported that the Scheme had a funding deficit of £2.7m and held assets which covered 90% of its liabilities at that date. There were no Scheme amendments, curtailments or settlements during the year.

The Scheme is managed by a set of Trustees appointed in part by the Company and in part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

The Scheme exposes the Company and therefore the Group, to a number of risks:

- **Investment risk.** The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, volatility over the short term can cause additional funding to be required if a deficit emerges.
- **Interest rate risk.** The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme's assets include equities, the value of the assets and liabilities may not move in the same way.
- **Inflation risk.** A significant proportion of the benefits under the Scheme are linked to inflation. The Scheme's assets are expected to provide a good hedge against inflation over the long term, however movements over the short term could lead to funding deficits emerging.
- **Mortality risk.** In the event that members live longer than assumed, a funding deficit may emerge in the Scheme.

a) Pension deficit included in the Consolidated Statement of Financial Position:

	2014 £m	2013 £m
Market value of Scheme assets:		
Equities	**19.7**	18.6
Bonds	**5.2**	4.7
	24.9	23.3
Present value of Scheme liabilities	**(29.2)**	(28.0)
Pension scheme net deficit	**(4.3)**	(4.7)

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

25. Retirement benefit obligations continued
b) Amounts charged to the Consolidated Income Statement:

	2014 £m	2013 £m
Charged to operating profit	–	–
Interest cost on liabilities	(1.3)	(1.2)
Interest on assets (2013: Expected return on Scheme assets)	1.1	1.4
(Charged)/credited to financial expense, net (note 6)	(0.2)	0.2
Amount (charged)/credited to the Consolidated Income Statement	**(0.2)**	0.2

In the year ended 30 September 2014 the Group has adopted the amendments set out in IAS19 (revised) 'Employee Benefits'. This revised Standard has required the Group's accounting policy on interest expense on the defined benefit obligation and expected return on Scheme assets to be replaced with a single net interest cost, calculated by applying the Scheme's discount rate to the net defined benefit liability. This amendment, the impact of which is not material to the Group, has been reflected in the 2014 consolidated financial statements, but no restatement has been made to the comparative year.

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

	2014 £m	2013 £m
Investment gain on scheme assets in excess of interest (2013: Experience adjustments on Scheme assets)	0.8	1.9
Effect of changes in financial assumptions on Scheme liabilities	(2.3)	(1.2)
Effect of changes in demographic assumptions on Scheme liabilities	0.8	–
Experience adjustments on Scheme liabilities	1.0	(0.5)
Actuarial gains credited in the Consolidated Statement of Income and Other Comprehensive Income	**0.3**	0.2

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Income and Other Comprehensive Income, since the transition to IFRS, is £4.4m (2013: £4.7m).

Analysis of movement in the pension deficit:

	2014 £m	2013 £m
At 1 October	4.7	5.4
Amounts charged/(credited) to the Consolidated Income Statement	0.2	(0.2)
Contributions paid by employer	(0.3)	(0.3)
Net effect of remeasurements of Scheme assets and liabilities	(0.3)	(0.2)
At 30 September	**4.3**	4.7

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

	2014 £m	2013 £m
At 1 October	28.0	26.1
Interest cost	1.3	1.2
Actuarial loss	–	0.3
Loss on changes in assumptions	0.5	1.4
Benefits paid	(0.6)	(1.0)
At 30 September	**29.2**	28.0

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

	2014 £m	2013 £m
At 1 October	23.3	20.7
Interest on assets (2013: Expected return on assets)	1.1	1.4
Return on Scheme assets less interest (2013: Actuarial gain)	0.8	1.9
Contributions paid by employer	0.3	0.3
Benefits paid	(0.6)	(1.0)
At 30 September	**24.9**	23.3

The actual return on the Scheme assets during the year was a £1.9m gain (2013: £3.3m gain).

