DIPLOMA PLC
Annual Report & Accounts 2015

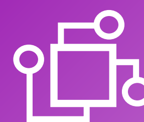
Diploma PLC is an international group of businesses supplying specialised technical products and services. We operate globally in three distinct Sectors:

Life Sciences

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

Seals

Suppliers of 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.

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Financial Highlights

"Robust performance, acquisition led growth."

2015 Year ended 30 September		2014
Revenue		
£333.8m	↗9%	£305.8m
Adjusted operating profit[1]		
£60.3m	↗6%	£56.7m
Adjusted operating margin[1]		
18.1%		18.5%
Adjusted profit before tax[1,2]		
£59.6m	↗6%	£56.2m
Profit before tax		
£51.8m	↗4%	£49.8m
Free cash flow[3]		
£40.3m	↗7%	£37.8m

	2015 pence		2014 pence
Adjusted earnings per share[1,2]	**38.2**	+6%	36.1
Basic earnings per share	**32.5**	+4%	31.4
Total dividends per share	**18.2**	+7%	17.0
Free cash flow per share[3]	**35.6**	+7%	33.4

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 on page 72.

> I am pleased that with the newly refreshed Board, we have a strong and experienced team to support and guide the Group."

John Nicholas, Chairman

I was delighted to be appointed Chairman of your Company in January of this year, following the retirement of John Rennocks from the Board. During his ten years as Chairman, John guided the Company through an extended period of strong and sustained growth which delivered excellent returns to shareholders. I hope that in the years ahead I will be able to maintain this performance through executing the Group's strategy which is designed to deliver strong, double-digit growth in earnings and shareholder value over the economic cycle.

Shortly after my appointment, in June of this year, the Board met at the facility of Kubo, our newly acquired Seals business in Switzerland, to review the Group's strategy and to set targets and objectives for each of the Group's Sectors to be delivered over the next three years. After a number of presentations and thorough and challenging reviews with Executive management, the Board was unanimous in supporting the Group's existing strategy of building larger, broader based businesses in our three Sectors. This strategy aims to generate stable "GDP plus" organic revenue growth over the business cycle, sustainable attractive margins and strong cash flow. The Board also confirmed the ambition of accelerating growth through an active acquisition programme, utilising the Group's strong cash resources and experienced management to enhance value.

In September, Iain Henderson informed us of his decision to step down from the Board at the conclusion of the AGM in January 2016 and after an orderly handover of responsibilities, to retire from the Company on 31 March 2016. Iain has been a key member of the Board since 1998 and as Chief Operating Officer since 2005, has played a significant role in developing and implementing the strategy of the Group and in particular, the Seals and Controls Sector businesses. The Board will miss Iain's wise counsel and robust approach to the day-to-day operational challenges that face all businesses. All of us in the Group wish him a long, healthy and well-earned retirement.

The Board is very supportive of the decision by our CEO, Bruce Thompson to establish over the coming year, a formal Executive Management Group ("EMG") which will report to him. The EMG will comprise the key senior managers of the main business clusters and certain Group functions. Good progress has already been achieved with this development and two senior level recruits have recently joined the Group to strengthen management in key areas. The Board remains confident that the formation of this EMG over the course of 2016 will provide Diploma PLC with a strong and experienced group of senior business and financial managers who have the potential to provide leadership in the coming years.

Results

Group revenues increased in 2015 by 9% to £333.8m (2014: £305.8m), with acquisitions completed during the year contributing £24.2m and adverse currency movements reducing the results of the overseas businesses when translated into UK sterling by £8.1m, when compared with last year. After adjusting for the contribution from these and prior year acquisitions and for currency effects on translation, Group revenues increased by 1% on an underlying basis. Steady underlying revenue growth of ca.4% in both the Life Sciences and Seals Sectors more than offset a weaker performance from the Controls Sector where underlying revenues declined by 5% against a strong prior year comparative.

Adjusted operating margins remained robust at 18.1% (2014: 18.5%) and adjusted operating profit increased by 6% to £60.3m (2014: £56.7m). Gross margins in the Canadian and Australian Healthcare businesses were again impacted by transactional currency effects, but this was partly mitigated by a more favourable product mix and strong control over operating costs. Adjusted profit before tax increased by 6% to £59.6m (2014: £56.2m) and adjusted earnings per share ("EPS") also increased by 6% to 38.2p (2014: 36.1p).

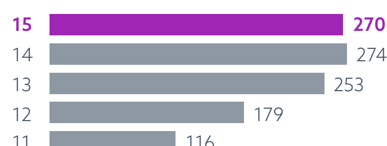
The Group generated strong free cash flow of £40.3m (2014: £37.8m), with tighter control over working capital providing record operating cash flow of £62.1m (2014: £55.0m). Capital expenditure increased to £4.3m (2014: £2.2m) with increased investment in productive capital represented by facilities, healthcare field equipment and seal cutting machinery and tooling.

Adjusted EPS growth (pence)

↗15% p.a.[1]

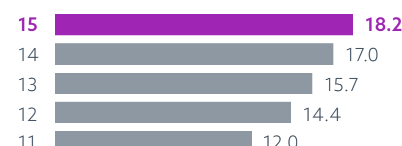
TSR growth (TSR index 2010 = 100)

↗22% p.a.[1]



Dividend growth (pence)

↗15% p.a.[1]



1 Five year compound.

Building momentum

It was a much stronger year for acquisition activity with the Group investing £37.8m (2014: £16.5m) in new businesses during the financial year, extending the Group's activities into new products and geographies in line with the Group's strategic objectives. Shortly after the year end the Group completed the acquisition of WCIS, an established supplier of sealing products and services in Australia for a maximum consideration of £9.8m. The WCIS acquisition is another example of how the Group uses acquisitions to extend and broaden its activities into new markets and geographies.

The much higher spend on acquisitions in this financial year, together with distributions of £19.7m (2014: £18.2m) to shareholders during the year, contributed to a reduction in net cash funds of £18.3m in the year to £3.0m at 30 September 2015 (2014: £21.3m).

Dividends

The robust balance sheet and strong free cash flow, together with a more favourable acquisition environment, has led the Board to recommend an increase in the final dividend of 7% to 12.4p per share (2014: 11.6p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 27 January 2016 to shareholders on the register at 27 November 2015.

The total dividend per share for the year will be 18.2p (2014: 17.0p) which represents a 7% increase on 2014. 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.

Governance

We have this year completed the process of developing and refreshing the Board started by my predecessor in 2013. In February we strengthened the Board's resources with the appointment of Andy Smith as a non-Executive Director. Andy brings excellent experience to the Company having previously held Group HR roles at Severn Trent PLC and The Boots Company PLC.

I was also pleased that Anne Thorburn accepted our invitation to join the Board in September. Anne brings to the Company many years of experience gained from Board level finance roles in listed international industrial companies. Anne will replace Marie-Louise Clayton as Chairman of the Audit Committee, when she retires from the Board this month at the end of her term of office. I wish to thank Marie-Louise for the support and guidance she has provided to the Board during the past three years.

I am pleased that with the newly refreshed Board, we have a strong and experienced team to support and guide the Group as it pursues the successful implementation of the Group's growth strategy.

Employees

Since being appointed Chairman earlier this year, I have endeavoured to visit the Group's businesses and meet our employees who are so important to the success of the Group. I have been impressed by the hard work and loyalty that our employees demonstrate to each of their businesses and I wish to thank them for their efforts this year to deliver a high level of service as they strive to meet targets in the face of challenging markets.

Outlook

The Group's strong and proven business model delivered robust growth this year, benefitting from a good contribution from acquisitions and despite adverse exchange rate movements. This balance is expected to continue into the coming financial year as the economic headwinds continue to constrain organic growth in the Group's principal markets in North America and Europe, but prospects for further acquisitions remain promising.

While the Board remains cautious on the current macroeconomic backdrop, we remain confident that the Group's resilient business model with a diverse geographic spread of activities and strong financial position, together with a more favourable environment for acquisitions will provide a good platform to deliver further growth in the coming year.

John Nicholas
Chairman
16 November 2015

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

Building a broader base

Life Sciences

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

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

Principal businesses
DHG, a1-group

31%
of revenues

387
employees worldwide

PG22

Seals

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

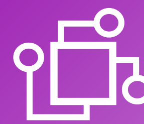
Industrial OEMs (45% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

Principal businesses
HFPG, EMEA Seals

42%
of revenues

764
employees worldwide

PG26



Controls

Interconnect (75% of revenues)
Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial.

Fluid Controls (25% of revenues)
Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

Principal businesses
IS-Group, Specialty Fasteners, Filcon, Hawco

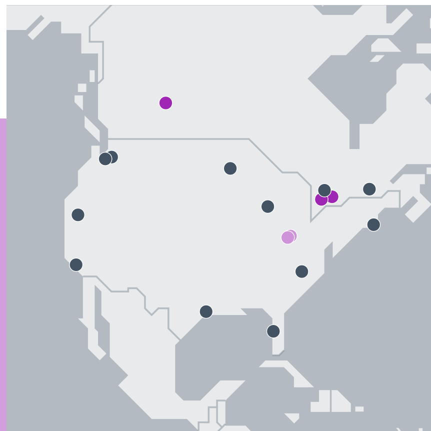
27%
of revenues

334
employees worldwide

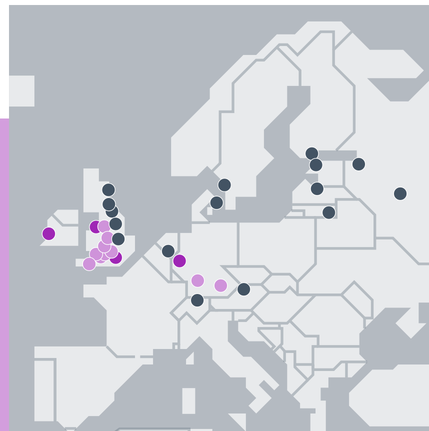
PG30

The Group is well diversified by geographic and business area.

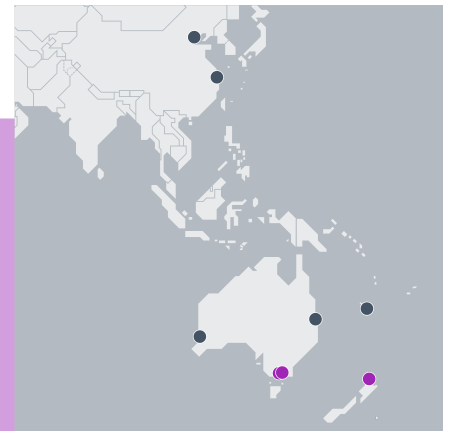
North America



Europe

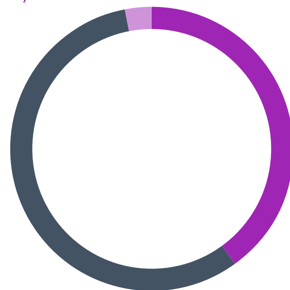


Rest of World



- Life Sciences
- Seals
- Controls

North American revenues[1]
by sector

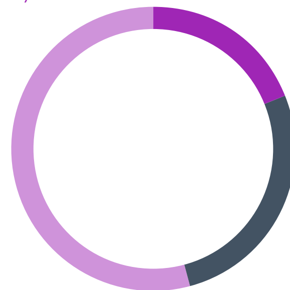


46%
of Group revenues

25%
US

21%
Canada

European revenues[1]
by sector

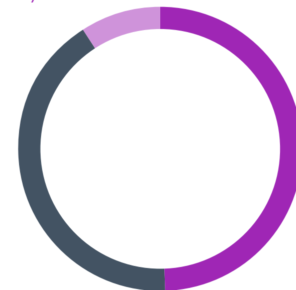


46%
of Group revenues

23%
UK

23%
Continental Europe

Rest of World revenues[1]
by sector



8%
of Group revenues

1 By destination

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.

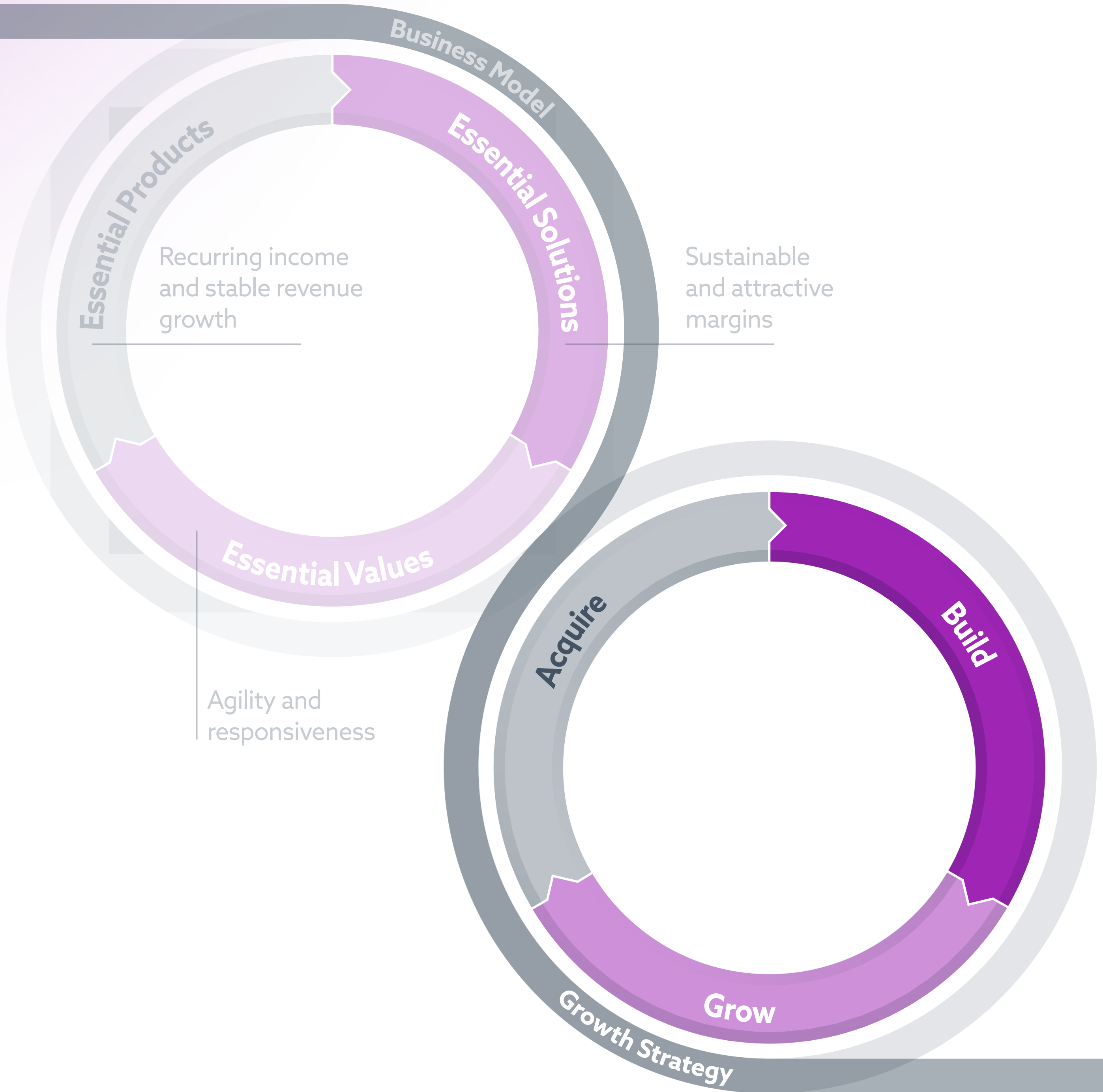
Our businesses target organic revenue growth, over the economic cycle, at a rate of 5-6% p.a. ("GDP plus" growth), with higher growth rates achieved at the Group level through carefully selected value enhancing acquisitions.

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.

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



Growth Strategy

Acquire

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

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

The principal financial criteria are:

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

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.

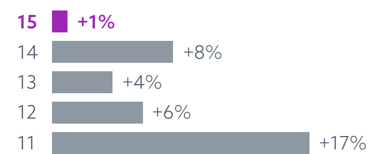
Underlying (organic) revenue is after adjusting for the impact from acquisitions and divestments and for currency movements on the translation of overseas results.

Total revenue growth

Five year compound

Year	Total revenue
15	**£333.8m**
14	£305.8m
13	£285.5m
12	£260.2m
11	£230.6m

Underlying revenue growth



Five year average

Year	Underlying revenue growth
15	**+1%**
14	+8%
13	+4%
12	+6%
11	+17%

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

↗ Generate TSR growth in the upper quartile of the FTSE 250

↗ Deliver progressive dividend growth with two times dividend cover

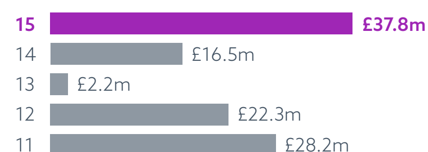
Accelerate growth through carefully selected value enhancing acquisitions

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

£21m p.a.

Five year average



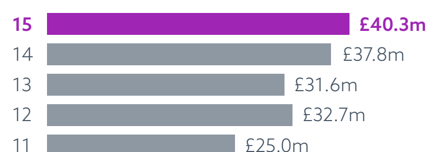
Generate consistently strong cash flow to fund growth strategy and dividends

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

£33m p.a.

Five year average



Working capital

16–17%

of revenue

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

26%

Five year average

> The Group delivered a robust performance with a good contribution from acquisitions"

Bruce Thompson, CEO

In 2015, the Group has delivered a robust performance with a good contribution from acquisitions completed during the last eighteen months. The Group's revenues increased by 9% with the acquired businesses adding 11% to revenues, but with adverse currency movements reducing revenues by 3% on translation to UK sterling. After adjusting for acquisitions and currency, underlying revenues increased by 1%. Adjusted operating margins decreased by 40bps to 18.1% of revenue, reflecting transactional currency effects in the Healthcare businesses and initial dilution from the acquired businesses. Free cash flow increased by 7% to £40.3m and return on adjusted trading capital employed ("ROATCE") remained comfortably above the 20% threshold at 23.9%.

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.

Our year in review

Group
Strong proven business model delivered robust performance

Life Sciences
4% underlying revenue growth despite pressure on Healthcare budgets in Canada and Australia

PG22

Seals
4% underlying revenue growth as trading activity in North America slowed in H2

PG26

Controls
Softer European industrial markets and strong prior year comparatives; 5% underlying revenue reduction

PG30

Acquisitions
Acquisition spend doubled over prior year in positive acquisition environment

Building shareholder value

Performance against objectives and KPIs

The Group's principal corporate objectives are to achieve double digit growth in adjusted earnings per share ("EPS") over the business cycle, to generate total shareholder return ("TSR") growth in the upper quartile of the FTSE 250 and to deliver progressive dividend growth with two times dividend cover.

The compound growth in adjusted EPS has been 15% p.a. over the last five years, with growth this year at the more modest level of 6%. Over the last five years, the compound growth in TSR has been 22% p.a. This year, TSR has been broadly flat after a number of years of very strong growth. Dividends have increased progressively in each of the last 16 years and this year the dividend has increased by 7%. Over the last five years, the compound growth in dividends has been 15% p.a.

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 *organic revenue growth* over the business cycle. This year, challenging markets within the three Sectors meant that organic growth has been hard won. In Life Sciences, underlying revenues increased by 4% despite the pressure on budgets throughout the Healthcare system driven by the tougher economic environments in Canada and Australia. In Seals, underlying revenues increased by 4% as trading activity in North America slowed in the second half of the year, impacted indirectly by cutbacks in the Oil & Gas sector and lower demand for natural resources. Controls revenues decreased by 5% on an underlying basis, reflecting softer European industrial markets and strong prior year comparatives.

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 18.1% which is at the lower end of the five year average range of 18–19%. As always there were a number of moving parts, with margins negatively impacted by the reduced gross margins in the Healthcare businesses, initial dilution from acquired businesses and one-off facility restructuring costs in the US. However, the impact on Group operating margins was limited to 40bps by Sector mix and by tight control of operating costs across the businesses.

The Group continues to focus strongly on *free cash flow*, which funds the growth strategy and gives the resources to provide healthy dividends to shareholders. In 2015, free cash flow was £40.3m, compared with a five year average of £33m p.a. and was equivalent to a conversion rate of over 90% of adjusted after tax earnings.

The principal determinant of free cash flow conversion is the effective management of working capital and the KPI used to measure and monitor this performance is *working capital as a percentage of revenue*. In 2015 this KPI remained stable at 17.0% comparing well with the five year average level of 16–17% which is also the longer term target.

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 comfortably exceeded the 20% target in each of the last five years and this year was 23.9%.

"Carefully selected, value enhancing acquisitions accelerate growth and facilitate entry to related markets."

Acquisitions

Acquisitions are an integral part of the Group's strategy, designed to accelerate growth and to facilitate entry into related strategic markets. To achieve the Group's objective of strong double-digit growth, acquisition spend at the level of £25–30m p.a. is targeted. This year, the Group continued to benefit from a positive acquisition environment and invested £37.8m in acquisitions, which was well above the target annual level and was more than double the level of expenditure in the prior year.

The acquisitions which have been completed are natural extensions of the Group's existing businesses and have extended the scope of the businesses into new product and market segments and geographies.

In Life Sciences, DHG acquired 80% of Technopath Distribution ("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. In addition, TPD brings important new products and suppliers to the DHG group in the areas of rapid hygiene testing in Food, Dairy and Pharmaceutical industries as well as Digestive Health.

In Seals, the Group acquired Kubo, a leading supplier of seals, 'O' rings, gaskets and moulded rubber parts serving a diverse base of industrial customers in Switzerland and Austria. This acquisition opens up further opportunities for cross-selling of products with the Group's other Industrial OEM Seals businesses, giving them access to Kubo's high precision manufactured parts. In the UK, FPE Seals acquired Swan Seals, a small specialised supplier of machined seals based in Aberdeen and serving customers' operational requirements.