25. Retirement benefit obligations continued

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2014, the major categories of assets were as follows:

	2014 %	2013 %
North America equities	**21**	20
UK equities	**20**	20
European equities (non-UK)	**20**	20
Asia Pacific and Emerging Markets equities	**19**	19
Corporate bonds	**12**	8
Index-linked gilts	**8**	13

Principal actuarial assumptions for the Scheme at balance sheet dates:

		2014	2013	2012
Inflation rate	– RPI	**3.3%**	3.3%	2.6%
	– CPI	**2.5%**	2.6%	1.9%
Expected rate of pension increases	– CPI	**2.5%**	2.6%	1.9%
Discount rate		**4.1%**	4.6%	4.6%
Number of years a current pensioner is expected to live beyond age 65:				
Men		**22.0**	22.5	22.4
Women		**24.4**	24.9	24.8

Demographic assumptions:

Mortality table used:	S1NxA
Year the mortality table was published:	CMI 2013
Allowance for future improvements in longevity:	Year of birth projections, with a long term improvement rate of 1.0%
Allowance made for members to take a cash lump sum on retirement:	Members are assumed to take 100% of their maximum cash sum (based on current commutation factors)

The weighted average duration of the defined benefit obligation is around 18 years.

Sensitivities:

The sensitivity of the 2014 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%	9.1	2.7
Inflation	Increase by 0.5%	3.7	1.1
Life expectancy	Increase by one year	2.0	0.6

Risk mitigation strategies

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

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

The Company is required to agree a schedule of contributions with the Trustees of the Scheme following each triennial actuarial valuation. Following the triennial actuarial valuation carried out as at 30 September 2013, the Company agreed to contribute £0.3m in cash annually to the Scheme. The next valuation of the Scheme is due at 30 September 2016.

Notes to the Consolidated Financial Statements continued
For the year ended 30 September 2014

26. Commitments

At 30 September 2014 the Group has outstanding aggregate commitments for future lease payments (under non-cancellable operating leases) in respect of the following years:

	Land and Buildings	
	2014 £m	2013 £m
Within one year	**2.3**	1.8
For years two to five	**4.7**	4.0
After five years	**1.4**	1.1
	8.4	6.9

Operating lease payments made in respect of land and buildings during the year were £2.5m (2013: £2.1m).

27. Auditor's remuneration

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

	2014 £m	2013 £m
Fees payable to the auditor for the audit of:		
– the Company's Annual Report & Accounts	**0.1**	0.1
– the Company's subsidiaries	**0.2**	0.2
Audit fees	**0.3**	0.3

Non-audit fees of £12,000 (2013: £11,000) were paid to the Group's auditor for reviewing the Half Year Announcement, which is unaudited. In 2013 a further £60,000 was paid in connection with a tax assignment.

28. Exchange rates

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

	Average		Closing	
	2014	2013	2014	2013
US dollar (US$)	**1.66**	1.56	**1.62**	1.62
Canadian dollar (C$)	**1.80**	1.59	**1.81**	1.66
Australian dollar (A$)	**1.81**	1.58	**1.85**	1.73
Euro (€)	**1.23**	1.19	**1.28**	1.20

29. Subsequent events

On 6 October 2014 the Group completed the acquisition of 80% of Technopath Distribution Limited ("TPD") for consideration of £11.1m (€14.1m) including acquired debt of £1.5m (€1.9m). Put and call options have been included in the transaction to allow the Group to acquire the outstanding 20% of shares over a period of up to five years. The TPD business is based in Ballina, County Tipperary in Ireland and is an established supplier of products to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and in the UK.

A review to determine fair values of the net assets acquired will be completed during the next financial year.

Group Accounting Policies
For the year ended 30 September 2014

The consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EU and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies set out below have been consistently applied in 2014 and the comparative year with the exception of accounting for interest on the assets in the defined benefit pension scheme.

For the year ended 30 September 2014 the Group adopted amendments to IAS 19 (revised) "Employee Benefits" for the first time. In accordance with the revised Standard, the Group's accounting policy has been changed to replace interest on the defined benefit obligation and expected return on scheme assets with a single net interest cost, calculated by applying the discount rate to the net defined benefit liability. This amendment, which is not material to the Group, has been reflected in the 2014 consolidated financial statements, but not in the comparative year. IFRS 13 "Fair Value Measurement" became effective during the year, however this Standard does not materially impact the Group's consolidated financial statements. There were no other new Standards, amendments or interpretations to existing Standards which have been published and endorsed by the EU and which have a significant impact on the results, financial position or presentation of the consolidated financial statements for the year ended 30 September 2014.

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 69.

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.

Group Accounting Policies continued
For the year ended 30 September 2014

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 net deficit in the scheme – calculated by applying the discount rate to the net defined benefit liability at the start of the annual reporting period.

(ii) Within the Consolidated Statement of Income and Other Comprehensive Income:
- Actuarial gains and losses arising on the assets and liabilities of the scheme arising from actual experience and any changes in assumptions at the end of the year.

The Group has adopted a policy of recognising all actuarial gains and losses for its defined benefit scheme in the period in which they occur, outside the Consolidated Income Statement, but in the Consolidated Statement of Income and Other Comprehensive Income.

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

Equity-settled transactions are measured at fair value at the date of grant. The fair value determined at the grant date takes account of the effect of market based measures, such as the Total Shareholder Return ("TSR") targets upon which vesting of part of the award is conditional, and is expensed to the 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.

(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.

Group Accounting Policies continued
For the year ended 30 September 2014

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 IAS38 "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.

Fair values on larger acquisitions are assessed as follows; customer relationships are valued using a discounted cash flow model; databases are valued using a replacement cost model; the amount in respect of supplier relationships and trade names are valued on a relief from royalty method. For smaller acquisitions, intangible assets are assessed using historical experience of similar transactions.

(d) Goodwill – business combinations
Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of the fair value of the consideration over the aggregate fair value of the identifiable intangible, tangible and current assets and net of the aggregate fair value of the liabilities (including contingent liabilities of businesses acquired at the date of acquisition). Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Impairment testing is carried out annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill on acquisitions is not amortised.

1.11 Impairment of tangible and intangible assets
An impairment loss is recognised to the extent that the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of (i) its fair value less costs to sell and (ii) its value in use; its value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Impairment losses are recognised immediately in the 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 Group's three Sectors which represent the lowest level within the Group at which the goodwill is monitored by the Group's Board of Directors for internal and management purposes. 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.

(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 market price at the balance sheet date.

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

Group Accounting Policies continued
For the year ended 30 September 2014

1.14 Investments (available for sale financial assets)
The investment held by the Group comprises equity shares which are not held for the purposes of equity trading and in accordance with IAS39 is classified as available for sale. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in 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.

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 AGM; interim dividends are charged in the period they are paid.

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

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

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

(c) Retained earnings reserve – The retained earnings reserve comprises total cumulative recognised income and expense attributable to shareholders. Bonus issues of share capital and dividends to shareholders are also charged directly to this reserve. In addition the cost of acquiring shares in the Company and the liability to provide those shares to employees, is accounted for in this reserve.

Where any Group company purchases the Company's equity share capital and holds that share either directly as treasury shares or indirectly within an ESOP trust, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. These shares are used to satisfy share awards granted to Directors under the Group's share schemes. The trustee purchases the Company's shares on the open market using loans made by the Company or a subsidiary of the Company.

1.19 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 2014. Set out below are those which are considered most relevant to the Group:
- IFRS 15 "Revenue from Contracts with Customers": comprehensive framework for determining whether, how much and when revenue is recognised. IFRS 15 is effective for the Group for the year ended 30 September 2018. The Group is assessing the potential impact on the consolidated financial statements.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:
- IFRS 9 "Financial Instruments"
- IFRS 10/11/12 "Consolidated Financial Statements", "Joint Arrangements" and "Disclosure of Interests in Other Entities"
- Annual Improvements to IFRS's 2010–2012 Cycle
- Annual Improvements to IFRS's 2011–2013 Cycle

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 1.1 to 1.19 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 a five year period and using a perpetuity 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 a market derived 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 and equity returns and 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 2014

	Note	2014 £m	2013 £m
Fixed assets			
Investments	c	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(33.6)**	(37.4)
Total assets less current liabilities		**38.4**	34.6
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account		**32.7**	28.9
		38.4	34.6

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 17 November 2014 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 2013	5.7	28.9	34.6
Retained profit for the year	–	20.3	20.3
Dividends	–	(18.2)	(18.2)
Transfers of own shares (net)	–	1.7	1.7
At 30 September 2014	**5.7**	**32.7**	**38.4**

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

Notes to the Parent Company Financial Statements
For the year ended 30 September 2014

a) Accounting policies
a.1 Basis of accounting
These financial statements have been prepared on a going concern basis, as discussed on page 69, 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 £20.3m (2013: £22.7m).

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 (2013: £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 52 to 67. The Company had no employees (2013: none).

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2014 and 1 October 2013	**72.0**

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

d) Share capital

	2014 Number	2013 Number	2014 £m	2013 £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 293,539 ordinary shares in the Company (2013: 675,450) were transferred from the Trust to participants in connection with the exercise of options in respect of awards which have vested under the 2011 Long Term Incentive Plan. At 30 September 2014 the Trust held 293,348 (2013: 586,887) ordinary shares in the Company representing 0.3% of the called up share capital. The market value of the shares at 30 September 2014 was £2.0m (2013: £3.8m).