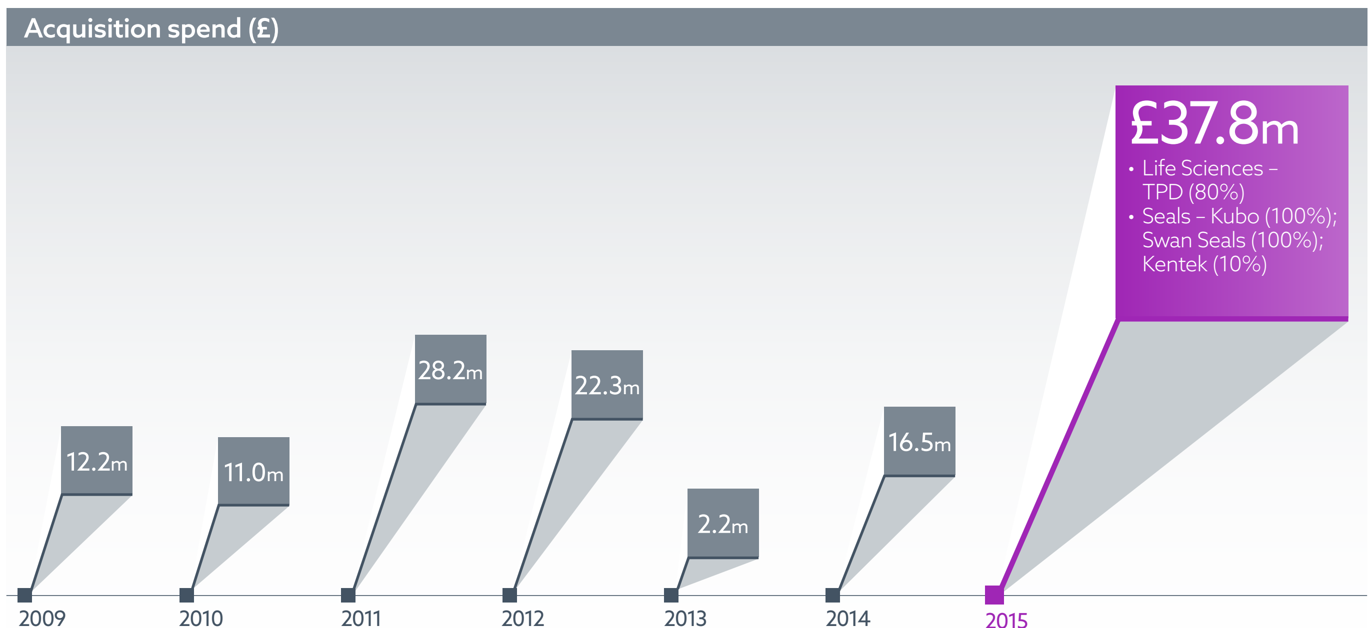
The Group also acquired a further 10% shareholding in Kentek, taking our ownership to 90% with the balance held by the Managing Director of the business. In October 2015, shortly after the year end, the Group acquired WCIS, a supplier of gaskets, seals and associated products and services, with operations in Australia and New Caledonia.

Management development

Iain Henderson, our Chief Operating Officer ("COO"), decided during the year that he would like to retire from the Group. Iain will stand down from the Board at the January 2016 AGM but will stay fully involved with the Group until the end of March 2016 to ensure a smooth handover of responsibilities. Iain has worked alongside me for 17 years at Diploma and he has been a key driver of the growth and development of the Group over this period. We will all miss his insightful contributions on strategy, keen business judgement and dry humour, but at the same time we all wish him well in his future endeavours.

Over the last few years, we have strengthened the senior management team by giving increased responsibility to existing managers and through selective external recruitment. We are intending to continue this process over the coming year with the establishment of a formal Executive Management Group ("EMG") reporting in to me. We will be retiring Iain's COO shirt and his responsibilities will be re-allocated across this broader leadership team.

The introduction of the EMG will ensure that we have a strong and broad based team in place to support the next stage of our growth strategy. Since the year end, we have made good progress in building bench strength in this evolving EMG, with the recruitment of two experienced senior managers to take leadership roles in North American Industrial Distribution and in our International Healthcare business.



Life Sciences

31%
of Group revenue

	2015	2014
Revenue	£103.1m	£91.4m
Adjusted operating profit	£21.0m	£19.7m
Adjusted operating margin	20.4%	21.6%
Free cash flow	£15.6m	£14.9m

- Sector revenue growth of 13%; underlying growth of 4% after adjusting for currency and TPD acquisition
- Good revenue growth in DHG's Canadian and Australian businesses despite pressure on Healthcare budgets; stronger second half of year as delayed capital equipment orders released
- Significant pressure on margins from 20-25% depreciation of Canadian and Australian dollars against US dollar
- TPD acquisition extends DHG into Ireland and the UK; strong double-digit growth in first year
- Environmental businesses maintained underlying revenues and finished the year with solid order book

Performance in the year
Reported revenues of the Life Sciences businesses increased by 13% to £103.1m. The acquisitions of TPD in October 2014 and Chemzyme in July 2014 added 15% to Sector revenues but this was partly offset by a reduction of ca.6% in revenues from currency translation to a strong UK sterling. On a constant currency basis, underlying revenues increased by 4%.

Gross margins in the Healthcare businesses continued to be impacted significantly by transactional currency effects. During the financial year, the Canadian and Australian businesses experienced further depreciation in their domestic currencies of 20% and 25% respectively relative to the US dollar, which is the principal currency in which these businesses mostly purchase their products. The TPD business in Ireland and the UK has not been impacted in the same way by transactional currency effects, but joined the Group with slightly lower operating margins. Currency hedging contracts and supplier price concessions have provided some mitigation, but Healthcare gross margins have reduced by 370bps compared with the prior year. Environmental gross margins improved and operating costs as a percentage of revenue reduced across the Life Sciences businesses; Sector adjusted operating margins therefore reduced by only 120bps to 20.4%. On a reported basis, adjusted operating profit increased in UK sterling terms by 7% to £21.0m.

Free cash flow increased by 5% to £15.6m reflecting a combination of the increased operating profit and reduced cash flows into working capital, offset by an increase in capital expenditure.

Strategy development
The DHG group of **Healthcare** businesses account for 85% of Life Sciences revenues. The DHG 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 are secured under multi-year customer contracts.

In Canada, the three principal businesses delivered good revenue growth, despite the softer economic environment putting pressure on budgets throughout the Healthcare system. There have been various initiatives by the Provinces and regions to restructure functions and these constrained purchasing in the first half of the year; the businesses had a stronger second half as delayed capital equipment orders were released. Somagen continued to grow in the core areas of HbA1c diabetes testing, electrophoresis, colorectal cancer screening and assisted reproductive technology ("ART"), while adding new suppliers in quality control products and automation in microbiology and theranostics. Revenue growth in AMT's core electrosurgery business was constrained by Provincial and buying group tendering processes, but further progress was made in developing AMT's minimally invasive surgery business. Vantage delivered good double-digit growth across its principal product lines including endoscopes, reprocessors, argon plasma and GI endoscopy accessories.

In Australia, the economies have faced similar economic challenges to those experienced in Canada and again Healthcare budgets have come under pressure. Against this background, the DHG businesses have delivered a creditable double-digit growth in revenues, with particularly strong growth in smoke evacuation. BGS and DSL operate as distinct sales and marketing businesses under a single strong leadership team and shared operations and back-office systems. Chemzyme, acquired in July 2014, was fully integrated into DHG's operations in Melbourne during the year.

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. TPD is an important first step in extending the scope of DHG's business into Europe and adding new products and suppliers in the Food, Dairy and Pharmaceutical industries as well as Digestive Health. TPD has performed very well since acquisition, delivering strong double-digit revenue growth on a like-for-like basis.

The a1-group of **Environmental** businesses account for ca.15% of Sector revenues and supply a range of products used in Environmental testing and Health & Safety applications. The a1-group businesses have maintained underlying revenues in challenging European markets and finished the year with a solid order book. The a1-envirosciences business saw strong demand for high-end elemental and mercury analysers supplied to the Petrochemical industry and Environmental laboratories. The a1-CBISS business is benefiting from supplying to the new Biomass and Energy from Waste plants which are forming an increasingly important part of the UK's energy portfolio.

Seals

42%

of Group revenue

	2015	2014
Revenue	£139.6m	£119.8m
Adjusted operating profit	£24.8m	£21.7m
Adjusted operating margin	17.8%	18.1%
Free cash flow	£17.8m	£16.4m

- Sector revenue growth of 17%; underlying growth of 4% after adjusting for currency and acquisitions
- In North America, slower trading activity in second half, impacted indirectly by cutbacks in Oil & Gas and Mining industries
- Continued investment in e-commerce and seal machining centres; Bulldog operations relocated to Tampa; new branch operation in Houston
- In Europe, strong underlying growth despite challenging economic background; new purpose built FPE Seals facility established as core Aftermarket hub in Europe
- EMEA Seals now 34% of Sector revenues following acquisitions of Kentek, Kubo and Swan Seals
- Acquisition of WCIS after year end broadens product range and extends Seals activities into Australasia

Performance in the year

Reported revenues of the Seals businesses increased by 17% to £139.6m. These revenues included contributions from Kubo, Kentek, and four smaller bolt-on acquisitions in the UK completed during the last 18 months. After adjusting for these acquisitions and for currency translation, underlying revenues increased by 4%.

Good progress has been made during the year in establishing a more substantial presence outside North America through a combination of organic growth and acquisition. The businesses based in the EMEA region contributed £47.3m to Seals revenues in the year and now account for 34% of Sector revenues. In October 2015, shortly after the year end, the acquisition was completed of WCIS, a supplier of gaskets, seals and associated products and services with operations in Australia and New Caledonia.

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. Adjusted operating margins reduced by 30bps to 17.8% as Kubo joined the Group with lower initial operating margins and there were several one-off costs in the reorganisation of facilities in the US, including the relocation of the Bulldog facility. Adjusted operating profits increased by 14% to £24.8m.

Free cash flow increased by £1.4m to £17.8m, benefiting from the increase in operating profit and tight control of working capital, partially offset by an increase in capital expenditure.

Strategy development

The **Aftermarket** Seals businesses account for ca.55% 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 networks, offer higher levels of customer service and more competitive pricing.

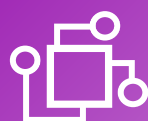
In North America, HFPG delivered a solid performance in most territories, offset by substantial declines in the resource dependent States in the second half of the year. Further progress was made in electronic trading and two new seal machining centres were added during the year. The Bulldog operations in Reno were relocated to a new facility in Tampa, close to the core Hercules Clearwater site. HFPG revenues were also impacted this year by a significant reduction in demand for HKX's attachment kits against a very strong prior year comparative. HKX has responded by introducing lower cost, entry level kits which are upgradeable as required to provide a fuller range of capabilities.

In Europe, FPE Seals increased revenues strongly, benefiting from a full year of AB Seals and the transfer from HFPG of sales responsibility for the Bulldog range of products in the EMEA region. Swan Seals, a small specialised supplier of machined seals based in Aberdeen, was acquired in July 2015. During the year, FPE Seals relocated its principal UK operations to a new, purpose built facility which will be the core Aftermarket Seals hub for further expansion in the EMEA region. Kentek delivered strong revenue growth despite the significant economic and market challenges in Russia, Finland and the Baltic States.

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

In North America, the businesses delivered solid GDP plus growth for the year, though trading activity again slowed in the second half, impacted indirectly by cutbacks in the Oil & Gas and Mining sectors. During the year a new branch operation was opened by All Seals in Houston and J Royal strengthened its operations by integrating its Rhode Island operations into the main facility in North Carolina.

In Europe, the Group completed the acquisition of Kubo, a leading supplier of seals, O-rings, gaskets and moulded rubber parts to a diverse base of industrial customers in Switzerland and Austria. M Seals delivered solid underlying growth in Denmark, Sweden, China and the UK.



Controls

27%
of Group revenue

	2015	2014
Revenue	£91.1m	£94.6m
Adjusted operating profit	£14.5m	£15.3m
Adjusted operating margin	15.9%	16.2%
Free cash flow	£11.4m	£11.4m

- Sector revenue reduced by 4%; underlying reduction of 5% after adjusting for currency and acquisitions
- Interconnect businesses faced challenging industrial markets in the UK and Continental Europe and strong comparatives in Civil Aerospace and Motorsport
- Continued growth in specialised segments in Germany, including the Energy and the Space satellite sectors
- In Specialty Fasteners, lineside supply projects for aircraft seat manufacturer constrained business this year but will deliver longer term revenue growth; excellent performance from SFC in first full year
- Fluid Controls businesses repositioned towards growing segments of the Food & Beverage market in the UK, with smaller more energy efficient products

Performance in the year

Reported revenues of the Controls businesses decreased by 4% to £91.1m, after including a full year contribution from SFC, acquired in July 2014. After adjusting for this acquisition and for currency translation, underlying revenues decreased by 5%. The Controls businesses faced challenging industrial markets in the UK and Continental Europe and strong comparatives for the Specialty Fasteners business in the Civil Aerospace and Motorsport sectors.

Overall gross margins remained resilient in the Controls businesses due to their focus on specialised markets and added value services. However, operating costs as a percentage of revenue increased due to reverse operating leverage and adjusted operating margins reduced by 30bps to 15.9%. Adjusted operating profits decreased by 5% to £14.5m.

Free cash flow remained unchanged at £11.4m, with reduced cash flows into working capital and lower capital expenditure offsetting the impact of lower operating profit.

Strategy development

The **Interconnect** businesses account for ca.75% 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 a range of industries including Aerospace, Defence, Motorsport, Energy and Medical as well as in other specialised Industrial applications. 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 value-added services. A high proportion of the products are used in refurbishment, upgrade and maintenance programmes for equipment in service.

The core Industrial markets in the UK have been challenging, with demand from industrial end-users muted and with a significant reduction in the sales to other distributors in the UK and in Eurozone countries which the IS-Group serves as a Master distributor for certain key suppliers. In Germany, again the general industrial sector has suffered in the wake of Russian sanctions and the slowing Chinese manufacturing sector. In addition, a number of IS-Sommer's customers have relocated all or part of their manufacturing to lower cost regions outside Germany.

To offset the declines in the broader Industrial markets, the Interconnect businesses have focused on more specialised market sectors which continue to show growth potential. In the Energy sector, IS-Sommer has delivered a strong increase in revenues from products used in the repair and maintenance of the medium-voltage infrastructure of the Electricity distribution network. Filcon has also had success supplying a focused portfolio of specialised connectors to the developing Space satellite segment.

A key element of the growth strategy within Interconnect is also to broaden the range of high performance products and added value services offered. As part of this strategy, the Specialty Fasteners group of businesses has been formed and was strengthened through the acquisition of SFC, which delivered an excellent performance in its first full year with the Group. Clarendon this year strengthened its partnership with its major aircraft seating customer, with the installation of an innovative VMI (vendor managed inventory) solution that utilises bespoke dispensing racks located within the customer's production cells. Clarendon also consolidated its position with the same customer by extending its supply contract to an additional manufacturing site. While these projects constrained revenue this year during the implementation phases, they will secure longer term growth in revenues.

The **Fluid Controls** businesses account for ca.25% of Controls revenues and supply a range of fluid control products used broadly across the Food & 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 food retailing, where the traditional UK majors have reduced substantially their fit-outs of new stores and Hawco's immediate customers, the commercial refrigeration manufacturers, have now begun to win new business from the European discount retailers. Hawco also continues to leverage its expertise and access to smaller, more efficient compressors and ancillary components to penetrate the wider Brewing and Catering sectors.

There are also significant changes taking place in the hot drinks dispensing market where key players are re-positioning their businesses from "vending companies" to "coffee specialists". Abbeychart has responded by building a portfolio of essential parts to service the broad range of espresso-type machines installed in an increasing number of outlets from garages to high end restaurants.

> The Group generated strong free cash flow helped by a good contribution from the acquired businesses and tight control of working capital."

Nigel Lingwood, Group Finance Director

Building financial strength

Results in 2015

Diploma achieved a creditable performance this year with revenues increasing by 9% to £333.8m and adjusted operating profit increasing by 6% to £60.3m, bolstered by good contributions from acquisitions completed both this year and last year. Weaker industrial markets, particularly in the second half of the financial year, led to underlying revenues and adjusted operating profits increasing by only 1% this year. However free cash flow was again very strong at £40.3m and helped to finance £37.8m of acquisition investment which should provide a good base for earnings growth in future years.

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, against most of the currencies in which the Group operates.

With ca.75% of the Group's businesses based overseas, the impact on headline results from currency translation has led to a reduction in revenues and adjusted operating profits of £8.1m and £1.6m respectively, when compared with last year's exchange rates. The contributions from acquisitions completed in the year were £24.2m to revenue and £3.4m to adjusted operating profit, before £0.3m of internal management charges.

Gross margins in the Healthcare businesses, which represent ca.25% of Group revenues, continued to be impacted on a transactional basis by the continuing depreciation of the Canadian and Australian dollars. These two currencies have now depreciated in excess of 30% over the past two years against the currencies in which they purchase their products, predominantly the US dollar (see chart on page 19).

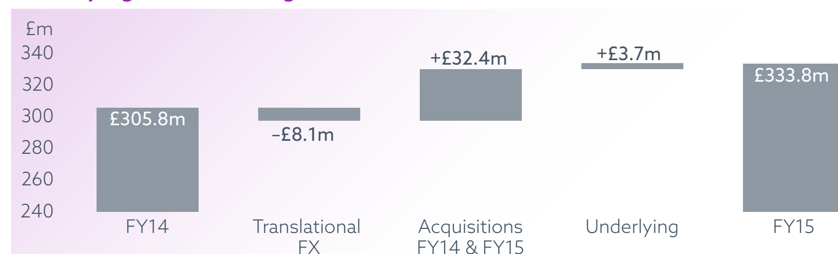
Currency hedging contracts and supplier price concessions have provided some mitigation, but transactional currency effects reduced Healthcare gross margins by 280bps in 2015. With further depreciation of these two currencies continuing through 2015, the forward currency hedge contracts are being replaced at more unfavourable exchange rates which will maintain pressure on Healthcare gross margins well into 2016. Transactional currency exposures in the rest of the Group's businesses were not significant.

The weaker gross margins in the Healthcare businesses were largely mitigated by a combination of stronger margin mix of revenues across the Group's businesses and by operational leverage from continuing tight control over operating costs. However, with the businesses acquired during the past two years joining the Group with initial operating margins which are lower than the Group's average and with £0.8m being incurred on one-off facility restructuring costs in the US Seals businesses, the adjusted operating margin declined by 40bps to 18.1% this year, compared with 18.5% for the full year in 2014.

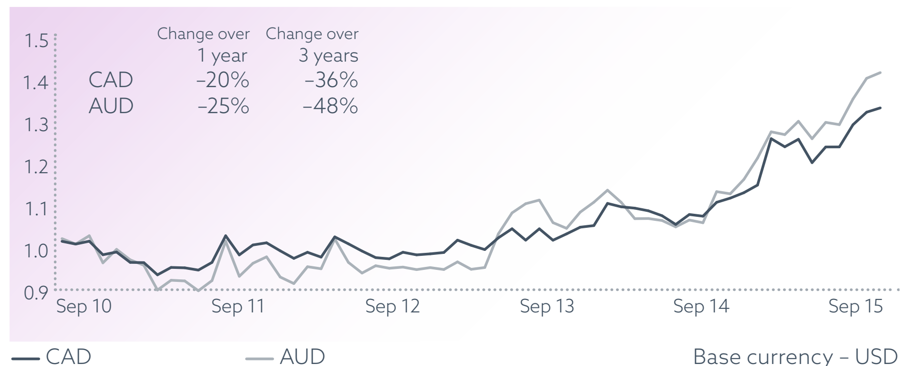
Adjusted profit before tax, earnings per share and dividends

Adjusted profit before tax increased by 6% to £59.6m (2014: £56.2m). There was a finance expense this year of £0.7m (2014: net £0.5m) which included £0.3m of interest costs on borrowings drawn down during the year to help finance acquisitions (2014: £Nil). The notional

Underlying revenue bridge – FY 2015



Transactional currency impact – FY 2015



interest expense on the Group's defined pension liabilities remained unchanged at £0.2m and £0.2m (2014: £0.4m) was paid on bank facility and commitment fees. Statutory profit before tax was £51.8m (2014: £49.8m), after acquisition related charges of £7.4m (2014: £6.4m) and fair value remeasurements of £0.4m (2014: £Nil) in respect of the put options held over minority interests.

The Group's adjusted effective accounting tax charge in 2015 remained unchanged from the previous year at 26.3% of adjusted profit before tax. The charge this year benefited from a further reduction in UK corporation tax rates to 20.5% (2014: 22.0%) and from lower tax rates applied to some of the businesses acquired during the past two years; however the effective tax rate in the US increased slightly this year to 36% (2014: 35%) after the catch up in prior year manufacturing tax relief claims received last year.

Adjusted earnings per share ("EPS") increased by 6% to 38.2p, compared with 36.1p last year and statutory basic earnings per share increased to 32.5p (2014: 31.4p).

The Board's policy is to increase 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). A combination of a robust Group balance sheet and continuing strong free cash flow provides the Directors with confidence to recommend an increase in the final dividend of 7% to 12.4p per share (2014: 11.6p). This gives a total dividend per share for the year of 18.2p per share which represents a 7% increase on the prior year dividend of 17.0p. The dividend remains 2.1 times covered by adjusted EPS as reported last year.

Free cash flow

The Group generated strong free cash flow in 2015 of £40.3m (2014: £37.8m), helped by a good contribution from the acquired businesses and tight control of working capital. Free cash flow represents cash available to invest in acquisitions or return to shareholders and represented a cash conversion of adjusted earnings of 93% (2014: 93%).

The Group's businesses worked hard in the second half of the year to reduce working capital and the cash outflow into working capital was reduced from £6.8m at 31 March 2015 to £1.9m at 30 September 2015; this compared with £4.6m in the last financial year. The efforts to reduce working capital were generally focused on inventory levels which resulted in no cash outflow.

During the year, the DHG group of Healthcare businesses represented by DHG reclassified £1.2m of inventory as plant and equipment within fixed tangible assets. These assets comprise instruments used for demonstration and for lending to hospitals while the existing instruments are being serviced at DHG service centres.

The combination of this adjustment and reduced cash outflow in working capital has led to the Group's KPI metric of working capital as a proportion of revenue reducing to 17.0% at 30 September 2015 from 17.2% reported last year (16.8% when calculated on a comparable basis).

Group tax payments increased by £2.4m to £15.4m (2014: £13.0m) and included £0.7m of pre-acquisition tax liabilities from Kubo and TPD and £0.4m of payments relating to prior year liabilities. On an underlying basis and before the currency effects of translation, cash tax payments increased by £1.3m and represented ca.24% of adjusted profit before tax compared with an underlying rate of ca.23% last year.

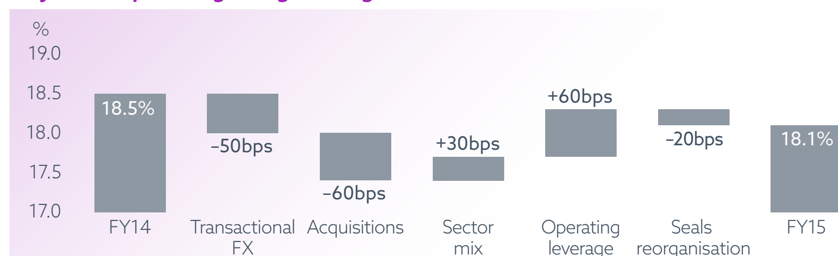
Capital expenditure increased by £2.1m to £4.3m compared with £2.2m last year. The increase in capital expenditure was shared equally between the Life Sciences and Seals businesses. In Life Sciences, Vantage increased its funding of equipment contracts on a cost per procedure ("CPP") basis to £1.0m (2014: £0.4m) following the successful release of a new version of endoscopes. A further £0.9m (2014: £0.2m) of field equipment was also acquired in support of customer contracts with hospitals.

In Seals, £0.4m was spent on new seal and gasket cutting machinery in the HFPG and Kubo businesses and a further £0.5m was invested in completing new vertical carousels in the Hercules Bulldog facility in Clearwater and in adding new tooling across the Seals businesses. The relocation of the Bulldog business from Reno to a new large leasehold facility in Tampa was completed in September and £0.4m was invested in refurbishing and fitting out this facility.

Capital expenditure in the Controls businesses was a modest £0.3m and related to tooling and line-side equipment to support a supply project in the Specialty Fasteners business. The balance of capital expenditure in the year of £0.8m was largely invested in supporting the IT infrastructure across the Group.