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 2014 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 69 that the Group is a going concern. We confirm that:
- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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 remain the same as the prior year end 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.

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 below, and we do not express an opinion on these individual matters.

Risk	How the scope of our audit responded to the risk
Carrying value of Goodwill, tangible and intangible assets The key assumptions used in the assessment of the carrying value of goodwill, tangible and intangible assets are determined with reference to judgemental factors such as forecast cash flows and the appropriate discount rate.	We assessed the assumptions used in the impairment model, specifically including the cash flow projections, cash-generating unit allocation, discount rates, perpetuity growth rates and the sensitivities applied. Our procedures included reviewing forecast cash flows with reference to historical trading performance, consulting with our valuation specialists who benchmarked assumptions such as the perpetual growth rate and discount rate to external macro-economic and market data. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by performing sensitivity analysis on the key assumptions, we considered the likelihood of such a movement in those assumptions arising and the adequacy of the disclosures within the financial statements.
Valuation of inventory including appropriateness of judgements applied within the obsolescence provision Management judgement is required in determining the completeness of the inventory provisions and making an assessment of its adequacy, considering the age and volumes relative to expected usage.	We have considered the provision at each business unit level. We evaluated the recorded provision, specifically checking the discontinued dates of those relevant stock lines to assess whether they have been aged correctly and the appropriate provision percentage has been applied. We have assessed the net realisable value of inventory and challenged management's assumptions with regards to the completeness of the inventory provisions and made an assessment of its adequacy, considering the age and volumes relative to expected usage. We also compared the actual sales value of a sample of inventory items to their book value to ascertain that the carrying value of inventories does not exceed their net realisable value.
The recoverability of trade debtors and appropriateness of the bad debt provision Management judgement is required in determining the completeness of the trade receivables provision and making an assessment of its adequacy, considering the expected recoverability of the year end receivables	We have challenged Management's assumptions in calculating the bad debt provision, including reviewing the ageing of receivables in comparison to previous years, reviewing the level of bad debt write-offs in the current year and against the prior year and checking the recoverability of outstanding debtors through examination of subsequent cash receipts.

The Audit Committee's consideration of these risks is set out on page 49.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the Group to be £2.5 million (2013: £2.5 million), which is approximately 5% of profit before tax (2013: 5%).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50,000 (2013: £50,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 7 (2013: 7) locations. Each of these 7 locations was subject to a full scope audit. An additional 4 (2013: 5) locations were subject to specified audit procedures which address each of the significant balances and significant risks within these entities. Together the work at these locations represents the principal business units of the Group and accounts for 71% (2013: 79%) of the Group's revenues and 78% (2013: 86%) of the Group's operating profit.

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 and attends close out meetings. Each year this programme of visits includes the three most significant territories (being the US, Canada and UK).

Where no visits are carried out the Senior Statutory Auditor or another senior member of the team has held discussions with the lead partner in the current year. In years when we do not visit a significant component we have discussed with the component audit team their risk assessment, and reviewed documentation of the findings from their work.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or specified audit procedures.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion:
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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. We have nothing to report arising from these matters.

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner review.

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

17 November 2014

Principal Subsidiaries

	Group percentage of equity capital	Country of incorporation or registration
Life Sciences		
a1-CBISS Limited	100%	England
a1-envirosciences GmbH	100%	Germany
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	100%	Australia
Seals		
HB Sealing Products Inc	100%	USA
J Royal US, Inc	100%	USA
HKX Inc	100%	USA
All Seals Inc	100%	USA
RTD Seals Corp	100%	USA
M Seals A/S	90%	Denmark
FPE Seals Limited	100%	England
Hercules Europe BV	100%	Netherlands
Kentek Oy	80%	Finland
Ramsay Services Limited	100%	England
A B Seals Limited[1]	100%	England
Controls		
IS Rayfast Limited	100%	England
IS Motorsport 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
Specialty Fasteners Limited[1] (formerly, Specialty Fasteners and Components Limited)	100%	England
Other companies		
Diploma Holdings PLC	100%	England
Diploma Holdings Inc	100%	USA