In addition to the capital expenditure described above, the Group also financed the construction of a new purpose built facility for FPE Seals in Darlington, UK. The construction of the facility was completed in September 2015 and cost £2.9m, including fitting-out and professional costs. At completion, the facility was sold to an investment company and

Adjusted operating margin bridge – FY 2015



leased back on a 15 year full repairing lease. After providing for the potential costs of disposing of the previous long leasehold facility, no gain or loss was made on the disposal.

The Company paid the PAYE income tax liability of £1.0m (2014: £1.8m) arising on the exercise of LTIP share awards, in exchange for reduced share awards to participants; the Employee Benefit Trust also purchased a further 100,000 shares in the Company during the year at a cost of £0.7m in order to have sufficient shares to meet future LTIP awards.

The Group spent £37.8m of the free cash flow on acquisitions, as described below, and £19.9m (2014: £18.4m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year

The Group invested a record £37.8m in acquired businesses this year (2014: £16.5m), including £0.6m on acquiring outstanding minority interests and £0.6m of deferred consideration.

The largest investment was £22.9m paid in March 2015 to acquire Kubo, a leading supplier of seals and related products, largely based in Switzerland, but with a small business operating in Austria. A further £11.2m was invested in October 2014 to acquire 80% of Technopath Distribution ("TPD"), an established supplier of products to the Life Sciences market and based in Ireland. In July 2015, the Group also acquired Swan Seals for £2.5m, a small Seals Aftermarket business based in Aberdeen to be managed by FPE Seals in the UK.

These acquisitions added £19.8m to the Group's acquired intangible assets, comprising a valuation of customer and supplier relationships which will be amortised over periods ranging from 5–10 years. At 30 September 2015, intangible assets were £40.2m. Goodwill increased by £13.7m to £89.3m at 30 September 2015, after making fair value adjustments to the assets acquired.

Goodwill is not amortised but is assessed each year at a Sector level to determine whether there has been any impairment in the carrying value of goodwill acquired. The exercise to assess whether goodwill has been impaired is described in note 10 to the consolidated financial statements and concluded that there has been no impairment in the value of goodwill at the year end.

Shortly after the year end, the Group completed the acquisition of WCIS, an established supplier of sealing products and services for maximum consideration of £9.8m.

Liabilities to minority shareholders

The Group's liability to purchase outstanding minority shareholdings at 30 September 2015 increased to £5.7m (2014: £3.5m), following the purchase of 80% of TPD in October 2014. This acquisition included put/call options over the outstanding 20% of share capital which were valued at £3.2m. During the year, a further 10% shareholding in Kentek was acquired from the previous vendor for consideration of £1.4m, of which £0.6m was paid during the year, leaving £0.8m to be paid in December 2015. The remaining 10% minority shareholding in Kentek is held by the Managing Director of this business.

At 30 September 2015, the put options over the outstanding minority interests held in M Seals, Kentek and TPD were valued at £5.7m, based on the Directors' latest estimate of the Earnings before Interest and Tax ("EBIT") of these businesses when these options crystallise.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2015 for deferred consideration of up to £0.9m (2014: £0.5m) which includes £0.8m owing to the former minority shareholder in Kentek.

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"). At a Group level, this is a pre-tax measure which is applied against the fixed and working capital of the Group, together with all gross intangible assets and goodwill. At 30 September 2015, the Group ROATCE had reduced to 23.9% (2014: 25.8%) which in part reflected the impact of acquiring a freehold property valued at £7.2m, as part of the acquisition of Kubo. Adjusted trading capital employed is defined in note 3 to the consolidated financial statements.

The Group continues to maintain a strong balance sheet with net cash funds of £3.0m (2014: £21.3m) at 30 September 2015, comprising bank borrowings of £20.0m offset by cash funds of £23.0m. These cash funds were largely utilised shortly after the year end in completing the purchase of WCIS and in repaying some of the bank borrowings. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 11 March 2015, the Group exercised part of the accordion option within its existing revolving multi-currency credit facility and increased its committed bank facilities to £40m; there remains a further £10m in the accordion option for the Group to extend this facility to £50m, subject to market pricing. These additional funds were provided at a cost of 50bps and were used to assist in financing the acquisition of Kubo. These bank facilities are committed until June 2017 and will continue to be utilised to meet any shortfall in cash to fund acquisitions.

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 2015 of £2.1m (2014: £1.7m).

The Group also maintains a small closed defined benefit pension scheme in the UK which at 30 September 2013 had a funding deficit of £2.7m. The next funding actuarial valuation will be carried out as at 30 September 2016. 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 seven years.

Following the acquisition of Kubo in March 2015, the Group has also been required to account for Kubo's pension scheme in accordance with IAS19 (Revised). In accordance with Swiss law, Kubo is required to provide a contribution based pension for all employees. The pension liability for these employees is funded by employer and employee contributions which are managed by a large multi-employer fund manager, with the underfunding risk insured with a major global insurance company. Although this scheme is a contribution based scheme, certain technical factors relating to the funding of the scheme determines that it must be accounted for as a defined benefit pension scheme under IAS19 (Revised).

The addition of the Kubo pension scheme this year has led to the aggregate pension deficit held in the Group's balance sheet at 30 September 2015 increasing to £9.8m from £4.3m last year. The actuarial pension deficit under IAS19 (Revised) in the Kubo scheme is £3.7m and the pension deficit in the UK scheme increased by £1.8m to £6.1m. The increase in the UK pension deficit arose because of a further reduction of 30bps in bond yields to 3.8% since last year, together with weaker equity returns during the year. The gross aggregate pension liability in respect of these two schemes at 30 September 2015 is now £44.5m which is funded by £34.7m of assets.

Sector Review

Life Sciences

% of Group revenue

31%

Geography[1]

59% Canada
28% Europe
13% Rest of World

Customers

84% Clinical
10% Utilities
3% Chemical & Petrochemical
2% Life Sciences Research
1% Other Life Sciences

Products

71% Consumables
19% Instrumentation
10% Service

387
Employees

Principal businesses

Diploma Healthcare Group (DHG)
a1-group

Seals

% of Group revenue

42%

Geography[1]

63% North America
30% Europe
7% Rest of World

Customers

41% Industrial OEMs
28% Heavy Construction
17% Other Industrial
10% Industrial Aftermarket
3% Dump & Refuse Trucks
1% Logging & Agriculture

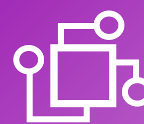
Products

43% Seals & Seal Kits
16% O-rings
15% Cylinders & Other
10% Filters
9% Gaskets
7% Attachment Kits

764
Employees

Principal businesses

Hercules Fluid Power Group (HFPG)
EMEA Seals (FPE Seals, Kentek, M Seals, Kubo, WCIS)



Controls

% of Group revenue

27%

Geography[1]

60% UK
32% Continental Europe
8% Rest of World

Customers

29% Aerospace & Defence
27% Industrial
18% Food & Beverage
15% Motorsport
7% Energy & Utilities
4% Medical & Scientific

Products

38% Wire & Cable
18% Fasteners
14% Equipment & Components
14% Connectors
11% Control Devices
5% Other Controls

334
Employees

Principal businesses

IS-Group
Specialty Fasteners
Filcon
Hawco

1 By destination.

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 Surgical ("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 endoscopes, reprocessors 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 Europe with the acquisition of Technopath Distribution ("TPD"), an established supplier of products to the Biotechnology, Clinical Laboratory and Medical markets in Ireland and the UK.

Environmental

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

Principal operations

Healthcare

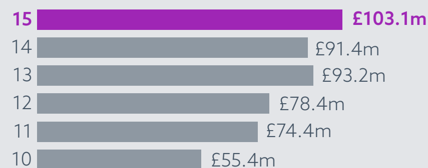
Somagen Diagnostics	Edmonton, AB, Canada
AMT Surgical	Kitchener, ON, Canada
Vantage Endoscopy	Markham, ON, Canada
Big Green Surgical	Melbourne, VIC, Australia
Diagnostic Solutions	Melbourne, VIC, Australia
Technopath Distribution	Ballina, Co. Tipperary, Ireland

Environmental

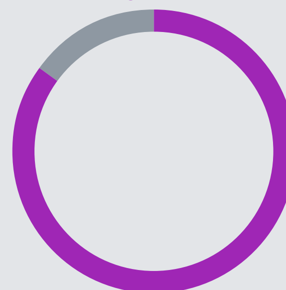
a1-CBISS	Tranmere, UK
a1-envirosciences	Dusseldorf, Germany

Revenue growth (compound over five years)

↗13%p.a.

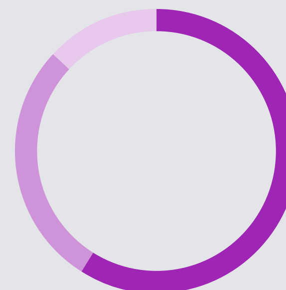


Principal segments



- 85% Healthcare
- 15% Environment

Geography



- 59% Canada
- 28% Europe
- 13% Rest of World

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 do 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.

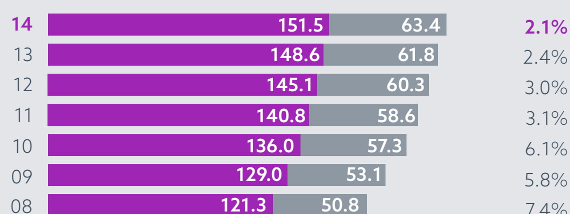
The relative stability and consistency in funding by each of the Provinces, guaranteed through the Act, ensures that the market remains well funded through the economic cycle. Over many years, healthcare expenditure has grown steadily with annual variations mostly dependent on the periodic additional tranches of funding provided by individual Provinces. In periods when the economy is slower, as has been the case in 2014 and 2015, healthcare funding may be constrained. The funding constraints 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. Over the last two years, the Canadian and Australian economies have come under significant pressure from the falling oil price and reduced demand for the countries' natural resources. This tougher economic environment has resulted in greater pressure on budgets throughout the Healthcare systems in Canada and Australia.

The market drivers for the TPD business are Healthcare funding in Ireland and the UK and activity levels in the Food, Dairy, Water and Pharmaceutical industries in Ireland.

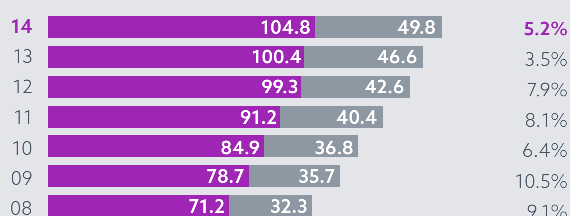
The a1-group supplies to customers in the **Environmental** industry in the UK, Germany and France. The market demand is largely driven by Environmental and Health & Safety regulations and growth in recent years has been driven by the need to be compliant with a range of EU regulations. Since market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

Canadian healthcare expenditure (C$bn)



Source: Canadian Institute for Health Information

Australian healthcare expenditure (A$bn)



Source: Australian Institute of Health & Welfare

Total health expenditure as a percentage of GDP

	2010	2011	2012	2013	**2014**
Canada	11.6%	11.3%	11.3%	11.2%	**11.1%**
Australia	9.4%	9.3%	9.5%	9.7%	**9.8%**

Sources: As above

Life Sciences
Sector performance

£103.1m

Revenue

	2015	2014
Revenue	**£103.1m**	£91.4m
Adjusted operating profit	**£21.0m**	£19.7m
Adjusted operating margin	**20.4%**	21.6%
Free cash flow	**£15.6m**	£14.9m
ROATCE	**21.1%**	21.9%

Reported revenues of the Life Sciences businesses increased by 13% to £103.1m (2014: £91.4m). The acquisitions of TPD in October 2014 and Chemzyme in July 2014 added £13.3m, or 15%, to Sector revenues but this was partly offset by a reduction of ca.6% in revenues from the translational currency impact from the continued weakening in the Canadian and Australian dollars and the Euro relative to UK sterling. On a constant currency basis, underlying revenues increased by 4%.

Gross margins in the Healthcare businesses continued to be impacted significantly by transactional currency effects. During the financial year, the Canadian and Australian businesses experienced further depreciation in their domestic currencies of 20% and 25% respectively relative to the US dollar, which is the principal currency in which these businesses mostly purchase their products. The TPD business in Ireland and the UK has not been impacted in the same way by transactional currency effects, but joined the Group with slightly lower operating margins. Currency hedging contracts and supplier price concessions have provided some mitigation, but Healthcare gross margins have reduced by 370bps compared with the prior year. Environmental gross margins improved and operating costs as a percentage of revenue reduced across the Life Sciences businesses; Sector adjusted operating margins therefore reduced by only 120bps to 20.4% (2014: 21.6%). On a reported basis, adjusted operating profit increased in UK sterling terms by 7% to £21.0m (2014: £19.7m).

Capital expenditure in the Sector increased to £2.5m (2014: £1.2m), which included £1.9m invested in field equipment for placement in hospitals and clinics by the Canadian Healthcare businesses and £0.4m invested in IT infrastructure, including £0.1m in a new ERP system in Vantage which completed its installation in November 2015. Free cash flow increased to £15.6m (2014: £14.9m), reflecting a combination of the increased operating profit and reduced cash flows into working capital, offset by the increase in capital expenditure.

Healthcare

Revenues from the DHG group of Healthcare businesses increased by 5% after adjusting for the acquisitions of TPD and Chemzyme and for translational currency effects.

The Canadian Healthcare businesses increased revenues by 5% in local currency, with consumable and service revenues accounting for ca.90% of revenues. The tougher economic environment in Canada, caused largely by the falling oil prices and reduced demand for the country's natural resources, has put greater pressure on budgets throughout the Healthcare system. There have also been various initiatives to restructure functions within several Provinces and regions, which have constrained purchasing and slowed down capital purchases. In particular there has been a freeze in capital spending in Quebec, while the Province completes the centralisation of its Health regions.

Against this background, Somagen achieved good growth in sales of consumable products across its key suppliers, in particular HbA1c diabetes testing and electrophoresis, colorectal cancer screening and assisted reproductive technology ("ART"). Capital equipment sales in the first half of the year were slow due to the reorganisation of testing services in certain Provinces; however a number of the delayed orders were released in the second half of the year with sales of histology instrumentation finishing strongly. Investments have been made during the year in establishing new suppliers in the areas of quality control products and automation in microbiology and theranostics, which focuses on the patient's response to specific biotherapeutic drugs.

AMT's core electrosurgery business has continued to grow unit volumes with increasing smoke evacuation compliance in existing accounts and penetration into new accounts. However, tender and evaluation processes introduced by the Provincial SSOs (shared services organisations) and the GPOs (general purchasing organisations) have put pressure on unit prices and constrained revenue growth. AMT has responded by introducing lower cost product options alongside premium products to ensure competitive pricing in major tenders. AMT has continued to make progress in its supply of specialised surgical instruments and devices used in laparoscopic and other MI (minimally invasive) Surgery procedures.

Vantage posted a very strong second half to the year and delivered double-digit growth in revenues for the full year. In the first half of the year, the main consumable product lines performed to expectation with modest growth in revenues from argon plasma probes, endoscope reprocessor chemicals and other accessories including specialist retrieval devices. Capital equipment revenues however were underperforming due to delayed budget approvals. In the second half, consumable and service revenues continued to grow steadily and results were boosted by strong capital equipment sales as the delayed orders were released and by new CPP (cost per procedure) placements. By the end of the year, Vantage was able to deliver double-digit growth across all of its principal capital product lines including endoscopes, reprocessors and argon plasma units.

In Australia and New Zealand, the economies have faced similar challenges to those experienced in Canada and Healthcare budgets have come under the same pressures. Against this background, revenues from DSL and BGS increased by a creditable 11% in local currency terms (7% growth after adjusting for the acquisition of Chemzyme). BGS continued to grow revenues strongly, with smoke evacuation programmes in existing and new accounts providing the main driver for growth and with steady growth in sales of electrosurgical grounding pads and laparoscopic electrodes. DSL consumable and service revenues trended in line with expectations and delivered modest growth, but capital equipment sales were slower due to budget pressures and delayed projects. DSL and BGS operate 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. The Chemzyme business, acquired in July 2014, was fully integrated into DHG's Melbourne operations during the year.

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 acquisition of TPD represents an important first step in extending the scope of the Group's Healthcare businesses into these new markets in Europe. In addition, TPD brings important new products and suppliers to the DHG group in the areas of rapid hygiene testing in Food, Dairy and Pharmaceutical industries as well as Digestive Health. TPD has performed very well since acquisition, delivering strong double-digit revenue growth on a like-for-like basis.

Environmental

Revenues from the Environmental businesses in Europe increased by 1% in constant currency terms. The a1-envirosciences business based in Germany increased revenues by 6% in Euro terms and ended the year with an encouraging book-to bill ratio. There was strong demand for high-end elemental analysers supplied to Petrochemical industry customers and Environmental laboratories. There was also considerable customer interest in the range of recently introduced mercury analysers for fuel analysis. The a1-CBISS business based in the UK saw revenues reduce by 4% against a very strong prior year comparative. Reduced revenues from CEMS (continuous emissions monitoring systems) were against very strong comparatives (20% growth in 2014) and the sector remains buoyant with new Biomass and Energy from Waste plants forming an important part of the UK's energy portfolio with the reduction in coal fired power stations. A solid order book is carried into the new fiscal year including the completion of a large order from Drax related to the conversion of its plant to biofuels. The gas detection sector had a strong first half but was then impacted by the slowdown in sales to Oil & Gas customers. Across both Environmental businesses, there was strong double-digit growth in revenues from Service programmes, which now represent ca.35% of combined revenues.

Highlights from the Year

- Sector revenue growth of 13%; underlying growth of 4% after adjusting for currency and TPD acquisition
- Good revenue growth in DHG's Canadian and Australian businesses despite pressure on Healthcare budgets
- Stronger second half of year as delayed capital equipment orders released; significant pressure on margins from 20-25% depreciation of Canadian and Australian dollars against US dollar
- TPD acquisition extends DHG into Ireland and the UK; strong double-digit growth in first year
- Environmental businesses maintained underlying revenues and finished the year with solid order book

Potential for Growth

- Increase share of specialised segments of Healthcare markets in Canada and Australia
- Build presence in the UK and Ireland from TPD base and explore opportunities more broadly in Europe
- Extend into other specialised medical disciplines with new products and technologies
- Continue to develop product and geographic spread of Environmental businesses

Seals

The Seals Sector businesses supply a range of 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. The Aftermarket businesses also supply products to end users operating process plants within the Pharmaceutical, Chemical, Food and Energy sectors.

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

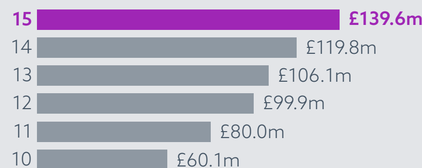
Hercules Fluid Power Group (HFPG)	
Hercules Bulldog	Clearwater & Tampa, FL, US
Hercules Canada	Barrie, ON & Dorval, QC, Canada
HKX	Monroe, WA, US
FPE Seals	Darlington, Doncaster, Gravesend & Aberdeen, UK; Breda, The Netherlands
Kentek	Helsinki, Finland; St. Petersburg, Russia; Tallinn, Riga & Vilnius, Baltic States
WCIS	Perth & Brisbane, Australia; Noumea, New Caledonia

Industrial OEM

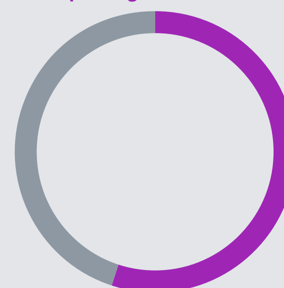
HFPG	
All Seals	Lake Forest, CA & Houston, TX, US
J Royal	Clemmons, NC & Tallassee, AL, US; Shanghai, China
RT Dygert	Minneapolis, MN, Chicago, IL & Seattle, WA, US
M Seals	Espergaerde, Denmark; Halmstad, Sweden; Beijing, China; Gateshead, UK
Kubo	Effretikon, Switzerland & Linz, Austria

Revenue growth (compound over five years)

↗ 18%p.a.

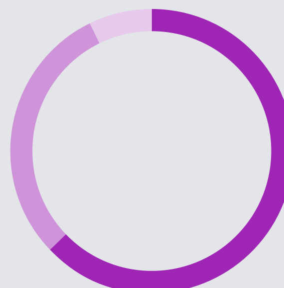


Principal segments



- 55% Aftermarket
- 45% Industrial OEM

Geography



- 63% North America
- 30% Europe
- 7% Rest of World

Market drivers

In North America (where ca.65% of Sector revenues are generated), the principal market drivers for both the Aftermarket and Industrial OEM Seals businesses is the growth rate in the general industrial economy. In 2015, the US economy is forecast to show annual GDP growth of 2.5% (2014: 2.4%), driven primarily by strong consumer spending. The US economy and industrial production contracted in the first quarter which was in part attributable to port closures, but in the second quarter GDP growth resumed as house prices increased and customer confidence returned. However, the significant reduction in oil price and lower demand for natural resources weighed down the resource dependent States.

In Canada, 2015 GDP growth is forecast to decline to 1.5% (2014: 2.4%) due again to the dependence of the Canadian economy on the Oil & Gas and Mining sectors. In general, the economic conditions in the principal South and Central American economies served by the North American Aftermarket businesses have remained challenging.

For the Aftermarket businesses, activity and spending levels in the US 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. Overall US Construction Spend has risen steadily during 2014 and 2015 as contractors completed the build-out phases of construction projects. However, these phases generally require lower usage of heavy mobile equipment than the ground clearance and preparation phases and there has been a reduction in activity in the States most impacted by the slowdown in the Oil & Gas and Mining sectors.

Unit sales in the US of Construction Equipment (defined as heavy mobile equipment including excavators above 14 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 following years. Unit sales grew strongly in 2014 as dealers, contractors and rental fleets bought ahead of the introduction of tighter emissions standards. During the first half of 2015, the demand for new equipment declined sharply as the general machine population is relatively new and equipment, previously used in the Oil & Gas and Mining sectors, was released back through auction houses into the Heavy Construction sector.

For the Industrial OEM Seals businesses, the most appropriate indicator is the Industrial Production Index, which moved ahead strongly in 2014 when the US enjoyed a strong oil price and a more competitive exchange rate for its exports. The Index has been essentially flat during 2015 as the stronger dollar and a significant slowdown in the natural resources sector offset stronger domestic consumer demand.

In Europe, the economies have been highly variable in 2014 and 2015, driven by a number of contributing economic and geopolitical factors. Although overall GDP growth in Europe is forecast to recover modestly to 1.5% (2014: 0.8%), the economies have been negatively impacted by the Greek debt crisis, the EU and US sanctions against Russia as well as reductions in exports as a result of the global economic slowdown. The UK and German economies have remained more buoyant than other European countries, but growth is forecast to slow to 2.4% (2014: 2.9%) in the UK and to remain broadly flat at 1.7% (2014: 1.6%) in Germany. The Industrial Production indices in these countries have generally lagged the overall economic growth.

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)

Seals
Sector performance

£139.6m
Revenue

	2015	2014
Revenue	**£139.6m**	£119.8m
Adjusted operating profit	**£24.8m**	£21.7m
Adjusted operating margin	**17.8%**	18.1%
Free cash flow	**£17.8m**	£16.4m
ROATCE	**23.7%**	26.0%

Reported revenues of the Seals businesses increased by 17% to £139.6m (2014: £119.8m). These revenues included contributions from Kubo (acquired in March 2015), Kentek (acquired in January 2014) and four smaller bolt-on acquisitions in the UK completed during the last 18 months. After adjusting for these acquisitions and for currency translation, underlying revenues increased by 4%.

Good progress has been made during the year in establishing a more substantial presence outside North America through a combination of organic growth and acquisition. The businesses based in the EMEA region contributed £47.3m to Seals revenues in the year (2014: £29.9m) and now account for 34% of Sector revenues. In October 2015, shortly after the year end, the acquisition was completed of WCIS, a supplier of gaskets, seals and associated products and services with operations in Australia and New Caledonia.

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. Adjusted operating margins reduced by 30bps to 17.8% (2014: 18.1%) as Kubo joined the Group with lower initial operating margins and there were several one-off costs in the reorganisation of facilities in the US, including the relocation of the Bulldog facility, which added incremental costs of ca.£0.8m. Adjusted operating profits increased by 14% to £24.8m (2014: £21.7m).

Free cash flow increased by £1.4m to £17.8m (2014: £16.4m), benefiting from the increase in operating profit and tight control of working capital. Capital expenditure increased to £1.5m (2014: £0.5m), which included £0.4m expenditure on leasehold improvements for the new Bulldog facility and further investment of £0.6m in seal manufacturing equipment and new vertical storage carousels. In Europe, Kubo invested £0.2m in additional gasket cutting equipment in Switzerland and Austria. FPE Seals also completed the move to a new leasehold facility, which was constructed to our specifications and then sold and leased back shortly before the year end.

Aftermarket
The Aftermarket businesses, which account for ca.55% of Sector revenues, reported a 4% increase in overall revenues. After adjusting for currency translation and the acquisitions of Kentek, AB Seals and Swan Seals, underlying revenues increased by 2%.

In the US, Hercules Bulldog grew domestic sales by 1% on a like-for-like basis, as a generally solid performance in most territories was offset by substantial declines in the resource dependent States including Texas, Oklahoma, Pennsylvania, Colorado and Montana. Further progress was made in electronic trading and the number of sales orders processed online now accounts for 21% of Hercules Bulldog orders in the US. The seal machining centres also continued to deliver good growth, with a fourth machine added during the year. Revenues from exports outside the US, which account for 15% of Hercules Bulldog sales, increased by 2% with good growth rates in Mexico and Central America more than offsetting reductions in other South American markets. In September 2015, the Bulldog gasket manufacturing and kit assembly operations in Reno were relocated to a new facility in Tampa, close to the core Hercules Clearwater site. The new facility has improved international port and air carrier links and is expected to deliver ca.£0.2m p.a. in annual cost savings.

Hercules Canada increased revenues by 10% in local currency terms, with solid sales to the traditional mobile equipment repair sector boosted by the installation of an additional seal making machine. There were also increased sales to Canadian cylinder manufacturers, serving US equipment OEM customers and benefiting from the weak Canadian dollar. Hercules Canada has its principal distribution centres in Ontario and Quebec and has limited direct exposure to the depressed Oil & Gas sector in Western Canada.

HKX's revenues decreased by ca.20% from its record performance in 2014, when there was strong demand from rental fleets for new excavators and OEM engineering resources were focused on the transition to new Tier 4 Final emissions regulations. In 2015, the higher pricing of the new Tier 4 Final machines has dampened demand for new excavators and excavator OEMs have been supplying a higher proportion with factory-fitted attachment kits. HKX has also been negatively impacted by the downturn in the Oil & Gas and Mining industries in Western Canada. HKX has responded by targeting sales of attachment kits for used machines and introducing lower cost, entry level kits which are upgradeable as required to provide a fuller range of capabilities. HKX has trimmed its operating costs to match the reduced revenues and still maintains a healthy operating profit margin.

In Europe, FPE Seals increased reported revenues by ca.50% with solid underlying growth boosted by the transfer from Hercules Bulldog to FPE Seals of responsibility for the sale of Bulldog products in the wider EMEA region. FPE Seals also benefited from two small acquisitions which provide it with excellent geographical coverage of the UK. AB Seals in Kent was acquired in February 2014 and Swan Seals, a small specialised supplier of machined seals based in Aberdeen, was acquired in July 2015. During the year, FPE Seals relocated its principal operations in the UK to a new, purpose built 34,000 square foot building in Darlington, which consolidates smaller less efficient facilities and will be the core Seals Aftermarket hub for further expansion into the EMEA region.

Kentek has faced significant economic and political challenges since its acquisition in January 2014, with the Russian economy (and those of Finland and the Baltic States) significantly impacted by lower Oil & Gas prices, the downturn in Mining industries and the sanctions imposed following the conflicts in Ukraine and the Crimea. Kentek has responded well to these challenges and delivered a strong increase in underlying revenues in 2015. Diploma acquired a further 10% shareholding in Kentek, taking our ownership to 90% and with the continuing 10% minority shareholder now appointed as Managing Director. In Russia, the Saint Petersburg operation now acts as the sole Russian corporate entity and the sales team has been reorganised to focus on specific geographical territories and market sectors.

Industrial OEM

The Industrial OEM businesses, which account for ca.45% of Sector revenues, reported a 35% increase in revenues. After adjusting for currency translation and the acquisitions of Kubo, Ramsay Services and Maxwell Seals, underlying revenue growth was 6%.

In North America, the Industrial OEM businesses delivered underlying revenue growth of 6% in an economy that showed signs of flattening off in the second half of the year. RT Dygert delivered another year of solid growth in its core industrial customer base as it continued to benefit from its development of regulatory-compliant elastomer compounds for the Pharmaceutical and Water industries and for fuel dispensing applications. During the year, RT Dygert also successfully launched a new online Webstore which acts as a B2B portal for existing distribution customers. In July 2014, RT Dygert acquired the outstanding 49% shareholding in the HPS business in Seattle. The HPS back office and logistics processes have been successfully integrated into RT Dygert and the business delivered another record sales year.

All Seals delivered more modest growth in 2015, as demand flattened out in the Water, Military Aerospace and Industrial sectors. All Seals opened a small branch operation in Houston in November 2014 and while sales to the Oil & Gas sector increased, further gains were held back by the downturn in this sector. J Royal delivered another year of excellent growth in 2015 with strong demand from its water meter and gas boiler customers more than offsetting lower sales to manufacturers of swimming pool equipment. J Royal continued to strengthen its operations by closing its Rhode Island facility and relocating key development resources to its main facility in North Carolina.

In Europe, the expanded M Seals group reported increased revenues of 4%, with solid underlying growth boosted by the bolt-on acquisition in the UK of Ramsay Services in December 2013. There was solid organic growth in Denmark with steady demand from the traditional pump and valve manufacturers and from wind turbine customers and the Swedish operation delivered another year of strong double-digit growth. The Chinese operation also saw a rebound in revenues after a softer prior year, as confidence returned to the Wind Power sector in China. In the UK, M Seals delivered a solid performance despite the slowdown in the Oil & Gas sector in which the acquired companies had traditionally specialised.

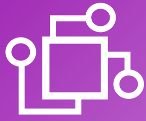
In March 2015, the Group completed the acquisition of Kubo, a leading supplier of seals, O-rings, gaskets and moulded rubber parts to a diverse base of industrial customers in Switzerland and Austria. The Swiss franc strengthened during the year following its de-coupling from the Euro and this has made it more difficult for Swiss OEMs to export their products. However, most of Kubo's purchases are from outside Switzerland allowing price reductions to customers without impacting margins. The trading environment for Kubo in Switzerland is now stabilising although growth has been constrained. The Austrian operation was not impacted by the currency issue and performed well during the year. In August 2015, the previous owner of Kubo stepped down as planned and a new Managing Director with significant industrial experience has been appointed.

Highlights from the Year

- Sector revenue growth of 17%; underlying growth of 4% after adjusting for currency and acquisitions
- In North America, slower trading activity in second half, impacted indirectly by cutbacks in Oil & Gas and Mining industries
- Continued investment in e-commerce and seal machining centres; Bulldog operations relocated to Tampa; new branch operation in Houston
- In Europe, strong underlying growth despite challenging economic background; new purpose built FPE Seals facility established as core Aftermarket hub in Europe
- EMEA Seals now 34% of Sector revenues following acquisitions of Kentek, Kubo and Swan Seals
- Acquisition of WCIS after year end broadens product range and extends Seals activities into Australasia

Potential for Growth

- Continue to gain share in Aftermarket Seals in North America through superior marketing and product development
- Build and expand group of Industrial OEM Seals businesses in North America and internationally
- Build larger, broader-based Seals business in the EMEA and Asia Pacific regions
- Explore opportunities more broadly in Industrial Distribution in North America



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 & 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.

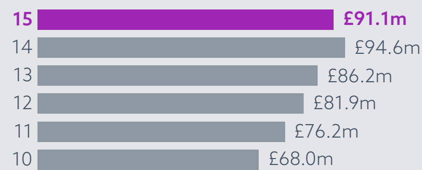
Principal operations

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 & Swindon, UK
SFC	Totnes, UK
Filcon	Munich, Germany

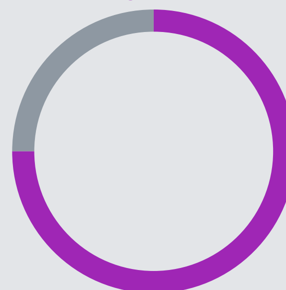
Fluid Controls	
Hawco Group	
Hawco	Guildford & Bolton, UK
Abbeychart	Faringdon, UK

Revenue growth (compound over five years)

↗ 6%p.a.

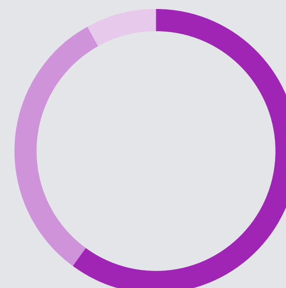


Principal segments



- 75% Interconnect
- 25% Fluid Controls

Geography



- 60% UK
- 32% Continental Europe
- 8% Rest of World

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 a short period of growth in 2010, followed by a steady decline through 2011 and 2012. Towards the end of 2012, the index returned to growth and increased steadily through 2014. This reflects increased confidence in the UK economy in general, although the economic growth is more driven by the Services and Retail sectors and industrial activity remains below pre-recession levels.

Similarly, the German Production Sector Output index tracks a good period of recovery through 2010 and 2011, before stabilising and slowly moving towards pre-recession levels by early 2015.

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. and with strong order books at Boeing, Airbus and the manufacturers of smaller, regional aircraft. There is a trend towards replacing ageing fleets with more fuel efficient wider bodied aircraft and there is increased activity in the cabin 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. However, the continuing activity in Syria and Iraq and an increase in other perceived threats may prompt a review of defence spending.

In Motorsport, following the introduction of the new 1.6 litre V6 turbo engine and the new ERS (Energy Recovery System) technology in 2013 and 2014, there were no major technology changes or upgrades to the series during the current Formula 1 season. The Formula E series continues to gain momentum but the relative spend in this series is low compared to Formula 1. In Energy, electricity generation and distribution in Germany remains a positive sector as the responsibility for the local supply of electricity continues to be returned to cities and towns.

Specific industry drivers – Fluid Controls

The Fluid Controls businesses generate almost 70% of their revenues from the Food & Beverage sector in the UK. In Food Retailing, there continue to be 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 delivery. These trends 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.

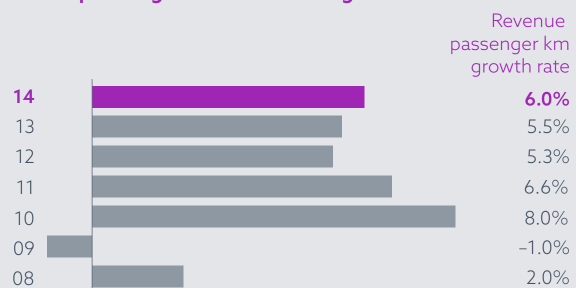
UK index of production

Source: UK Office for National Statistics
Calendar and seasonally adjusted, reference year 2011=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

Controls

Sector performance

£91.1m

Revenue

	2015	2014
Revenue	**£91.1m**	£94.6m
Adjusted operating profit	**£14.5m**	£15.3m
Adjusted operating margin	**15.9%**	16.2%
Free cash flow	**£11.4m**	£11.4m
ROATCE	**30.5%**	33.2%

Reported revenues of the Controls businesses decreased by 4% to £91.1m (2014: £94.6m), after including a full year contribution from SFC, acquired in July 2014. After adjusting for this acquisition and for currency translation, underlying revenues decreased by 5%.

Overall gross margins remained resilient in the Controls businesses due to their focus on specialised markets and added value services. However, operating costs as a percentage of revenue increased due to reverse operating leverage and adjusted operating margins reduced by 30bps to 15.9% (2014: 16.2%). Adjusted operating profits decreased by 5% to £14.5m (2014: £15.3m).

Free cash flow remained unchanged at £11.4m, with reduced cash flows into working capital and lower capital expenditure offsetting the impact of lower operating profit. Capital expenditure reduced to £0.3m (2014: £0.5m) with the largest expenditure during the year being ca.£0.1m on customised bins for the Specialty Fasteners business to support production in a major customer facility.

Interconnect

The Interconnect businesses, which account for ca.75% of Sector revenues, reported a revenue decrease of 3% in UK sterling terms; after adjusting for the acquisition of SFC and for currency effects, underlying revenues decreased by 5%. The revenue reduction reflects a combination of weak overall activity levels in UK and European industrial markets and strong comparatives for the Specialty Fasteners business in the Motorsport and Civil Aerospace sectors.

In the **IS-Group** businesses in the UK, revenues decreased by 9%, with challenging industrial markets in the UK and also in the Eurozone countries which the IS-Group serves as a Master Distributor for certain key suppliers. Sales direct to industrial end-users in the UK were generally muted, but the most significant reductions were in sales to other distributors in the UK and Continental Europe. Management remains confident that these revenues were not lost to competitors since the IS-Group companies are often the single source for several key products. The lower demand from both broad range catalogue distributors and the smaller, more specialised distributors suggests that both smaller and larger OEMs have been impacted by slower order books and some de-stocking.

In Defence & Aerospace, revenues reduced as several major projects had been completed in 2014, including the build phase of the Astute class submarines and there were no major projects to replace this demand. The IS-Group, because of its experience and buying power, is also a key supplier to other sub-distributors in Europe that support military programmes. However, the demand from these sub-distributors also fell sharply as programmes in other territories were completed or delayed. Beyond the large equipment programmes, there are still many successful UK manufacturers continuing to build highly specialised control and monitoring sub-systems for defence use. While major programme expenditure may be lower, the number of more focused projects and operators combine to produce a sustainable customer base for the IS-Group in the UK.

In Motorsport, there was reduced demand from Formula 1 ("F1"), where two teams exited the competition and there were fewer technological changes than last year, when the new V6 turbo engine was introduced, along with upgraded energy recovery systems. However, the growth of supercars for road use, the Formula E series and the resurgence of high performance motorbikes in Japan have all provided new growth opportunities. Less conventionally, the growing sophistication of sensor control systems on racing yachts has provided the opportunity to supply components to the Americas Cup teams.

In the Energy industry in the UK, IS-Group serves an attractive but narrow customer base comprising sub-sea cable manufacturers for the Oil & Gas industry, specialised manufacturers of portable generators and manufacturers of batteries for use in UPS (Uninterrupted Power Supplies) applications. The demand from these customers has always been somewhat cyclical and in 2015 each segment was down.

In Germany, **IS-Sommer** and **Filcon** reported flat revenues in Euro terms (9% reduction in UK sterling terms) with a significant reduction in revenues from general Industrial customers offset by growth in more specialised sectors. In the Industrial sector, revenues reduced as industrial output in Germany remained volatile from one month to the next and exports suffered in the wake of the Russian sanctions and the slowing Chinese manufacturing sector. During the year, revenues were also impacted by certain IS-Sommer customers relocating all or part of their manufacturing to lower cost regions outside of Germany. In the final quarter, the industrial economy stabilised somewhat and IS-Sommer also found new business in the Construction industry to partly offset the downturn in its more traditional industrial customer base.

In Defence & Aerospace, revenues were broadly flat, although activity on Military Aerospace projects has picked up pace following several years of cautious production levels and with the growing pressure on Germany to upgrade its military capabilities. Uncertainty over various tank programmes to be built for the US Army dampened demand from the specialist engine manufacturers, but the decision to upgrade the electronics on the German Leopard II tank and to develop the next generation Leopard III tank has now been confirmed. Filcon also had success in the developing Space satellite niche where it has built a focused portfolio of the specialised connectors that have been qualified for use on satellites.

In the Energy sector, IS-Sommer delivered a strong increase in revenues from products used in the repair and maintenance of the medium-voltage infrastructure of the Electricity distribution network. IS-Sommer has been appointed a Master Distributor for these specialised products by its principal supplier and has steadily built its reputation with the public authorities and utilities that are responsible for the local distribution networks. In the Medical sector, IS-Sommer primarily serves German and Swiss medical equipment manufacturers and delivered revenues comparable to the prior year.

The **Specialty Fasteners** business (Clarendon and SFC) increased revenues by 16% over the prior year; after adjusting for the acquisition of SFC, underlying revenues decreased by 7%.

Although overall revenues in Aerospace reduced, this was against a very strong comparative with record prior year sales in the aircraft seating segment. This year, customer changes to aircraft seat designs and delays to build schedules impacted demand. In addition, Clarendon's deliveries to its largest customer were reduced during the implementation of a large new lineside supply project. This project involves the installation of an innovative VMI (vendor managed inventory) solution that utilises bespoke dispensing racks that are located within the customer's production cells and equipped with RFID (radio frequency identification) technology. In the UK, the company also consolidated its position with the same customer by extending its supply contract to an additional manufacturing site. The requirement for aircraft seating remains exceptionally high with demand continuing to outstrip short term capacity and Clarendon broadened its business with new customers across the EMEA region.

In Motorsport, a combination of reduced engine development budgets, some changes in purchasing practices and a reduction in the number of F1 teams, all contributed to reduced revenues against a strong prior year comparative. However, SFC's portfolio of own-brand fastener products for the wider racing fraternity in the UK and the US brought increased penetration of several lower-tier racing series. The lead product is the proprietary "Aerocatch" bonnet fastener used to secure bodywork panels on high performance race cars. More broadly, SFC delivered an excellent performance in the supply of standard and own-brand fastening solutions to a wide range of smaller, niche UK manufacturers.

Fluid Controls

The Hawco group of Fluid Controls businesses, which account for ca.25% of Sector revenues, reported a 6% reduction in revenues. The greater part of the shortfall was attributable to just two customers that had been heavily involved in new build programmes for major food retailers in the prior year. As has been widely reported, the traditional UK food retailers have reduced substantially their fit-outs of new stores. In response to this, Hawco's immediate customers, the commercial refrigeration manufacturers, have now begun to win new business from the discount retailers that had previously sourced their refrigeration needs in Continental Europe. Hawco also continues to leverage its expertise and access to smaller, more efficient compressors and ancillary components to penetrate the wider Brewing and Catering sectors. As pubs continue to expand their food offerings and a greater variety of convenience foods are served by retailers, there are challenges to keep drinks and food cool in more confined spaces. Hawco is well positioned to support these retailers with Greenhouse Gas compliant, low energy solutions.

Abbeychart began a measured realignment of its business to match the significant changes taking place in the UK hot drinks dispensing market. Key players are repositioning their businesses from "vending companies" to "coffee specialists", with a broad range of espresso-type machines being installed in an increasing number of outlets from garages to top class restaurants. Abbeychart recently completed an exercise to map the components used in the broad range of espresso machines to build a portfolio of essential parts. The change in customer focus from traditional bulk coffee brewers to users of the newer equipment led to a decline in revenues during the first half of the year, but sales volumes in recent months have recovered. There was a further reduction in the demand for components used in the installation of plumbed water dispensers in offices which are now favouring individual bottled water. This was mostly offset by increased revenues from the repair and rebuilding of bar guns for soft drinks and funnel units used to dispense more solid slush-type drinks.

Highlights from the Year

- Sector revenue reduced by 4%; underlying reduction of 5% after adjusting for currency and acquisitions
- Interconnect businesses faced challenging industrial markets in the UK and Continental Europe and strong comparatives in Civil Aerospace and Motorsport
- Continued growth in specialised segments in Germany, including the Energy and the Space satellite sectors
- In Specialty Fasteners, lineside supply projects for aircraft seat manufacturer constrained business this year but will deliver longer term revenue growth; excellent performance from SFC in first full year
- Fluid Controls businesses repositioned towards growing segments of the Food & Beverage market in the UK, with smaller more energy efficient products

Potential for Growth

- Extend Interconnect product line and further penetrate specialised markets in Europe
- In Specialty Fasteners, build on strong positions in Civil Aerospace and Motorsport and expand in niche industrial markets
- Continue to reposition Fluid Controls business towards growth segments of the Food & Beverage industry
- Expand geographic reach outside UK and Northern Continental Europe

The Board is committed to protecting and enhancing Diploma's reputation and assets, while safeguarding the interests of shareholders. It has overall responsibility for the Group's system of risk management and internal control.

Diploma's businesses are affected by a number of risks and uncertainties. These may be impacted by internal and external factors, some of which we cannot control. Many of the risks are similar to those found by comparable companies in terms of scale and operations.

Our approach

Risk management and maintenance of appropriate systems of control to manage risk is the responsibility of the Board and is integral to the ability of the Group to deliver on its strategic priorities. The Board has developed a framework of risk management which is used to establish the culture of effective risk management throughout the business by identifying and monitoring the material risks, setting risk appetite and determining the overall risk tolerance of the Group. This framework of risk management has been substantially enhanced this year and additional processes have been developed which will assist the Board to monitor and assess the principal risks throughout the year.

The Group's risk management systems are monitored by the Audit Committee, under delegation from the Board. The Audit Committee is responsible for overseeing the effectiveness of the internal control environment of the Group. An internal audit function has been established for many years to provide independent assurance that the Group's risk management, governance and internal control processes are operating effectively.

Identifying and monitoring material risks

Material risks are identified through a detailed analysis of individual processes and procedures (bottom up approach) and a consideration of the strategy and operating environment of the Group (top down approach).

The detailed risk evaluation process begins in the operating businesses with an annual exercise undertaken by management to identify and document the significant strategic, operational, financial and accounting risks facing the businesses. This process is both robust and challenging and ensures risks are identified and monitored and management controls are embedded in the business' operations.

This year the Group has developed a quantitative method to determine a Risk Score for each risk which is based on both the likelihood of each identified risk occurring and the consequence of an adverse outcome and its impact on the business. Each business will then identify processes established to control each risk and minimise its potential impact.

The risk assessments from each of the operating businesses are then considered by the Board who evaluate the principal risks of the Group with reference to the Group's strategy and operating environment.

Our principal risks and uncertainties

Set out in this section of the Strategic Report are the principal risks and uncertainties affecting the Group which have been determined by the Board, based on the robust risk evaluation process described above, to have the potential to have the greatest impact on the Group's future viability. These risks are similar to those reported last year, although with some movement on the relative ranking of these risks and one new risk added relating to supplier strategy change.