1 These subsidiaries, both of which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. 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 Quarter Statement released	21 January 2015
Annual General Meeting (2014)	21 January 2015
Half Year Results announced	11 May 2015
Third Quarter Statement released	29 July 2015
Preliminary Results announced	16 November 2015
Annual Report posted to shareholders	4 December 2015
Annual General Meeting (2015)	20 January 2016

Dividends (provisional dates):

Interim announced	11 May 2015
Paid	17 June 2015
Final announced	16 November 2015
Paid (if approved)	27 January 2016

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. Its website for shareholder enquiries is www.computershare.co.uk

Shareholders' enquiries:
If you have any enquiry about the Company's business or about something affecting you as a shareholder (other than questions dealt with by Computershare Investor Services PLC) you are invited to contact the Group Company Secretary at the address shown below.

Group Company Secretary and Registered Office:
AJ Gallagher FCIS, Solicitor, 12 Charterhouse Square, London EC1M 6AX. Telephone: 020 7549 5700. 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**	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Revenue	**305.8**	285.5	260.2	230.6	183.5
Adjusted operating profit	**56.7**	54.3	52.8	45.2	32.1
Finance (expense)/income	**(0.5)**	–	(0.2)	(0.3)	0.1
Adjusted profit before tax	**56.2**	54.3	52.6	44.9	32.2
Acquisition related charges	**(6.4)**	(5.6)	(6.4)	(4.8)	(3.5)
Fair value remeasurements	**–**	(0.2)	(0.2)	(0.9)	(2.0)
Profit before tax	**49.8**	48.5	46.0	39.2	26.7
Tax expense	**(13.7)**	(13.7)	(14.4)	(11.6)	(8.8)
Profit for the year from continuing businesses	**36.1**	34.8	31.6	27.6	17.9
Profit from discontinued businesses	**–**	–	–	–	5.1
Profit for the year	**36.1**	34.8	31.6	27.6	23.0
Capital structure					
Equity shareholders' funds	**184.4**	176.9	165.8	151.4	136.1
Minority interest	**2.9**	1.4	1.4	0.5	3.1
Add/(deduct): cash and cash equivalents	**(21.3)**	(19.3)	(11.4)	(17.8)	(30.1)
borrowings	**–**	–	3.5	5.6	–
retirement benefit obligations	**4.3**	4.7	5.4	5.4	5.3
acquisition liabilities	**4.0**	3.0	3.8	3.1	14.2
deferred tax, net	**3.3**	1.7	1.6	2.0	1.3
Reported trading capital employed	**177.6**	168.4	170.1	150.2	129.9
Add: historic goodwill and acquisition related charges, net of deferred tax	**49.6**	43.1	37.4	32.1	16.8
Adjusted trading capital employed	**227.2**	211.5	207.5	182.3	146.7
Net increase/(decrease) in net funds	**2.9**	11.8	(3.9)	(18.0)	8.6
Add: dividends paid	**18.4**	17.6	14.3	14.8	10.2
acquisition of businesses	**16.5**	2.2	22.3	28.2	11.0
Free cash flow	**37.8**	31.6	32.7	25.0	29.8
Per ordinary share (pence)					
Basic earnings	**31.4**	30.7	27.9	24.0	14.6
Adjusted earnings	**36.1**	34.8	33.1	27.9	18.9
Dividends	**17.0**	15.7	14.4	12.0	9.0
Total shareholders' equity	**163**	156	146	134	120
Dividend cover	**2.1**	2.2	2.3	2.3	2.1
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")	**25.8**	25.8	26.6	25.4	22.1
Working capital: revenue	**17.2**	16.7	16.5	16.1	15.4
Operating margin	**18.5**	19.0	20.3	19.6	17.5
Continuing and discontinued businesses	**£m**	£m	£m	£m	£m
Revenue	**305.8**	285.5	260.2	230.6	188.8
Adjusted profit before tax	**56.7**	54.3	52.6	44.9	31.6
Adjusted earnings per ordinary share (pence)	**36.1**	34.8	33.1	27.9	18.5

Notes
1 Return on adjusted trading capital employed ("ROATCE") represents adjusted operating profit, before acquisition related charges, as a percentage of adjusted trading capital employed (adjusted for the effect of the timing of major acquisitions and disposals). Trading capital employed and adjusted trading capital employed are 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 The Group disposed of Anachem Limited in the financial year ended 30 September 2010 and this business was reclassified as a discontinued business.

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