The risks are each classified as strategic, operational and financial or accounting. The Group's decentralised operations with different sectors and geographical spread reduces the impact of these principal risks.

Viability Statement – Diploma PLC

The Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to September 2018. The Directors' assessment has been made with reference to the resilience of the Group and its strong financial position, the Group's current strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as described in the Strategic Report.

The Group has a broad spread of customers and suppliers across different geographic areas and independent market sectors, often secured with longer term agreements. The Group is supported by a robust Balance Sheet and strong operational cash flows.

The assessment period of three years has been chosen as it is consistent with the Board's triennial review of the Group's strategy at which the prospects of each business are discussed; assumptions are made regarding entering into new markets and geographies, about future growth rates of the existing businesses and about the acceptable performance of existing businesses. A robust financial model of the Group is built on a business by business basis and the metrics for the Group's KPIs are reviewed for the assessment period. These metrics are also subject to sensitivity analysis which includes flexing a number of the main assumptions, namely, future revenue growth, gross margins, operating costs and working capital management. The results of flexing these assumptions, both individually and in aggregate, are used to determine whether additional bank facilities will be required during this period.

This review and analysis also considers the principal risks facing the Group, as described on pages 35 to 37 and the potential impacts these risks would have on the Group's business model, future performance, solvency or liquidity over the assessment period. The Board considers that the diverse nature of the Sectors and geographies in which the Group operates acts significantly to mitigate the impact any of these risks might have on the Group.

Strategic Risk

Relative movement within Group principal risks
Increased

1 Downturn in major markets

Risk description & assessment	Mitigation
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 differing 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.	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.

Strategic Risk

Relative movement within Group principal risks
Unchanged

2 Loss of key suppliers

Risk description & assessment	Mitigation
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 products can become very long. Currently no single supplier represents more than 10% of Group revenue and only seven 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.	Long term, multi-year exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition. Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings and adherence to contractual terms. Regular review of inventory levels. Bundling and kitting of products and provision of added value services. Periodic research of alternative suppliers as part of contingency planning.

Strategic Risk

Relative movement within Group principal risks
Unchanged

3 Loss of key customer(s)

Risk description & assessment	Mitigation
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 customer and no single customer represents more than 5% of Sector revenue or more than 2% of Group revenue.	Specific large customers are important to individual operating businesses and a high level of effort invested in ensuring that these customers are retained and encouraged not to switch to another supplier. However, although important to individual operating businesses, loss of any single customer does not present a material risk to the Group. In addition to providing high levels of customer service and value added activities, close integration is established where possible with customers' systems and processes.

Strategic Risk

4 Supplier strategy change

Relative movement within Group principal risks
New

Risk description & assessment	Mitigation
The success of the businesses depends significantly on representing suppliers whose products are recognised in the marketplace as the leading competitive brand. If suppliers fail to support these products with new development and technologies, then our businesses will suffer from reduced demand for their products and services. Each of the Group's businesses supply established and leading products and related services to customers operating in specialised markets.	The businesses work very closely with each of their suppliers and regularly attend industry exhibitions to keep abreast of the latest technology and market requirements/trends. The businesses also meet with key customers on a regular basis to gain insight into their product requirements and market developments.

Operational Risk

5 Product liability

Relative movement within Group principal risks
Unchanged

Risk description & assessment	Mitigation
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.	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 have undergone further product liability training during the year and are continually reviewed to demonstrate compliance with Group policies and procedures relating to product liability.

Operational Risk

6 Loss of key personnel

Relative movement within Group principal risks
Unchanged

Risk description & assessment	Mitigation
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, for a limited time period. As set out on page 38, the average length of service for all personnel in the Group is consistently over six years.	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.

Financial Risk

Relative movement within Group principal risks **Increased**

7 Foreign currency – Translational exposure

Risk description & assessment	Mitigation
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 2015, 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 £8.1m and decrease adjusted operating profit by £1.6m. 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 £4.6m (8%), due to currency translation. Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2015, the Group's non-UK sterling trading capital employed in overseas businesses was £171.4m (2014: £137.9m), which represented 80% of the Group's trading capital employed. It is estimated that a further strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £15.6m. 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.	The Group operates across a number of diverse geographies but does not hedge translational exposure.

Financial Risk

Relative movement within Group principal risks **Increased**

8 Foreign currency – Transactional exposure

Risk description & assessment	Mitigation
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, Euros 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.	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 finance department monitors rolling monthly forecasts of currency exposures. The Group classifies its forward foreign exchange contracts, which hedge forecast transactions, as cash flow hedges and state them at fair value at each reporting period.

Accounting Risk

Relative movement within Group principal risks **Unchanged**

9 Inventory obsolescence

Risk description & assessment	Mitigation
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 in the year was £1.5m but inventories are generally not subject to technological obsolescence.	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.

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

	2015	2014	2013
Average number of employees in year	1,449	1,264	1,145
Females as percentage of total	34%	35%	35%
Length of service (years)	6.6	6.3	6.2
Average staff turnover	23.0%	21.5%	20.4%
Sick days lost per person	3.0	3.0	2.2

The similar level of sick days lost per person in 2015 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.

	2015		2014	
	Male	Female	Male	Female
Directors	6	2	6	1
Senior Managers	71	19	67	17
Employees	910	497	788	445
Total	987	518	861	463

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 2015 the Group employed four disabled employees.

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") to maintain any relevant professional accreditations.

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 policies and 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.

	2015	2014	2013
Minor injuries	54	55	54
Reportable lost time incidents[1]	4	5	1
Minor injuries per 1,000 employees	37.3	43.5	47.2
Reportable lost time incidents[1] per 1,000 employees	2.8	4.0	0.9

1 Three or more days' absence from workplace.

The overall level of minor injuries has remained broadly constant, but when normalised to a rate per 1,000 employees there is a marked decrease in the overall number of minor injuries. The absolute number of reportable lost time incidents has reduced slightly with only one of the injuries resulting in greater than five days' lost time. Again, when normalised to a rate per 1,000 employees, the reportable lost time incidents have reduced in 2015. Owing to the nature of the Group's operations, 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 2015.

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

In 2014, the UK Government introduced a requirement that UK listed companies should report their global levels of Greenhouse Gas 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 has considered the six main Greenhouse Gases ("GHGs") 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 revenue has been selected, which will allow a comparison of performance over time and with other similar types of business.

		Tonnes of CO_2e	
	Source of emissions	**2015**	2014
Direct emissions (Scope 1)	Natural gas	**824.4**	822.0
	Owned transport	**94.0**	63.2
Indirect emissions (Scope 2)	Electricity	**2,226.2**	2015.1
Gross emissions		**3,144.6**	2900.3
Tonnes CO_2e per £1m revenue		**9.4**	9.5

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

- Somagen Diagnostics supported the Canadian Blood Services in their Partners for Life programme which involves a corporate pledge for blood donation through staff, family and friends.
- Various charitable events at Hercules US including support to local charities such as United Way, Clothes To Kids, The Haven (domestic abuse charity), Paul B. Stephens Exceptional School for Disabled Children and Metropolitan Ministries (food bank).
- Somagen funds two academic awards each year in two universities in the fields of histotechnology and biomedical engineering.
- J Royal took part in a charity cycle ride for a multiple sclerosis charity.
- Hercules Canada took part in an Earth Day Clean Up and a golf tournament to raise funds for a local cancer care centre and cystic fibrosis research.

In Europe

- Specialty Fasteners held a fundraising day for Breast Cancer Now charity.
- FPE Seals supported Downs Syndrome by entering a team into the Great North Run, supported a breast cancer charity and sponsored a new strip for a local junior football team.
- A Hawco employee completed a 190 mile cycle ride from Hawco's offices in Surrey to Paris to support Macmillan Cancer Research and the Anaphylaxis Campaign.
- Various charitable events at IS-Rayfast including running the London Marathon, a charity sky dive, supporting Movember and a 72 hole charity golf challenge.

The Group also contributes to local worthwhile causes and charities and in 2015 the Group made donations of £35,504 (2014: £42,698). No political donations were made.

John Nicholas[1,3]
Chairman

Appointed:
Joined the Board on 1 June 2013 and appointed Chairman on 21 January 2015.

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.

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.

Charles Packshaw[1,2,3]
Senior Independent Non-Executive Director

Appointed:
Joined the Board on 1 June 2013 and appointed Senior Independent Director on 27 February 2015.

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.

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:
Nigel is Senior Independent Director and Chairman of the Audit Committee of Creston plc.

Anne Thorburn[1,2,3]
Non-Executive Director

Appointed:
Joined the Board on 7 September 2015 and will be appointed Chairman of the Audit Committee with effect from 17 November 2015.

Skills and experience:
Anne is Chief Financial Officer of Exova Group plc (until 30 November 2015) and has many years of experience at Board level in listed international groups. Anne was previously Group Finance Director at British Polythene Industries PLC. Anne is a member of the Institute of Chartered Accountants in Scotland.

External appointments:
None.

Iain Henderson
Chief Operating Officer

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

Will retire from the Board on 20 January 2016.

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.

Andy Smith[1,2,3]
Non-Executive Director

Appointed:
Joined the Board and appointed Chairman of the Remuneration Committee on 9 February 2015.

Skills and experience:
Andy is Managing Director, Severn Trent Business Services with responsibility for the company's non-regulated businesses. He has many years of plc Board level experience having previously served on the Boards of The Boots Company PLC as Group HR Director and Severn Trent PLC as Water Services Director. Andy is a Mechanical Engineering graduate and has significant operational and HR experience. He has worked in the UK and overseas previously with global businesses including BP, Mars and Pepsi.

External appointments:
None.

Marie-Louise Clayton[1,2,3]
Non-Executive Director

Appointed:
Joined the Board on 13 November 2012 and appointed Chairman, Audit Committee on 21 March 2013.

Will retire from the Board on 16 November 2015.

Skills and experience:
Marie-Louise is a Chartered Certified Accountant with some 30 years' experience in commerce and industry, who has held senior positions at 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.

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

> The effectiveness of the Board was already reasonably good and this provides a good platform moving forward."

John Nicholas, Chairman

Members of Board	Attendance
Chairman	
John Nicholas	7/7
John Rennocks (retired on 21 January 2015)	1/1
Independent non-Executive Directors	
Marie-Louise Clayton	6/7
Andy Smith (appointed on 9 February 2015)	5/5
Charles Packshaw	7/7
Anne Thorburn (appointed on 7 September 2015)	1/1
Executive Directors	
Iain Henderson	7/7
Nigel Lingwood	7/7
Bruce Thompson	7/7

Dear Shareholder

In my first year as Chairman of the Company, I have tried to provide sufficient opportunity for both myself and my independent colleagues on the Board, all of whom are relatively new to their roles, to gain a thorough understanding of the culture and values of the Company.

An important step in this process was the Board's formal review of Group strategy held in Switzerland over two days and combined with a visit to Kubo, which the Group acquired earlier in the year. As well as reviewing Group strategy with the Executive Directors, the Board also had an opportunity to meet senior management in the Group's EMEA Seals businesses, to receive formal presentations from these businesses and to have a more informal dinner with these managers.

Later in the year, the Board experienced its first externally facilitated evaluation of effectiveness, which had been postponed from last year to allow the more recently appointed Directors to gain more insight into the workings of the Board. This evaluation exercise was based on confidential one-to-one interviews with an external facilitator. I was pleased that the facilitator was able to confirm that the effectiveness of the Board was already reasonably good as this will provide a good platform moving forward. There were some minor recommendations that came out of this exercise which are identified further in this Report on Corporate Governance and we plan to implement these in the next financial year.

The changes introduced in 2014 to the UK Corporate Governance Code and the FRC guidance on risk management in particular, were very timely in supporting one of the Board's key objectives identified last year to review the Group's risk management and internal control processes.

During the year, the Board reviewed the Group's risk management framework in light of the Board's risk appetite. This process concluded with a robust assessment of the Group's principal risks, together with an agreed form of reports which the Board will use to ensure that it regularly monitors these risks throughout the year.

The other updates to the Code have also been considered by the Board and its respective Committees and some refinements have been made to existing practices where appropriate to ensure full compliance.

Further refreshing of the Board took place in 2015 following the retirement of John Rennocks as Chairman in January 2015. In addition with Marie-Louise Clayton's term of office expiring in November 2015, we needed to recruit a new non-Executive Director.

As well as having to fill these vacancies, it provided a good opportunity to refresh the Chairs of the Board Committees. The recruitment of Andy Smith in February with significant experience of HR policies and practices makes him a good Chair to replace me on the Remuneration Committee. Similarly, I was pleased that Anne Thorburn decided to join us in September as she brings good experience gained in Board level finance roles in international industrial companies. This will allow her to be particularly effective as Chair of the Audit Committee. I was also pleased that Charles Packshaw agreed to become Senior Independent Director of the Company, following my appointment as Chairman.

Finally, we were all sad to learn that Iain will be leaving the Group in March 2016 after many years as an Executive Director on the Board and we wish him well in his retirement. As indicated in the announcement of Iain's departure in September, the Board will not seek to directly replace his Board role as Chief Operating Officer. However the Chief Executive Officer will set up an Executive Management Group of senior management drawn from across the businesses, including the PLC Office. This Group will be accountable to the Board, through the Chief Executive Officer, which will provide the Board with good insight of senior management as it develops its plans for succession.

Finally, I would hope that as shareholders in the Company you will be able to find time to attend our AGM on Wednesday, 20 January 2016. It provides an excellent opportunity to meet the Board of Directors and challenge them on any matters you feel are important to the development of the Company.

John Nicholas
16 November 2015

Compliance with the Code

Diploma PLC is required to state whether it has complied with the Main Principles of the UK Corporate Governance Code. The previous Code published in 2012 was revised and re-issued by the Financial Reporting Council in September 2014. Set out on pages 43 to 65 is an explanation of how the Company has complied with the Main Principles of the Code.

The Board confirms that throughout the financial year, the Company applied all of the Principles set out in sections A to E of the UK Corporate Governance Code for the period under review. The Board also confirms that it complies with all of the Provisions of the Code as at the date of this Report .

There were four cases of non-compliance with the Provisions of the Code during the year. These related to timings of appointments following the retirement of John Rennocks as Chairman and the appointment of John Nicholas as his successor.

B.1.2 – At least half the Board did not comprise independent non-Executive Directors during the period from 21 January 2015 until the appointment of Andy Smith as an independent non-Executive Director on 9 February 2015. The recruitment process had commenced in December 2014, but had not been completed by 21 January 2015.

A.4.1 – There was no Senior Independent Director ("SID") appointed for the period from 21 January 2015 when John Nicholas resigned as SID until the appointment of Charles Packshaw as SID on 27 February 2015. Following his appointment as Chairman, John Nicholas was keen to follow a fair and structured appointment process for the role of SID.

C.3.1 and D.2.1 – There were only two members of the Audit Committee for the period from 21 January 2015, when John Nicholas resigned as a member, until the appointment of Andy Smith as an independent non-Executive Director on 9 February 2015. Similarly, there was no Chairman of the Remuneration Committee during the same period. There were no meetings of either the Audit or Remuneration Committee during this period.

The Company's auditor Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the 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.

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.
- All new bank facilities, or significant changes to existing facilities.
- Assessment and approval of the principal risks facing the Group and how they are being managed.
- Approval of the Viability Statement.
- Maintaining sound internal control and risk management systems.
- Approval of major corporate transactions and commitments.
- Succession planning and appointments to the Board.
- 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 Chief Executive Officer 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, anti-bribery and corruption, sanctions and whistleblowing.

Nomination Committee
Chaired by John Nicholas
Number of meetings in the year: three

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 Andy Smith
Number of meetings in the year: three

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.

Leadership

Board composition

The Board currently comprises a Chairman, three Executive Directors and four independent non-Executive Directors. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Committee Report on page 57. The biographical details of the Board members are set out on pages 40 and 41.

As previously reported, John Rennocks retired from the Board at the conclusion of the AGM on 21 January 2015 and John Nicholas succeeded him as Chairman. The recruitment of another non-Executive Director commenced late in 2014 and completed on 9 February 2015 with the appointment of Andy Smith as an independent non-Executive Director. Andy was also appointed as Chairman of the Remuneration Committee (which John Nicholas had vacated on becoming Chairman of the Company on 21 January 2015) and a member of the Audit and Nomination Committees.

In November 2015, Marie-Louise Clayton's three year term of office expired. Anne Thorburn was appointed an independent non-Executive Director on 7 September 2015 and was also appointed a member of the Audit, Remuneration and Nomination Committees. Anne Thorburn will be appointed Chairman of the Audit Committee on 17 November 2015.

On appointment as Chairman, John Nicholas vacated the role of Senior Independent Director and was replaced by Charles Packshaw who was appointed Senior Independent Director on 27 February 2015.

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 Officer.

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 Officer and monitors his performance in leading the Company and providing operational and performance management in delivering the agreed strategy. The Chief Executive Officer is responsible for developing, for the Board's approval, appropriate values, culture 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 Officer the responsibility for such activities to a specified level of authority. Similarly, there are authority levels covering capital expenditure which can be exercised by the Chief Executive Officer. Beyond these levels of authority, projects are referred to the Board for approval.

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 three yearly basis. The Board met with its key advisors in early June 2015, to set the scene for a formal review of the Company's strategy at the end of June 2015 in Zurich, Switzerland. The location also provided an opportunity to visit the facilities of the recently acquired Kubo, based at Effretikon, Switzerland and to receive presentations from the senior management of Diploma's EMEA Seals businesses (Kubo, M Seals, Kentek and FPE Seals). The Board received a number of presentations and had thorough and challenging reviews with Executive management. The Board will review progress annually against the objectives set at the Group strategy and will undertake the next formal review in 2017/18.

Meetings of the Board

The Board has decided to increase its scheduled meetings from six to seven in the next financial year so as to provide more time to address the substantial additional regulatory matters that it is now required to consider on a more formal basis.

The Board will however meet more frequently if required and this year met on seven occasions, including the Strategy Review, as 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 Nicholas was considered independent by the Board both at the time of his appointment as Director on 1 June 2013 and as Chairman on 21 January 2015. In accordance with the Code, the ongoing test of independence for the Chairman is not relevant.

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 includes a visit by each of the new non-Executive Directors to the major business units in each of the Group's Sectors where they have 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 Officer 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 Officer 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, risk management, 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 the Board and actions and objectives are agreed for the following year.

Following the internal evaluation of the effectiveness of the Board carried out in September 2014, the Board identified three areas to address in particular in 2015. These objectives and the progress achieved in 2015 are set out below:

- To strengthen the Board's competencies through the appointment of a new non-Executive Director with broad industrial experience gained in an international environment – this was achieved by the appointment of Andy Smith as a non-Executive Director.
- To seek more regular presentations at Board meetings from senior management across the Group – during the year, senior management from DHG and the EMEA Seals businesses made presentations to the Board. In March 2016, the Board will also be holding one of their formal meetings at another Group business location and will have an opportunity to meet with local management in that business.
- To focus on the management of risk – the Board discussed and developed the Group's risk management framework over several meetings. These discussions included the development of an updated risk management framework and consideration of the Board's risk appetite. As part of this exercise the Board carried out a robust assessment of the principal risks facing the Group and the key controls in place to manage these risks. The results of this work are summarised in a separate section of the Strategic Report on Internal Control and Risk Management on page 34.

As indicated in last year's Annual Report & Accounts, the Board this year completed an annual evaluation of the Board's effectiveness using an external facilitator to carry out this exercise. A member of the Institute of Chartered Secretaries and Administrators was appointed to carry out this evaluation.

The evaluation was conducted by means of confidential interviews with each individual member of the Board. The exercise encompassed an evaluation of the Board as a whole and of the Board Committees. The evaluation of the Board covered seven topics: Board role and responsibilities, oversight, arrangements for Board meetings, support for the Board, Board composition, working together and outcome and achievements.

The external facilitator prepared a detailed report on the results of his evaluation which was circulated to all members of the Board and the Chairman invited the facilitator to present his report at the meeting of the Board on 24 September 2015.

The facilitator concluded that, based on his evaluation, the Board's effectiveness was strong with an average score of 73% across each of the seven topics assessed, as identified above. There were no negative performance issues identified from the evaluation that related to individual Directors or the performance of the Board Committees. However, the facilitator recommended a small number of items that the Board should address with the aim of strengthening the Board's effectiveness. The principal matters were:

- the Board should formally review the Group's policies on cyber risk on a more regular basis; and
- the Board should agree to a timetable for circulating Board papers and minutes to all members of the Board.

The Chairman undertook to consider these recommendations and will report back to the Board on actions required, where appropriate, to address these matters. The Board will report on progress made with implementing these recommendations in next year's Annual Report & Accounts.

The Senior Independent Director, together with the non-Executive Directors also carried out a performance evaluation of the Chairman, having taken account of the views of Directors.

Re-election

All Directors of 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.

Charles Packshaw, the Company's Senior Independent Director, is also Head of UK Advisory and Managing Director in HSBC's global banking businesses which is one of the principal banks that provide bank facilities and ancillary banking services to the Group and its businesses. The Board remains satisfied that this relationship does not provide a conflict of interest.

Accountability

The Board is responsible for ensuring that the Annual Report & Accounts taken as a whole present a fair, balanced and understandable assessment of the Group and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy. This is achieved through this Annual Report & Accounts, the Annual Review and through other periodic financial statements and announcements.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. The Board is also responsible for monitoring the Group's risk management and internal control systems and it reviews the effectiveness of these systems through the work of the Audit Committee.

The principal risks which the Board has identified this year are set out in the section on Internal Control and Risk Management on pages 34 to 37 of the Strategic Report.

Relations with shareholders

The Company has a well-developed investor relations programme managed by the Chief Executive Officer 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 several 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.

The Group's website contains up to date information for shareholders which includes the Annual Reports of the past five years, current and historic share price information, news releases, presentations to analysts and key shareholders. The website also contains factual data on the Group's businesses, products and services.

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 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 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.

With regard to other shareholder meetings, other than Annual General Meetings ("AGMs"), the Board will continue, in ordinary circumstances, to provide as much notice as possible and certainly no less than 14 working days. However, the Board considers that it should still retain the flexibility to reduce the timescale to 14 clear days in the case of non-routine business and where it is merited by the business of the meeting. For this reason, the Board has again proposed a resolution at the AGM to reduce the notice period for General Meetings from 21 to no less than 14 clear days.

Audit Committee Report

> The Group comprises a set of well managed businesses with a healthy focus on monitoring risks and maintaining robust and effective systems of control."

Marie-Louise Clayton, Chairman of the Audit Committee

Members of Committee:	Attendance
Marie-Louise Clayton (Chairman)	6/6
John Nicholas (retired on 21 January 2015)	2/2
Charles Packshaw	6/6
Andy Smith (appointed on 9 February 2015)	4/4
Anne Thorburn (appointed on 7 September 2015)	1/1

Dear Shareholder

In my final report to you as Chair of the Committee, I am pleased to report that the Committee made good progress in carrying out a comprehensive work programme to ensure that it meets the increasing depth of review and reporting that is now required of Audit Committees.

This year's work was focused on working with the Board to develop the risk framework of the Group, in light of the new provisions in the UK Corporate Governance Code and in particular on challenging management on the effectiveness of the internal systems of control. The Committee, with the help of reports from the Internal Audit Manager, remains satisfied that the control systems operating within the businesses are generally strong. As importantly, the Committee was also pleased to learn from reports from both the Internal Audit Manager and external auditor that there is a culture across the businesses to "get things right first time" and where possible improve processes, controls and reporting efficiencies.

There were no particularly subjective accounting issues for the Committee to consider this year; those matters that do entail a higher degree of judgement are set out later in this Report of the Audit Committee and remain unchanged from last year. The Committee discussed these matters with the auditor and was satisfied that the Group's approach remained prudent and conservative.

The Committee continued to liaise closely with the Company's auditor and met him alone several times to review the results of the Group and discuss meetings they had held with Group businesses and PLC management as part of their audit of the financial statements. The Committee also met regularly with the Internal Audit Manager and was closely involved in recruiting his successor during the summer.

I am pleased that in passing my role to Anne I can be confident that the Group comprises a set of well managed businesses with a healthy focus on monitoring risks and a keen interest in maintaining robust and effective systems of control.

Marie-Louise Clayton
16 November 2015

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 and quarterly 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 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

The Committee is chaired by Marie-Louise Clayton and comprises independent non-Executive Directors. The Chair of the Committee and Anne Thorburn are both qualified accountants, who have recent and relevant financial experience.

On appointment as the Chairman of the Company, John Nicholas resigned from the Audit Committee on 21 January 2015 in accordance with good governance practice, but continues to attend meetings at the invitation of the Committee. Andy Smith was appointed to the Committee on 9 February 2015 and Anne Thorburn was appointed on 7 September 2015. Anne will become Chair of the Committee on 17 November 2015, when Marie-Louise Clayton retires from the Board.

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 and Internal Audit Manager 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 Chair 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. In 2016, 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 was effective from 1 January 2015 and in preparation for the audit tender which will likely be carried out before the end of 2017.

Audit Committee Agenda – 2015

- 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 Trading Updates at meetings held in January, March 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, where appropriate, made recommendations to the Board on areas for improvement.
- Reviewed the Group's policy on anti-Bribery and Corruption and the procedures in place to ensure compliance across the Group.
- Reviewed the scope of sanctions issued by the European Union and the US and the procedures being followed by the Group's businesses to monitor compliance.
- Reviewed the effectiveness of the external audit process and recommended the reappointment of the Group's external auditors.
- Reviewed the Group's policy on whistleblowing.
- Reviewed the Group's policy on non-audit services which may be provided by the auditor.
- 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 2015 are set out below:

Impairment of goodwill:
The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the business 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.

Accounting for acquisitions:
The Committee reviewed the accounting for acquisitions completed during the year and the assumptions underlying the valuation of intangible assets. They discussed the nature of the intangible assets with the Group Finance Director and the period over which these assets were to be amortised. The Committee also discussed with the external auditor the work they had carried out to satisfy themselves that the valuation assumptions were appropriate.

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. This matter was also discussed with the external auditor.

Recoverability of trade receivables:
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 two pension scheme arrangements, accounted for in accordance with IAS19 (Revised) and the Group's taxation position.

Risk management and internal control

The principal risks and uncertainties which are currently judged to have the most significant impact on the Group's long term performance are set out in a separate section of the Strategic Report on Internal Control and Risk Management on pages 34 to 37.

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 relating to revenues, cash and receivables are reported on a weekly basis. Detailed management accounts and KPIs are prepared monthly using a robust proprietary reporting system to collect and analyse financial data in a consistent format. Monthly results are measured against both budget and half year reforecasts which have been approved and reviewed by the Board. All capital expenditure above predefined amounts must be supported by a paper prepared by business management.

All financial data is taken directly from the trial balances of each business held in their local ERP systems and re-analysed and formatted for Group reporting purposes. There is no re-keying of financial data and very limited use is made of spreadsheets by Group businesses to report monthly financial results. The Group's internal auditor regularly audits the base data at each business to ensure it is correctly collected by the management reporting system.

As part of the year end close process each business is required to complete a self-assessment which evaluates their financial control environment in the business designed to identify weaknesses in controls. These assessments are critically reviewed by the Group's Internal Audit Manager and a summary for each business is prepared for the Audit Committee.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2014 to the date of this Report. Taking into account the matters set out on pages 34 to 37 relating to principal risks and uncertainties 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.

Internal audit

The Group's finance department includes a separate Internal Audit function. This function is managed by a qualified internal auditor who is based in one of the Group's businesses in Minneapolis in the US. The internal auditor remains a member of the Group management team in Diploma PLC and reports directly to both the Group Finance Director and Chair of the Audit Committee. During the year, the previous Internal Audit Manager transferred to a new finance role in the Group and was replaced by an experienced qualified internal auditor recruited from outside the Group.

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 formalising month end close procedures, policies for inventory provisioning and controls over supplier master file data. As well as carrying out the normal work on financial contracts, the scope of internal audit work this year was extended to include controls operating over ERP systems recently implemented, over foreign currency hedging policies and procedures being followed to ensure compliance with international sanctions.

The Internal Audit Manager also continues to assist the Committee in its oversight of the Group's controls designed to ensure compliance with the policy on anti-Bribery and Corruption.

The Internal Audit Manager reported to the Committee that good progress had been made by the Group's businesses in implementing recommendations communicated last year and in particular in improving procedures operating over the completeness and sufficiency of cycle counts of inventories and to ensuring that the procedures for chasing older receivable balances remained robust.

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.

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

Following the acquisition of Kentek in 2014, a specialised distributor of filters with substantial operations in Russia and the Baltic States, the Audit Committee worked with senior management of the Company, in conjunction with local management of Kentek, to determine the scope and reach of EU and US led sanctions and 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 rolled out an e-learning training programme to all its businesses. This training has been undertaken by all senior management and employees in customer or supplier facing roles. It is intended that these training programmes will be regularly carried out and that the e-learning training programme will be extended to encompass other regulatory and compliance based topics, including Code of Conduct.

During the year, the Committee updated the Group's Whistleblowing Policy, which provides the framework to encourage and give employees confidence to "blow the whistle" and report irregularities. Employees are encouraged to raise concerns with designated individuals, including the Executive Directors, the Group Company Secretary or the Chair 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.

In September, the Committee initiated action to introduce a dedicated telephone hotline service to be provided by an independent service provided across the Group's businesses, with the aim of further encouraging whistleblowing.

Nomination Committee Report

Members of Committee	Attendance
John Rennocks (retired on 21 January 2015)	1/1
John Nicholas (appointed Chairman on 21 January 2015)	3/3
Marie-Louise Clayton	3/3
Charles Packshaw	3/3
Andy Smith (appointed on 9 February 2015)	1/1
Anne Thorburn (appointed on 7 September 2015)	–

The Nomination Committee is chaired by John Nicholas, the Chairman of the Company who succeeded John Rennocks on his retirement on 21 January 2015. 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 Secretary to the Committee.

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. As part of this process the Committee ensures that it follows the Board's policy on diversity, described on page 45.

In anticipation of the succession of the Chairman, Norman Broadbent LLP were appointed to search for a new non-Executive Director with the remit from the Committee that the candidate should have broad industrial experience gained in an international environment. Following the appointment process described above, the Board appointed Andy Smith as an independent non-Executive Director. Andy's induction is substantially complete, having met with each of the main businesses in Europe and the US and participated in the Board Strategy meeting.

During the year under review Marie-Louise Clayton's three year term of office expired. An external search for a new non-Executive Director commenced with JCA Group, again with a remit from the Committee that the candidate should have strong Board level finance experience gained in international industrial businesses. Having followed the appointment process described above, Anne Thorburn joined the Board on 7 September 2015 as an independent non-Executive Director and will become Chairman of the Audit Committee on 17 November 2015 on the retirement of Marie-Louise Clayton. Anne has begun her induction programme and will complete this with visits to the larger businesses in 2016.

Norman Broadbent LLP and JCA Group have no other connection with the Company.

Succession planning

At the strategy meeting held in June 2015, the Board reviewed succession planning for the Executive Directors and for the senior management cadre comprising ca.90 senior managers across the Group's businesses. At this meeting the Board agreed with the Chief Executive Officer to establish an Executive Management Group of key senior managers who will have the potential to provide leadership in the future. This initiative forms a key part of the Board's succession planning and will be pursued further in 2016.

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 ensures 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 2015

- Completed the process for Chairman succession.
- Evaluated the balance of skills, knowledge and experience on the Board and its diversity, including gender.
- Carried out searches with Norman Broadbent LLP and with JCA Group for two further non-Executive Directors 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.

The remuneration environment has remained relatively stable and this has allowed me to take a more gradual and considered review."

Andy Smith, Chairman of the Remuneration Committee

Members of Committee:	Attendance
Andy Smith (appointed Chairman on 9 February 2015)	2/2
Anne Thorburn (appointed on 7 September 2015)	1/1
John Nicholas	3/3
Marie-Louise Clayton	3/3
Charles Packshaw	3/3
John Rennocks (retired on 21 January 2015)	1/1

Dear Shareholder

I have been fortunate that in my first year as Chairman of this Committee, the remuneration environment has remained relatively stable after many years of constant regulatory change. This has allowed me to take a more gradual and considered review of the Company's remuneration policies in the context of the wider debate on the appropriate structure of Directors' remuneration.

My initial thoughts are that the current Remuneration Policy ("Policy"), approved by shareholders in January 2015 is well designed and remains appropriate to the current strategic challenges facing the Group and I see no reason to make any substantive further changes until we are required to review the policy in 2017.

The Committee has this year carried out a careful review of the additional recommendations introduced this year in the revised 2014 UK Corporate Governance Code. The Committee generally did not feel that these recommendations should lead to any substantive change to the Company's existing Policy. The remuneration paid to the Executive Directors includes transparent and stretching targets which will only pay out if the Company continues to be successful over the longer term. Short term remuneration in terms of salary and bonus remain competitive and targeted toward the median of comparable peer companies.

During the year the Committee did resolve to amend the existing policy on malus in respect of share awards and bonuses to comply with the revised 2014 UK Corporate Governance Code and extended the policy to include clawback, that is the recovery of cash bonuses or share awards already paid.

At last year's AGM in January 2015 a significant number of shareholders voted against approval of the Company's Report on Remuneration. The Committee was able to obtain only limited specific feedback from shareholders, however it deduced from these comments and from those made by various proxy agencies that these objections related to the use of discretion, as allowed under the rules of the Scheme, to increase the bonus paid to the Chief Executive Officer by 10% of the amount payable. Whilst the Committee feels that it is important to retain discretion to amend on occasion awards to Executive Directors, both downwards and upwards, it notes shareholders' concerns and commits to appropriate consultation before exercising such discretion in future.

The Report on Remuneration this year is set out on pages 58 to 65 and the salaries and awards paid to the Executive Directors this year remain within the parameters of the Policy approved by shareholders at the AGM. After last year's repositioning of base salaries through a one-off increase of 8% plus inflation, this year's increases in base salaries of 3% for the Executive Directors have been decided with reference to general levels of pay inflation and the range of remuneration increases applying across the Group's cadre of ca.90 senior managers. Annual bonuses of 51% of the maximum for the Chief Executive Officer and 61% of the maximum for the Group Finance Director and the Chief Operating Officer reflect the robust performance of the Group this year.

The longer term awards under the LTIP were also substantially below those earned in previous years and amounted to ca.34% and 17% of the maximum awards payable for the PSP and the SMP respectively. The reduced awards reflected the more modest earnings growth reported this year, as well as the impact of a broadly flat TSR relative to the FTSE 250 index.

The Committee continues to allocate one meeting each year to review the remuneration and awards paid to the senior management cadre in the Group and takes time to ensure that the remuneration structure for this important group of managers remains both appropriate and competitive.

I hope shareholders will find this Report helpful and will support the advisory vote on remuneration at the AGM in January. I would be delighted to meet shareholders at this year's AGM and answer any questions or concerns they have on the Company's remuneration policies.

Andy Smith
16 November 2015

Remuneration Committee

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

On appointment as Chairman of the Company, John Nicholas retired as Chairman of the Committee and Andy Smith was appointed Chairman on joining the Board on 9 February 2015. Anne Thorburn was appointed to the Committee on joining the Board on 7 September 2015.

Bruce Thompson, Chief Executive Officer, 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 Remuneration Committee Report

The Report has again been presented this year in two sections. The first section repeats the key elements of the Director's Remuneration Policy which was approved by shareholders at the AGM earlier this year on 21 January 2015. This Policy will continue for a period of three years until 21 January 2018, unless replaced or amended by a new policy.

The second section of this Report sets out the annual remuneration paid to the Directors in the year ended 30 September 2015. This section of the Report will continue 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;
- provides an appropriate balance between immediate and deferred remuneration; 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 Policy table set out on the next page summarises the components of reward for the 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.

There have been no changes made to this Policy since it was approved by shareholders earlier this year, with the exception that the Committee has now approved the introduction of clawback provisions to new LTIP awards and the annual bonus plan granted to Executive Directors after 1 October 2015. This recommendation was included in the revised 2014 UK Corporate Governance Code.

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 2015

- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets for 2015 and the subsequent Bonus awards for 2015.
- Approved new PSP awards to Executive Directors under the LTIP and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP and SMP awards made in 2012 which matured in 2015.
- Approved the exercise of nil cost options.
- Approved the 2015 Remuneration Committee Report.
- Approved clawback arrangements for variable remuneration plans.
- Reviewed the AGM 2015 votes on the 2014 Remuneration Committee Report.
- Approved updates to the Committee's terms of reference.

Policy Table

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. The 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.

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.90 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 ("LTIP")

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, have been updated 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 Director's 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 and clawback

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.

During the year, the Committee considered and approved the introduction of clawback provisions to new LTIP and Annual Bonus Performance Plan awards granted to Executive Directors after 1 October 2015. The clawback arrangements will permit the Committee to recover amounts paid to Executive Directors in specified circumstances and will further safeguard shareholders' interests.

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.
- 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 the 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 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.

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.90 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 Nicholas was appointed Chairman on 21 January 2015, having previously been the Senior Independent Director. 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 Nicholas	1 Jun 13	21 Jan 15	1 Jun 16
Marie-Louise Clayton	12 Nov 12	21 Jan 15	12 Nov 15
Charles Packshaw	1 Jun 13	21 Jan 15	1 Jun 16
Andy Smith	9 Feb 15	–	9 Feb 18
Anne Thorburn	7 Sep 15	–	7 Sep 18

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.

The following section of this Report provides details of the implementation of the Remuneration Policy for all Directors for the year ended 30 September 2015. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors

Total remuneration in 2015 and 2014

	Bruce Thompson		Iain Henderson		Nigel Lingwood	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Salary	**460**	417	**286**	260	**297**	270
Benefits	**23**	23	**17**	17	**18**	18
Pensions	**92**	83	**57**	52	**59**	54
Annual performance bonus	**294**	339	**174**	172	**181**	179
Short term remuneration (cash)	**869**	862	**534**	501	**555**	521
Long term incentive plan – performance element	**204**	474	**127**	295	**132**	308
Long term incentive plan – share appreciation element	**66**	510	**41**	318	**43**	331
Long term incentive plan – dividend equivalent	**–**	–	**–**	–	**–**	–
Long term share price based remuneration (non-cash)	**270**	984	**168**	613	**175**	639
Total	**1,139**	1,846	**702**	1,114	**730**	1,160

The aggregate short term remuneration paid to the Executive Directors in the year ended 30 September 2015 was £2.0m (2014: £1.9m).

Base salary

The average base salary increase for Executive Directors which applied from 1 October 2014 was 10%, compared with 8% for the Group's senior management cadre. On 10 November 2015, the Committee approved an inflation increase of 3% in base salaries for the Executive Directors which will apply in respect of the year beginning 1 October 2015.

Benefits

	2015				2014			
	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	6	1	17
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% (2014: 20%) of base salary were applied as follows:

	2015			2014		
	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	**92**	**–**	**92**	83	–	83
Iain Henderson	**57**	**–**	**57**	52	–	52
Nigel Lingwood	**59**	**–**	**59**	54	–	54

Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2015 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 2015	Overall assessment against targets
Adjusted EPS	The minimum performance target was 0% growth in adjusted EPS, on target performance was 6.0% growth and the maximum target was at least 18.0% growth. Adjusted EPS grew by 6% in reported terms. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE.	51% of maximum

(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:

Performance measure	Performance in 2015	Overall assessment against targets
Iain Henderson	Achieve Sector financial budgets as measured against Key Performance Indicators. Achieve specific development objectives in the businesses and contribute to strategic development of the Group. Further strengthen and develop management teams.	90% of maximum
Nigel Lingwood	Maintain strong control environment and develop finance capabilities across the Group. Maximise value to the Group from management of tax, pensions and property exposures. Manage and develop Investor Relations programme.	90% of maximum

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2015 is as follows:

	2015 actual bonus – as a % of 2015 base salary					2015 bonus delivered as cash
	On target	Maximum	Financial objectives	Individual performance objectives	**Total bonus**	**£000**
Bruce Thompson	63%	125%	64%		**64%**	**294**
Iain Henderson	50%	100%	38%	23%	**61%**	**174**
Nigel Lingwood	50%	100%	38%	23%	**61%**	**181**

The annual performance bonus for the financial year beginning 1 October 2015 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 2015 and the outstanding LTIP awards, including those granted in December 2013 and February 2015.

With effect from 1 October 2014, new LTIP awards were granted under the PSP at 175% of base salary; no further awards have been 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 have been revised from those set out below for existing awards granted in 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 (2012 and 2013)	% of existing awards vesting		**New awards (from 2014)**	% of new awards vesting
Adjusted EPS growth (over 3 years)	PSP	SMP	Adjusted EPS growth (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

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 (2012 and 2013)	% of existing awards vesting		New awards (from 2014)	% 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 2015

The PSP and SMP awards made to the Executive Directors on 19 December 2012 and 20 December 2012 respectively, were subject to operating performance conditions, independently assessed over a three year period ended 30 September 2015, 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 2015	CAGR in EPS	RPI +12%/15%	Maximum award	Vested award
PSP	32.8p	38.2p	5.2%	14.1%	50%	30.8%
SMP	32.8p	38.2p	5.2%	17.1%	50%	15.4%

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

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

	TSR at 30 Sept 2015	Median	Median +12%/15%	Maximum award	Vested award
PSP	75.8%	70.7%	127.4%	50%	36.9%
SMP	75.8%	70.7%	143.3%	50%	18.5%

As a result of meeting the above performance conditions, 33.9% and 17.0% 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 2015 pence	Proportion of award vesting	Shares vested Number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson	– PSP	502.0p	665.0p	33.9%	27,039	136	44	180
	– SMP	502.0p	665.0p	17.0%	13,540	68	22	90
					40,579	204	66	270
Iain Henderson	– PSP	502.0p	665.0p	33.9%	16,858	85	27	112
	– SMP	502.0p	665.0p	17.0%	8,441	42	14	56
					25,299	127	41	168
Nigel Lingwood	– PSP	502.0p	665.0p	33.9%	17,532	88	29	117
	– SMP	502.0p	665.0p	17.0%	8,779	44	14	58
					26,311	132	43	175

1 The performance element represents the face value of awards granted on 19 and 20 December 2012 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 2015.

Dividend equivalent payments

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

Long term incentive plan – awards granted in the year

The Executive Directors received grants of PSP awards on 5 February 2015, 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 normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made, and provided the Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for these awards are set out on pages 59 and 60.

Outstanding share-based performance awards

Set out below is a summary of the share-based awards outstanding at 30 September 2015, including both share awards which have vested during the year based on performance and share awards which have been granted during the year. The awards set out below were granted based on a face value limit of 100% of base salary for December 2012 and December 2013 and 175% of base salary for February 2015. No awards will vest unless the performance conditions set out on pages 59 and 60 are achieved over a three year measurement period.

Diploma PLC 2011 Performance Share Plan

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Maturity date	Shares over which awards held at 1 Oct 2014	**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 2015**
Bruce Thompson									
19 December 2012	502.0p	401	30 Sep 2015	30 Sep 2015	79,880	**–**	**(27,039)**	**(52,841)**	**–**
9 December 2013	700.0p	417	30 Sep 2016	30 Sep 2016	59,571	**–**	**–**	**–**	**59,571**
5 February 2015	755.5p	460	30 Sep 2017	30 Sep 2017	–	**106,552**	**–**	**–**	**106,552**
Iain Henderson									
19 December 2012	502.0p	250	30 Sep 2015	30 Sep 2015	49,801	**–**	**(16,858)**	**(32,943)**	**–**
9 December 2013	700.0p	260	30 Sep 2016	30 Sep 2016	37,143	**–**	**–**	**–**	**37,143**
5 February 2015	755.5p	286	30 Sep 2017	30 Sep 2017	–	**66,248**	**–**	**–**	**66,248**
Nigel Lingwood									
19 December 2012	502.0p	260	30 Sep 2015	30 Sep 2015	51,793	**–**	**(17,532)**	**(34,261)**	**–**
9 December 2013	700.0p	270	30 Sep 2016	30 Sep 2016	38,571	**–**	**–**	**–**	**38,571**
5 February 2015	755.5p	297	30 Sep 2017	30 Sep 2017	–	**68,795**	**–**	**–**	**68,795**

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 2014	**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 2015**
Bruce Thompson										
20 December 2012	502.0p	401	19,171	30 Sep 2015	30 Sep 2015	79,880	**–**	**(13,540)**	**(66,340)**	**–**
9 December 2013	700.0p	417	15,786	30 Sep 2016	30 Sep 2016	59,571	**–**	**–**	**–**	**59,571**
Iain Henderson										
20 December 2012	502.0p	250	11,952	30 Sep 2015	30 Sep 2015	49,801	**–**	**(8,441)**	**(41,360)**	**–**
9 December 2013	700.0p	260	9,843	30 Sep 2016	30 Sep 2016	37,143	**–**	**–**	**–**	**37,143**
Nigel Lingwood										
20 December 2012	502.0p	260	12,430	30 Sep 2015	30 Sep 2015	51,793	**–**	**(8,779)**	**(43,014)**	**–**
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 2015 are set out on page 64.

Services from external advisors

Stephenson Harwood LLP provide legal advice to the Remuneration Committee on remuneration matters and Ashurst LLP provide advice on employment matters. During the year Stephenson Harwood LLP provided advice to the Remuneration Committee on matters relating to the LTIP and to clawback.

The Committee also received general advice from New Bridge Street on remuneration matters during the year. 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
Stephenson Harwood LLP	Committee	Legal advice	None	£3,750
New Bridge Street	Committee	General advice on Remuneration Policy	None	£9,413
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 2014 were approved by shareholders at the AGM held on 21 January 2015, with the following votes being cast:

	Policy		Report	
Votes for	88,893,601	94.6%	46,632,263	57.0%
Votes against	5,050,268	5.4%	35,126,131	43.0%
Withheld	21,500		12,206,975	

At last year's AGM in January 2015 a significant number of shareholders voted against approval of the Company's Report on Remuneration. The Committee was able to obtain only limited specific feedback from shareholders, however it deduced from these comments and from those made by various proxy agencies that these objections related to the use of discretion, as allowed under the rules of the Scheme, to increase the bonus paid to the Chief Executive Officer by 10% of the amount payable. Whilst the Committee feels that it is important to retain discretion to amend on occasion awards to Executive Directors, both downwards and upwards, it notes shareholders' concerns and commits to appropriate consultation before exercising such discretion in future.

Aligning pay with performance (unaudited)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the seven year period ended 30 September 2015 against the FTSE 250 Index.

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

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

CEO remuneration compared with annual growth in TSR

	2015	2014	2013	2012	2011	2010	2009
Annual growth in TSR	–1%	+8%	+42%	+54%	+16%	+71%	+21%
	£000	£000	£000	£000	£000	£000	£000
Salary, pensions and benefits	575	523	504	484	454	435	429
Annual performance bonus	294	339	164	367	360	345	102
Short term remuneration	869	862	668	851	814	780	531
Long term incentive plans (including dividend equivalent)	270	984	1,733	979	887	507	303
CEO total remuneration	1,139	1,846	2,401	1,830	1,701	1,287	834
Actual bonus as a percentage of the maximum	51%	65%	33%	95%	100%	100%	30%
Actual share award vesting as a percentage of the maximum	25%	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	10%	10%	0%	–13%	+1%
Senior management cadre	8%	6%	0%	–7%	+5%

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

Relative importance of Executive Director remuneration (unaudited)

	2015 £m	2014 £m	Change £m
Total employee remuneration	63.8	57.1	+6.7
Total dividends paid	19.7	18.2	+1.5

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 2015 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2014	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2015[5]	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	2014	142,717	142,717	–	–	£1	Nov 2014	Dec 2021
	2015	–	–	**40,579**	**40,579**	£1	Nov 2015	Dec 2022
Iain Henderson	2014	88,967	88,967	–	–	£1	Nov 2014	Dec 2021
	2015	–	–	**25,299**	**25,299**	£1	Nov 2015	Dec 2022
Nigel Lingwood	2014	92,675	92,675	–	–	£1	Nov 2014	Dec 2021
	2015	–	–	**26,311**	**26,311**	£1	Nov 2015	Dec 2022

1 Bruce Thompson exercised 142,717 options on 25 November 2014, at a market price of 685.0p per share and the total proceeds before tax were £977,611.
2 Iain Henderson exercised 88,967 options on 25 November 2014, at a market price of 685.0p per share and the total proceeds before tax were £609,424.
3 Nigel Lingwood exercised 92,675 options on 25 November 2014, at a market price of 685.0p per share and the total proceeds before tax were £634,824.
4 On 25 November 2014, the aggregate number of shares received by the participants was reduced by 152,449 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. The market price at that time was 685.0p.
5 The closing price of an ordinary share on 30 September 2015 was 665.0p (2014: 689.5p).

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:

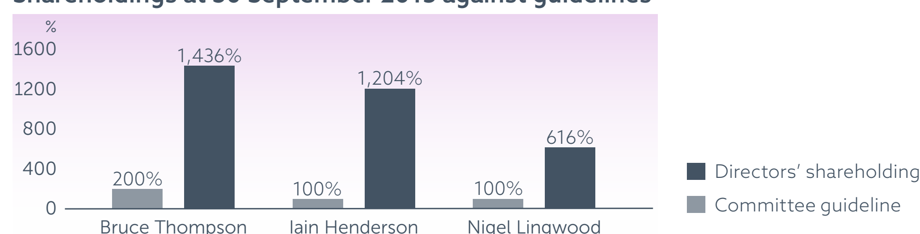
	As at 30 Sep 2015				As at 30 Sep 2014			
			Interest in shares with performance measures				Interest in shares with performance measures	
	Ordinary shares	Options vested but unexercised	PSP	SMP	Ordinary shares	Options vested but unexercised	PSP	SMP
Bruce Thompson	**993,385**	**40,579**	**166,123**	**59,571**	1,060,462	142,717	139,451	139,451
Iain Henderson	**517,912**	**25,299**	**103,391**	**37,143**	559,727	88,967	86,944	86,944
Nigel Lingwood	**275,000**	**26,311**	**107,366**	**38,571**	275,000	92,675	90,364	90,364

Interests in ordinary shares include investment shares pledged under the Company's 2011 SMP and shares held through personal saving vehicles. As of 13 November 2015 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 16 November 2015, all Executive Directors exceeded the applicable shareholding guidelines.

Shareholdings at 30 September 2015 against guidelines



Nigel Lingwood was appointed a non-Executive Director on 5 June 2014 and subsequently appointed as Senior Independent Director and Chairman of the Audit Committee at Creston plc and received £9,000 as fees during the period ended 30 September 2015.

Chairman and non-Executive Directors' remuneration

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

	Total fees	
	2015 £000	2014 £000
John Nicholas	**106**	45
John Rennocks	**41**	130
Marie-Louise Clayton	**46**	45
Charles Packshaw	**46**	45
Andy Smith	**29**	–
Anne Thorburn	**4**	–

The non-Executive Directors received a basic annual fee during the year and there were no additional fees paid in 2015 and 2014 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 2015, the Board approved an increase of 3% in the Chairman's fees to £137,000 per annum and in the annual fees paid to non-Executive Directors to £47,400, both to take effect from 1 October 2015. In addition the Board approved a supplement of £5,000 payable from 1 October 2015 to the Senior Independent Director and the Chair of Committees.

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 2015	As at 30 Sep 2014
John Nicholas	**5,000**	2,000
John Rennocks		80,000
Marie-Louise Clayton	**–**	5,000
Charles Packshaw	**1,500**	–
Andy Smith	**5,500**	–
Anne Thorburn	**3,000**	–

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.

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, 20 January 2016 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 13 November 2015 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
Fidelity Management & Research Co.	8.41%
Mondrian Investment Partners Ltd.	8.19%
Brown Brothers Harriman & Co.	5.20%
Royal London Asset Management Ltd.	4.95%
BlackRock, Inc.	4.54%
Standard Life Investments Ltd.	4.47%
Mawer Investment Management Ltd.	4.15%

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 21 January 2015. In the year ended 30 September 2015, the Company has not allotted any shares. These powers will expire at the conclusion of the 2016 AGM and resolutions to renew the Directors' powers are therefore included within the Notice of the AGM in 2016.

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 21 January 2015. In the year to 30 September 2015 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2016 AGM and a resolution to renew the authority is therefore included within the Notice of the AGM in 2016.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £36.7m (2014: £35.5m). The Directors recommend a final dividend of 12.4p per ordinary share (2014: 11.6p), to be paid, if approved, on 27 January 2016. This, together with the interim dividend of 5.8p (2014: 5.4p) per ordinary share paid on 17 June 2015 amounts to 18.2p for the year (2014: 17.0p).

The results are shown more fully in the consolidated financial statements on pages 68 to 95 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 81 to 83 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 as described further on pages 34 to 37.

The Group also has a committed multi-currency revolving bank facility of £40m and an accordion option for a further £10m, both of which expire on 23 June 2017. At 30 September 2015, the Group had cash funds of £23.0m and had borrowings of £20.0m.

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 16 November 2015 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 2015

	Note	2015 £m	2014 £m
Revenue	3,4	**333.8**	305.8
Cost of sales		**(212.8)**	(194.2)
Gross profit		**121.0**	111.6
Distribution costs		**(6.8)**	(6.4)
Administration costs		**(61.3)**	(54.9)
Operating profit	3	**52.9**	50.3
Financial expense, net	6	**(1.1)**	(0.5)
Profit before tax		**51.8**	49.8
Tax expense	7	**(14.4)**	(13.7)
Profit for the year		**37.4**	36.1
Attributable to:			
Shareholders of the Company		**36.7**	35.5
Minority interests	21	**0.7**	0.6
		37.4	36.1
Earnings per share			
Basic and diluted earnings	9	**32.5p**	31.4p

Alternative Performance Measures (note 2)

	Note	2015 £m	2014 £m
Operating profit		**52.9**	50.3
Add: Acquisition related charges	11	**7.4**	6.4
Adjusted operating profit	3,4	**60.3**	56.7
Deduct: Net interest expense	6	**(0.7)**	(0.5)
Adjusted profit before tax		**59.6**	56.2
Adjusted earnings per share	9	**38.2p**	36.1p

The notes on pages 72 to 95 form part of these consolidated financial statements.

Consolidated Statement of Income and Other Comprehensive Income

For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Profit for the year		**37.4**	36.1
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial gains in the defined benefit pension scheme	25c	**(1.9)**	0.3
Deferred tax on items that will not be reclassified		**0.4**	–
		(1.5)	0.3
Items that may be reclassified to Consolidated Income Statement			
Exchange rate losses on foreign currency net investments		**(8.2)**	(8.7)
Gains on fair value of cash flow hedges	19	**1.5**	0.4
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	**(0.3)**	–
Deferred tax on items that may be reclassified	7	**(0.3)**	(0.1)
		(7.3)	(8.4)
Total comprehensive income for the year		**28.6**	28.0
Attributable to:			
Shareholders of the Company		**28.1**	27.7
Minority interests		**0.5**	0.3
		28.6	28.0

Consolidated Statement of Changes in Equity

For the year ended 30 September 2015

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
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	20	–	–	–	(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**
Total comprehensive income		–	(8.0)	0.9	35.2	**28.1**	0.5	**28.6**
Share-based payments	5	–	–	–	0.5	**0.5**	–	**0.5**
Acquisition of businesses	21	–	–	–	–	**–**	3.2	**3.2**
Minority interest put option	20	–	–	–	(3.2)	**(3.2)**	–	**(3.2)**
Minority interests acquired	21	–	–	–	1.2	**1.2**	(1.2)	**–**
Tax on items recognised directly in equity	7	–	–	–	–	**–**	–	**–**
Notional purchase of own shares		–	–	–	(1.7)	**(1.7)**	–	**(1.7)**
Dividends	8,21	–	–	–	(19.7)	**(19.7)**	(0.2)	**(19.9)**
At 30 September 2015		**5.7**	**(0.5)**	**1.2**	**183.2**	**189.6**	**5.2**	**194.8**

The notes on pages 72 to 95 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 September 2015

	Note	2015 £m	2014 £m
Non-current assets			
Goodwill	10	**89.3**	80.2
Acquisition intangible assets	11	**40.2**	28.6
Other intangible assets	11	**1.2**	0.8
Investment	12	**0.7**	0.7
Property, plant and equipment	13	**22.8**	13.1
Deferred tax assets	14	**0.4**	0.9
		154.6	124.3
Current assets			
Inventories	15	**56.6**	54.1
Trade and other receivables	16	**51.3**	46.3
Cash and cash equivalents	18	**23.0**	21.3
		130.9	121.7
Current liabilities			
Trade and other payables	17	**(45.1)**	(43.9)
Current tax liabilities		**(2.9)**	(2.3)
Other liabilities	20	**(2.5)**	(1.6)
		(50.5)	(47.8)
Net current assets		**80.4**	73.9
Total assets less current liabilities		**235.0**	198.2
Non-current liabilities			
Borrowings	24	**(20.0)**	–
Retirement benefit obligations	25	**(9.8)**	(4.3)
Other liabilities	20	**(4.1)**	(2.4)
Deferred tax liabilities	14	**(6.3)**	(4.2)
Net assets		**194.8**	187.3
Equity			
Share capital		**5.7**	5.7
Translation reserve		**(0.5)**	7.5
Hedging reserve		**1.2**	0.3
Retained earnings		**183.2**	170.9
Total shareholders' equity		**189.6**	184.4
Minority interests	21	**5.2**	2.9
Total equity		**194.8**	187.3

The consolidated financial statements were approved by the Board of Directors on 16 November 2015 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on pages 72 to 95 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 September 2015

	Note	2015 £m	2014 £m
Operating profit		**52.9**	50.3
Acquisition related charges	11	**7.4**	6.4
Non-cash items	23	**3.7**	2.9
Increase in working capital	23	**(1.9)**	(4.6)
Cash flow from operating activities	23	**62.1**	55.0
Interest paid, net		**(0.5)**	(0.3)
Tax paid		**(15.4)**	(13.0)
Net cash from operating activities		**46.2**	41.7
Cash flow from investing activities			
Acquisition of businesses (including expenses)	22	**(36.6)**	(14.9)
Deferred consideration paid	20	**(0.6)**	(0.1)
Purchase of property, plant and equipment	13	**(4.0)**	(1.9)
Purchase of other intangible assets	11	**(0.3)**	(0.3)
Proceeds from sale of property, plant and equipment		**0.1**	0.1
Net cash used in investing activities		**(41.4)**	(17.1)
Cash flow from financing activities			
Acquisition of minority interests	20	**(0.6)**	(1.5)
Dividends paid to shareholders	8	**(19.7)**	(18.2)
Dividends paid to minority interests	21	**(0.2)**	(0.2)
Purchase of own shares by Employee Benefit Trust		**(0.7)**	–
Notional purchase of own shares on exercise of share options		**(1.0)**	(1.8)
Proceeds of borrowings, net	24	**20.0**	–
Net cash used in financing activities		**(2.2)**	(21.7)
Net increase in cash and cash equivalents		**2.6**	2.9
Cash and cash equivalents at beginning of year		**21.3**	19.3
Effect of exchange rates on cash and cash equivalents		**(0.9)**	(0.9)
Cash and cash equivalents at end of year	18	**23.0**	21.3

Alternative Performance Measures (note 2)

	Note	2015 £m	2014 £m
Net increase in cash and cash equivalents		**2.6**	2.9
Add: Dividends paid to shareholders	8	**19.7**	18.2
Dividends paid to minority interests	21	**0.2**	0.2
Acquisition of businesses	22	**36.6**	14.9
Acquisition of minority interests	20	**0.6**	1.5
Deferred consideration paid	20	**0.6**	0.1
Proceeds of borrowings, net	24	**(20.0)**	–
Free cash flow		**40.3**	37.8
Cash and cash equivalents	18	**23.0**	21.3
Borrowings	24	**(20.0)**	–
Net cash	24	**3.0**	21.3

The notes on pages 72 to 95 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2015

1. General information

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group") and were authorised by the Directors for publication on 16 November 2015. 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 Generally Accepted Accounting Practice ("UK GAAP"), and are set out in a separate section of the Annual Report & Accounts on pages 96 and 97.

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 a material 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 (but 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 or distribution to shareholders.

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	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Revenue – existing businesses	90.2	91.4	128.3	119.8	91.1	94.6	309.6	305.8
– acquisitions	12.9	–	11.3	–	–	–	24.2	–
Revenue	103.1	91.4	139.6	119.8	91.1	94.6	333.8	305.8
Adjusted operating profit – existing businesses	19.2	19.7	23.5	21.7	14.5	15.3	57.2	56.7
– acquisitions	1.8	–	1.3	–	–	–	3.1	–
Adjusted operating profit	21.0	19.7	24.8	21.7	14.5	15.3	60.3	56.7
Acquisition related charges (note 11)	(3.1)	(2.3)	(3.6)	(3.2)	(0.7)	(0.9)	(7.4)	(6.4)
Operating profit	17.9	17.4	21.2	18.5	13.8	14.4	52.9	50.3

	Life Sciences		Seals		Controls		Group	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Operating assets	31.4	29.3	60.0	45.0	36.0	37.2	127.4	111.5
Investment	–	–	0.7	0.7	–	–	0.7	0.7
Goodwill	44.9	44.2	29.6	21.0	14.8	15.0	89.3	80.2
Acquisition intangible assets (note 11)	13.0	10.1	25.4	15.8	1.8	2.7	40.2	28.6
	89.3	83.6	115.7	82.5	52.6	54.9	257.6	221.0
Unallocated assets:								
– Deferred tax assets							0.4	0.9
– Cash and cash equivalents							23.0	21.3
– Corporate assets							4.5	2.8
Total assets	89.3	83.6	115.7	82.5	52.6	54.9	285.5	246.0
Operating liabilities	(14.7)	(14.7)	(16.2)	(14.6)	(13.5)	(14.9)	(44.4)	(44.2)
Unallocated liabilities:								
– Deferred tax liabilities							(6.3)	(4.2)
– Retirement benefit obligations							(9.8)	(4.3)
– Acquisition liabilities (note 20)							(6.6)	(4.0)
– Corporate liabilities							(3.6)	(2.0)
– Borrowings							(20.0)	–
Total liabilities	(14.7)	(14.7)	(16.2)	(14.6)	(13.5)	(14.9)	(90.7)	(58.7)
Net assets	74.6	68.9	99.5	67.9	39.1	40.0	194.8	187.3
Other Sector information								
Capital expenditure	2.5	1.2	1.5	0.5	0.3	0.5	4.3	2.2
Depreciation and amortisation	1.7	1.3	1.3	0.7	0.5	0.5	3.5	2.5

Alternative Performance Measures (note 2)

	Life Sciences		Seals		Controls		Group	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Net assets	74.6	68.9	99.5	67.9	39.1	40.0	194.8	187.3
Add/(less):								
– Deferred tax, net							5.9	3.3
– Retirement benefit obligations							9.8	4.3
– Future purchases of minority interests							6.6	4.0
– Net cash funds							(3.0)	(21.3)
Reported trading capital employed							214.1	177.6
– Historic goodwill and acquisition related charges, net of deferred tax	25.0	22.3	20.2	19.6	8.4	7.7	53.6	49.6
Adjusted trading capital employed	99.6	91.2	119.7	87.5	47.5	47.7	267.7	227.2
ROATCE[1]	21.1%	21.9%	23.7%	26.0%	30.5%	33.2%	23.9%	25.8%

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

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4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
United Kingdom	**87.7**	85.7	**14.5**	13.8	**25.2**	23.8	**42.7**	39.7	**0.4**	0.5
Rest of Europe	**77.1**	53.2	**11.7**	7.9	**57.1**	22.0	**71.6**	32.2	**0.5**	0.1
North America[2]	**169.0**	166.9	**34.1**	35.0	**71.2**	76.9	**99.8**	105.7	**3.4**	1.6
	333.8	305.8	**60.3**	56.7	**153.5**	122.7	**214.1**	177.6	**4.3**	2.2

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' remuneration and their interests in shares of the Company are given in the Remuneration Committee Report on pages 52 to 65. The amount charged against operating profit in the year in respect of Director short term remuneration was in aggregate £2.3m (2014: £2.2m). The charge for share-based payments of £0.5m (2014: £0.7m) 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 £Nil (2014: £0.2m).

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

	2015 £m	2014 £m
Wages and salaries	**55.9**	49.5
Social security costs	**5.1**	5.2
Pension costs – defined contribution	**2.1**	1.7
Pension costs – defined benefit (note 25ii)	**0.2**	–
Share-based payments	**0.5**	0.7
	63.8	57.1

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

	2015 Number	2014 Number
Life Sciences	**379**	334
Seals	**722**	604
Controls	**335**	312
Corporate	**13**	14
Number of employees – average	**1,449**	1,264
Number of employees – year end	**1,505**	1,324

6. Financial expense, net

	2015 £m	2014 £m
Interest and similar income		
– interest receivable on short term deposits	**–**	0.1
Interest expense and similar charges		
– bank facility and commitment fees	**(0.2)**	(0.4)
– interest payable on bank and other borrowings	**(0.3)**	–
– notional interest expense on the defined benefit pension schemes (note 25b)	**(0.2)**	(0.2)
	(0.7)	(0.6)
Net interest expense	**(0.7)**	(0.5)
– fair value remeasurement of put options (note 20)	**(0.4)**	–
Financial expense, net	**(1.1)**	(0.5)

The fair value remeasurement of £0.4m (2014: £Nil) comprises £0.5m (2014: £0.1m) which relates to an unwinding of the discount on the liability for future purchases of minority interests, net of a movement in fair value of the put options of £0.1m credit (2014: £0.1m credit).

7. Tax expense

	2015 £m	2014 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**2.6**	2.6
Overseas tax	**12.5**	12.1
	15.1	14.7
Adjustments in respect of prior year:		
UK corporation tax	**(0.1)**	(0.1)
Overseas tax	**0.4**	(0.4)
Total current tax	**15.4**	14.2
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(1.0)**	–
Overseas	**–**	(0.5)
Total deferred tax	**(1.0)**	(0.5)
Total tax on profit for the year	**14.4**	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 credited (2014: £0.1m charge) directly to the Consolidated Statement of Income and Other Comprehensive Income. A further £Nil (2014: £0.5m) 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 £Nil (2014: £1.0m credit) less a deferred tax charge of £Nil (2014: £0.5m 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 20.5% to the profit before tax of £51.8m and the amounts set out above is as follows:

	2015 £m	2014 £m
Profit before tax	**51.8**	49.8
Tax on profit at UK effective corporation tax rate of 20.5% (2014: 22.0%)	**10.6**	11.0
Effects of:		
– higher tax rates on overseas earnings	**3.7**	3.2
– adjustments to tax charge in respect of previous years	**0.3**	(0.5)
– other permanent differences	**(0.2)**	–
Total tax on profit for the year	**14.4**	13.7

The Group earns its profits in the UK and overseas. The UK corporation tax rate was reduced from 21.0% to 20.0% on 1 April 2015; 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 2015 was 20.5% (2014: 22.0%) 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%.

The UK deferred tax assets and liabilities at 30 September 2015 have been calculated based on the rate of 20.0% substantively enacted at 30 September 2015. On 8 July 2015, HM Government announced a reduction in the rate of corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The impact of remeasuring the Group's UK deferred tax assets and liabilities at these new rates has not been recognised in these consolidated financial statements as the Finance Bill had not been substantively enacted at 30 September 2015.

8. Dividends

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
Interim dividend, paid in June	**5.8**	5.4	**6.6**	6.1
Final dividend of the prior year, paid in January	**11.6**	10.7	**13.1**	12.1
	17.4	16.1	**19.7**	18.2

The Directors have proposed a final dividend in respect of the current year of 12.4p per share (2014: 11.6p) which will be paid on 27 January 2016, subject to approval of shareholders at the Annual General Meeting ("AGM") on 20 January 2016. The total dividend for the current year, subject to approval of the final dividend, will be 18.2p per share (2014: 17.0p).

The Diploma Employee Benefit Trust holds 221,438 (2014: 293,348) shares, which are not eligible for dividends.

9. Earnings per share

Basic and diluted earnings per share

Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 113,007,084 (2014: 112,893,129) and the profit for the year attributable to shareholders of £36.7m (2014: £35.5m). There are no potentially dilutive shares.

Adjusted earnings per share

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

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
Profit before tax			**51.8**	49.8
Tax expense			**(14.4)**	(13.7)
Minority interests			**(0.7)**	(0.6)
Earnings for the year attributable to shareholders of the Company	**32.5**	31.4	**36.7**	35.5
Acquisition related charges	**6.5**	5.7	**7.4**	6.4
Fair value remeasurement of put options	**0.4**	–	**0.4**	–
Tax effects on acquisition related charges and fair value remeasurements	**(1.2)**	(1.0)	**(1.3)**	(1.1)
Adjusted earnings	**38.2**	36.1	**43.2**	40.8

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 30 September 2013	47.3	16.6	14.6	78.5
Acquisitions	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
Acquisitions (note 22)	5.6	8.1	–	13.7
Adjustment to acquisitions in prior year	–	0.1	–	0.1
Exchange adjustments	(4.9)	0.4	(0.2)	(4.7)
At 30 September 2015	**44.9**	**29.6**	**14.8**	**89.3**

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 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 within 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 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, revenue growth rates and the discount rate. The gross margins are assumed to remain sustainable, which is supported by historical experience; revenue 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 rates for 2016 and thereafter, average growth rates for each Sector; these annual growth rates then reduce to 2% over the longer term.

10. Goodwill continued

The cash flow forecasts are discounted to determine a current valuation using a single market derived pre-tax discount rate of ca.12% (2014: 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 adverse change" in any of these assumptions would result in an impairment of goodwill. The analysis indicates that a "reasonably possible adverse change" would not give rise to an impairment charge to goodwill in any of the three Sectors.

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 2013	33.8	16.7	2.5	53.0	2.9
Additions	–	–	–	–	0.3
Acquisitions	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
Additions	–	–	–	–	0.3
Acquisitions (note 22)	11.5	8.3	–	19.8	0.6
Adjustment to acquisitions in prior year	0.2	–	–	0.2	–
Exchange adjustments	(0.7)	(1.8)	0.1	(2.4)	–
At 30 September 2015	**52.3**	**22.1**	**2.6**	**77.0**	**3.8**
Amortisation					
At 1 October 2014	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
Charge for the year	4.8	2.0	0.1	6.9	0.4
Exchange adjustments	(0.2)	(0.9)	0.2	(0.9)	0.1
At 30 September 2015	**23.1**	**11.6**	**2.1**	**36.8**	**2.6**
Net book value					
At 30 September 2015	**29.2**	**10.5**	**0.5**	**40.2**	**1.2**
At 30 September 2014	22.8	5.1	0.7	28.6	0.8

Acquisition related charges are £7.4m (2014: £6.4m) and comprise £6.9m (2014: £5.6m) of amortisation of acquisition intangible assets and £0.5m of acquisition expenses (2014: £0.8m).

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

	2015 £m	2014 £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 2015, there was no material difference between the book value of this investment and its fair value.

13. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Hospital field equipment £m	Total £m
Cost					
At 1 October 2013	8.8	2.9	12.1	6.1	29.9
Additions	–	0.2	1.0	0.7	1.9
Acquisitions	–	–	0.3	–	0.3
Disposals	–	(0.1)	(2.5)	(0.8)	(3.4)
Exchange adjustments	(0.2)	(0.2)	(0.4)	(0.5)	(1.3)
At 30 September 2014	8.6	2.8	10.5	5.5	27.4
Additions[1]	–	0.3	1.8	1.9	4.0
Acquisitions	7.3	0.2	0.8	–	8.3
Disposals	–	(0.4)	(0.9)	(0.4)	(1.7)
Transfers[2]	–	–	–	1.2	1.2
Exchange adjustments	(0.1)	(0.1)	0.6	(0.8)	(0.4)
At 30 September 2015	**15.8**	**2.8**	**12.8**	**7.4**	**38.8**
Depreciation					
At 1 October 2013	2.4	1.0	9.2	3.4	16.0
Charge for the year	0.1	0.2	1.1	0.8	2.2
Disposals	–	(0.1)	(2.6)	(0.6)	(3.3)
Exchange adjustments	0.1	–	(0.4)	(0.3)	(0.6)
At 30 September 2014	2.6	1.1	7.3	3.3	14.3
Charge for the year	0.3	0.3	1.4	1.1	3.1
Disposals	–	(0.2)	(0.9)	(0.3)	(1.4)
Exchange adjustments	(0.1)	–	0.5	(0.4)	–
At 30 September 2015	**2.8**	**1.2**	**8.3**	**3.7**	**16.0**
Net book value					
At 30 September 2015	**13.0**	**1.6**	**4.5**	**3.7**	**22.8**
At 30 September 2014	6.0	1.7	2.8	2.6	13.1

1 During the year, the Group spent £2.9m on constructing and fitting out a new facility in Darlington, UK for FPE Seals Limited. On completion on 23 September 2015, the facility was sold to a third party and leased back on a 15 year full repairing lease. No profit or loss was recorded on the sale of the facility. This expenditure has not been included as an addition and disposal in the above analysis.

2 During the year, £1.2m of inventory relating to hospital field equipment held in DHG in support of customer contracts was transferred from inventory to hospital field equipment.

Land included within freehold properties above, but which is not depreciated, is £4.2m (2014: £2.0m). Capital commitments contracted, but not provided, were £0.1m (2014: £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 2015 is £1.0m (2014: £1.0m), with a book value of £Nil.

14. Deferred tax

The movement on deferred tax is as follows:

	2015 £m	2014 £m
At 1 October	(3.3)	(1.7)
Credit for the year (note 7)	1.0	0.5
Acquisitions (note 22)	(4.0)	(1.7)
Accounted for in equity (note 7)	–	(0.5)
Accounted for in Other Comprehensive Income	0.1	(0.1)
Exchange adjustments	0.3	0.2
At 30 September	(5.9)	(3.3)

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

	Assets		Liabilities		Net	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Property, plant and equipment	0.3	0.3	(1.8)	(0.8)	(1.5)	(0.5)
Goodwill and intangible assets	–	–	(8.0)	(5.7)	(8.0)	(5.7)
Retirement benefit obligations	2.0	0.9	–	–	2.0	0.9
Inventories	1.1	1.0	–	–	1.1	1.0
Share-based payments	0.2	0.2	–	–	0.2	0.2
Trading losses	0.3	0.3	–	–	0.3	0.3
Other temporary differences	0.6	0.6	(0.6)	(0.1)	–	0.5
	4.5	3.3	(10.4)	(6.6)	(5.9)	(3.3)
Deferred tax offset	(4.1)	(2.4)	4.1	2.4	–	–
	0.4	0.9	(6.3)	(4.2)	(5.9)	(3.3)

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 £3.2m (2014: £3.0m).

15. Inventories

	2015 £m	2014 £m
Finished goods	56.6	54.1

Inventories are stated net of impairment provisions of £5.9m (2014: £5.3m). During the year £1.5m (2014: £1.3m) was recognised as a charge against operating profit, comprising the write-down of inventories to net realisable value.

16. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	45.4	42.3
Less: impairment provision	(0.6)	(0.5)
	44.8	41.8
Other receivables	4.0	2.6
Prepayments and accrued income	2.5	1.9
	51.3	46.3

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

	2015 £m	2014 £m
UK sterling	14.5	14.1
US dollars	9.9	10.3
Canadian dollars	8.2	9.0
Euro	8.1	5.3
Other	4.7	3.6
	45.4	42.3

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16. Trade and other receivables continued

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

	2015 £m	2014 £m
Not past due	36.9	34.5
Past due, but not impaired	8.4	7.3
Past due, but partially impaired	0.1	0.5
	45.4	42.3

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

	2015 £m	2014 £m
Up to one month past due	6.2	6.0
Between one and two months past due	1.4	1.0
Between two and four months past due	0.5	0.2
Over four months past due	0.3	0.1
	8.4	7.3

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

	2015 £m	2014 £m
At 1 October	0.5	0.3
Charged against profit, net	0.3	0.1
Set up on acquisition	0.1	0.1
Utilised by write-off	(0.3)	–
At 30 September	0.6	0.5

17. Trade and other payables

	2015 £m	2014 £m
Trade payables	25.8	26.1
Other payables	2.0	1.2
Other taxes and social security	3.1	2.7
Accruals and deferred income	14.2	13.9
	45.1	43.9

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

	2015 £m	2014 £m
UK sterling	6.8	7.8
US dollars	10.5	11.5
Canadian dollars	0.5	0.8
Euro	6.8	5.1
Other	1.2	0.9
	25.8	26.1

18. Cash and cash equivalents

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2015 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2014 Total £m
Cash at bank	4.5	4.7	1.5	3.2	2.6	16.5	3.4	5.6	1.3	2.3	1.4	14.0
Short term deposits	6.0	–	0.2	–	0.3	6.5	3.0	–	2.4	1.7	0.2	7.3
	10.5	4.7	1.7	3.2	2.9	23.0	6.4	5.6	3.7	4.0	1.6	21.3

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 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 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 34 within Internal Control and Risk Management, 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. During the year, the Group had an unrecoverable receivable of £0.2m; there have been no other significant trade receivables written off 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	
	2015 £m	2014 £m
Trade receivables	**44.8**	41.8
Other receivables	**4.0**	2.6
Cash and cash equivalents	**23.0**	21.3
	71.8	65.7

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.

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 2015 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 £40m revolving bank facility (with an option to increase its facility to £50m, subject to market pricing) which expires on 23 June 2017. During the year the Group exercised the accordion option in respect of £15m and increased the committed bank facility to £40m in order to provide cash resources to complete an acquisition during the year. At 30 September 2015, the remaining accordion option available is £10m. 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 2015, £20m of the facility had been drawn down (2014: £Nil).

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

	2015 £m	2014 £m
Expiring within one year	**–**	–
Expiring within two years	**20.0**	–
Expiring after two years	**–**	25.0

19. Financial instruments continued

The Group's financial liabilities are as follows:

	Carrying amount	
	2015 £m	2014 £m
Trade payables	**25.8**	26.1
Other payables	**2.0**	1.2
Other liabilities (note 20)	**6.6**	4.0
	34.4	31.3
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**30.5**	28.9
One to two years	**0.6**	–
Two to five years	**4.7**	3.3
	35.8	32.2
Less: Discount	**(1.4)**	(0.9)
	34.4	31.3

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 principal 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 £0.2m (2014: £0.1m) 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, 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 2015 was £25.2m (2014: £31.0m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2015 was £1.2m (2014: £0.3m). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was a £0.3m credit (2014: negligible). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £1.5m (2014: £0.4m).

The currency risk arising from both translational and transactional risks are described further on page 37 within Internal Control and Risk Management.

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 and 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.

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 forward rates, adjusted for the forward points to the contract's value date with 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.

19. Financial instruments continued

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 good returns to shareholders which will support the future development of the business. The capital structure of the Group comprises cash and cash equivalents, longer 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

	2015 £m	2014 £m
Future purchases of minority interests	5.7	3.5
Deferred consideration	0.9	0.5
	6.6	4.0
Analysed as:		
Due within one year	2.5	1.6
Due after one year	4.1	2.4

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

	2015 £m	2014 £m
At 1 October	3.5	2.8
Acquisition of minority interest on exercise of option	(1.4)	(1.6)
Put options entered into during the year	3.2	2.3
Unwinding of discount	0.5	0.1
Fair value remeasurements	(0.1)	(0.1)
At 30 September	5.7	3.5

At 30 September 2015, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals. As described in note 22, a put/call option was recognised during the period at a value of £3.2m (€4.1m) in respect of the 20% minority interest in TPD, acquired on 6 October 2014. On 19 December 2014 and following the exercise of a put option, the Group acquired 10% of the minority interest outstanding in Kentek for an initial consideration of £0.6m (€0.8m) with a further amount payable of £0.8m (€1.0m), which is based on the performance of the business in the year ended 30 September 2015.

At 30 September 2015, 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 2015.

This led to a remeasurement of the fair value of these put options and the liability was reduced by £0.1m (2014: reduced by £0.1m). This reduction was offset by the charge from unwinding the discount on the liability and in aggregate £0.4m (2014: £Nil) has been charged to the Consolidated Income Statement.

The put options to acquire the minority interest of 20% held in TPD are exercisable in tranches between 2016 and 2019; the put option to acquire the minority interest of 10% held in M Seals is exercisable in October 2018 and the put option relating to the remaining Kentek 10% minority interest is exercisable in two tranches in 2016 and 2018.

At 30 September 2015, deferred consideration of £0.9m included £0.8m (€1.0m) payable to the vendor of Kentek in respect of the outstanding amount relating to the purchase of his minority interest. In addition, £0.1m (US$0.2m) is payable to the vendor of HPS in respect of the performance of the business in the year ended 30 September 2015. Both these amounts are expected to be paid within the next twelve months. During the year, aggregate deferred consideration of £0.6m was paid which comprised £0.3m (€0.5m) to the vendor of Kentek relating to final consideration payable based on the performance of the business in the year ended 31 December 2014, the final instalment of deferred consideration of £0.1m (A$0.2m) was paid to the vendor of BGS and £0.2m was paid to the vendor of Specialty Fasteners & Components.

21. Minority interests

	£m
At 30 September 2013	1.4
Acquisition of Kentek	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
Acquisition of TPD (note 22)	3.2
Share of net assets acquired of Kentek	(1.2)
Share of profit	0.7
Dividends paid	(0.2)
Exchange adjustments	(0.2)
At 30 September 2015	**5.2**

22. Acquisition of businesses

On 6 October 2014, the Group acquired 80% of Techno-Path (Distribution) Limited ("TPD") for initial and maximum consideration of £11.0m (€14.0m), including net debt at acquisition of £1.4m (€1.9m) and before acquisition expenses of £0.2m. The fair value of the 20% minority interest in TPD and the related put/call option of £3.2m (€4.1m) has been calculated based on the net present value of the projected performance of the business in the financial years 2016 to 2019, when the options becomes exercisable.

On 13 March 2015, the Group acquired 100% of Rutin AG, the Swiss holding company of Kubo group ("Kubo") of companies based in Switzerland and Austria for consideration of £22.7m (CHF33.1m), net of cash acquired of £4.6m (CHF6.8m) and before acquisition expenses of £0.2m.

On 13 July 2015, the Group acquired 100% of Swan Seals (Aberdeen) Limited ("Swan") for initial consideration of £2.4m and before acquisition expenses of £0.1m.

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

	Kubo		TPD		Swan		Total	
	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m	Book value £m	Fair value £m
Acquisition intangible assets	–	11.0	–	7.2	–	1.6	–	19.8
Deferred tax	(0.4)	(2.8)	–	(0.9)	–	(0.3)	(0.4)	(4.0)
Property, plant and equipment	4.4	8.5	0.4	0.4	–	–	4.8	8.9
Inventories	2.6	2.5	2.1	2.0	0.1	0.1	4.8	4.6
Trade and other receivables	3.3	3.2	1.5	1.5	0.2	0.2	5.0	4.9
Trade and other payables	(2.9)	(3.1)	(1.2)	(1.6)	(0.2)	(0.2)	(4.3)	(4.9)
Retirement benefit obligations	–	(3.7)	–	–	–	–	–	(3.7)
Net assets acquired	7.0	15.6	2.8	8.6	0.1	1.4	9.9	25.6
Goodwill	7.9	7.1	–	5.6	–	1.0	7.9	13.7
Minority share of net assets (including goodwill)	–	–	–	(3.2)	–	–	–	(3.2)
	14.9	22.7	2.8	11.0	0.1	2.4	17.8	36.1
Cash paid		27.3		9.6		2.4		39.3
Debt acquired		–		1.5		–		1.5
Cash acquired		(4.6)		(0.1)		–		(4.7)
Expenses of acquisition		0.2		0.2		0.1		0.5
Net cash paid, after acquisition expenses		**22.9**		**11.2**		**2.5**		**36.6**
Less: Expenses of acquisition		(0.2)		(0.2)		(0.1)		(0.5)
Total consideration		**22.7**		**11.0**		**2.4**		**36.1**

Goodwill of £13.7m recognised on these acquisitions represents the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how.

22. Acquisition of businesses continued

From the date of acquisition to 30 September 2015, the newly acquired TPD business contributed £12.9m to revenue and £1.8m to adjusted operating profit and the newly acquired Kubo and Swan businesses contributed £11.3m to revenue and £1.3m to adjusted operating profit. If these businesses had been acquired at the beginning of the financial year, they would in aggregate have contributed on a pro-rata basis £34.4m to revenue and £4.4m to adjusted operating profit. 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.

23. Reconciliation of operating profit to cash flow from operating activities

	2015 £m	2015 £m	2014 £m	2014 £m
Operating profit		**52.9**		50.3
Acquisition related charges (note 11)		**7.4**		6.4
Adjusted operating profit		**60.3**		56.7
Depreciation or amortisation of tangible and other intangible assets	**3.5**		2.5	
Share-based payments expense	**0.5**		0.7	
Cash paid into defined benefit schemes (note 25d)	**(0.3)**		(0.3)	
Non-cash items		**3.7**		2.9
Operating cash flow before changes in working capital		**64.0**		59.6
Increase in inventories	**–**		(4.6)	
Decrease/(increase) in trade and other receivables	**0.2**		(3.1)	
(Decrease)/increase in trade and other payables	**(2.1)**		3.1	
Increase in working capital		**(1.9)**		(4.6)
Cash flow from operating activities, before acquisition expenses		**62.1**		55.0

24. Net cash

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

	2015 £m	2014 £m
Net increase in cash and cash equivalents	**2.6**	2.9
Increase in borrowings	**(20.0)**	–
	(17.4)	2.9
Effect of exchange rates	**(0.9)**	(0.9)
Movement in net cash	**(18.3)**	2.0
Net cash at beginning of year	**21.3**	19.3
Net cash at end of year	**3.0**	21.3
Comprising:		
Cash and cash equivalents	**23.0**	21.3
Borrowings	**(20.0)**	–
Net cash at 30 September	**3.0**	21.3

The Group has a committed multi-currency £40m revolving bank facility with an accordion option to increase this facility to £50m, subject to market pricing. During the year the Group exercised part of the accordion option in respect of £15m and increased the committed bank facility to £40m. At 30 September 2015, the remaining accordion option available is £10m. This bank 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

The Group maintains two defined benefit pension arrangements which are accounted for under IAS19 (Revised) "Employee Benefits". The principal arrangement is the defined benefit pension scheme in the UK, maintained by Diploma Holdings PLC and called the Diploma Holdings PLC UK Pension Scheme ("the Scheme"). This Scheme provides benefits based on final salary and length of service on retirement, leaving service or death and has been closed to further accrual since 5 April 2000.

The second and smaller defined benefit pension arrangement is operated by Kubo in Switzerland and provides benefits on retirement, leaving service or death for the employees of Kubo in accordance with Swiss law. Kubo was acquired by the Group on 13 March 2015.

The amount of pension deficit included in the Consolidated Statement of Financial Position in respect of these two pension arrangements is:

	2015 £m	2014 £m
Diploma Holdings PLC UK Pension Scheme	**6.1**	4.3
Kubo Pension Scheme	**3.7**	–
Pension scheme net deficit	**9.8**	4.3

25. Retirement benefit obligations continued

The amounts included in the Consolidated Income Statement in respect of these two pension arrangements are:

	2015 £m	2014 £m
Diploma Holdings PLC UK Pension Scheme	(0.2)	(0.2)
Kubo Pension Scheme	(0.2)	–
Amounts charged to the Consolidated Income Statement	(0.4)	(0.2)

Defined contribution schemes operated by the Group's businesses are not included in these disclosures.

Diploma Holdings PLC UK Pension Scheme

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 larger funding deficit may emerge in the Scheme.

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

	2015 £m	2014 £m
Market value of Scheme assets:		
Equities	18.6	19.7
Bonds	5.6	5.2
Cash	0.2	–
	24.4	24.9
Present value of Scheme liabilities	(30.5)	(29.2)
Pension scheme net deficit	(6.1)	(4.3)

b) Amounts charged to the Consolidated Income Statement:

	2015 £m	2014 £m
Charged to operating profit	–	–
Interest cost on liabilities	(1.2)	(1.3)
Interest on assets	1.0	1.1
Charged to financial expense, net (note 6)	(0.2)	(0.2)
Amounts charged to the Consolidated Income Statement	(0.2)	(0.2)

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

	2015 £m	2014 £m
Investment (loss)/gain on Scheme assets in excess of interest	(0.8)	0.8
Effect of changes in financial assumptions on Scheme liabilities	(1.1)	(2.3)
Effect of changes in demographic assumptions on Scheme liabilities	–	0.8
Experience adjustments on Scheme liabilities	–	1.0
Actuarial (losses)/gains charged in the Consolidated Statement of Income and Other Comprehensive Income	(1.9)	0.3

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Income and Other Comprehensive Income, since the transition to IFRS, is £6.3m (2014: £4.4m).

25. Retirement benefit obligations continued

d) Analysis of movement in the pension deficit:

	2015 £m	2014 £m
At 1 October	**4.3**	4.7
Amounts charged 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	**1.9**	(0.3)
At 30 September	**6.1**	4.3

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

	2015 £m	2014 £m
At 1 October	**29.2**	28.0
Interest cost	**1.2**	1.3
Loss on changes in actuarial assumptions	**1.1**	0.5
Benefits paid	**(1.0)**	(0.6)
At 30 September	**30.5**	29.2

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

	2015 £m	2014 £m
At 1 October	**24.9**	23.3
Interest on assets	**1.0**	1.1
Return on Scheme assets less interest	**(0.8)**	0.8
Contributions paid by employer	**0.3**	0.3
Benefits paid	**(1.0)**	(0.6)
At 30 September	**24.4**	24.9

The actual return on the Scheme assets during the year was a £0.2m gain (2014: £1.9m gain).

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2015, the major categories of assets were as follows:

	2015 %	2014 %
North America equities	**20**	21
UK equities	**19**	20
European equities (non-UK)	**19**	20
Asia Pacific and Emerging Markets equities	**18**	19
Corporate bonds	**13**	12
Index-linked gilts	**10**	8
Cash	**1**	–

Principal actuarial assumptions for the Scheme at balance sheet dates

		2015	2014	2013
Inflation rate	– RPI	**3.1%**	3.3%	3.3%
	– CPI	**2.3%**	2.5%	2.6%
Expected rate of pension increases	– CPI	**2.3%**	2.5%	2.6%
Discount rate		**3.8%**	4.1%	4.6%
Number of years a current pensioner is expected to live beyond age 65:				
Men		**22.1**	22.0	22.5
Women		**24.5**	24.4	24.9

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.

25. Retirement benefit obligations continued

Sensitivities

The sensitivities of the 2015 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.5%	9.2	2.8
Inflation	Increase by 0.5%	3.6	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.

The Kubo Pension Scheme ("the Kubo Scheme")

In accordance with Swiss law, Kubo's pension benefits are contribution based with the level of benefits varying according to category of employment. Swiss law requires certain guarantees to be provided on such pension benefits. Kubo finances its Swiss pension benefits through the Axa Stiftung Berufliche Vorsorge, a pension fund which administers the pension plans of various unrelated employers and reinsures the risks associated with providing guarantees with Axa Winterthur. Despite the existence of this insurance, IFRS requires such pension schemes in Switzerland to be accounted for as defined pension arrangements, primarily because the insurer has some ability to vary premiums and to decline to continue to provide cover in the future.

Set out below is a summary of the key features of the Kubo Scheme.

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

	£m
Assets of the Kubo Scheme[1]	10.3
Actuarial liabilities of the Kubo Scheme	(14.0)
Pension scheme net deficit	**(3.7)**

1 The assets of the Kubo Scheme are held as part of the funds managed by Axa Stiftung Berufliche Vorsorge.

ii) Amounts charged to the Consolidated Income Statement:

	£m
Service cost	(0.3)
Past service credit	0.1
Charged to operating profit	(0.2)
Net interest cost charges to finance expenses	–
Amount charged to the Consolidated Income Statement	**(0.2)**

iii) Analysis of movement in the pension deficit:

	2015 £m
At acquisition	3.7
Amounts charged to the Consolidated Income Statement	0.2
Contributions paid by employer	(0.2)
Net effect of remeasurements of Scheme assets and liabilities	–
At 30 September	**3.7**

25. Retirement benefit obligations continued

Principal actuarial assumptions for the Scheme at 30 September 2015

Expected rate of pension increase	**0%**
Expected rate of salary increase	**1.0%**
Discount rate	**0.75%**
Interest credit rate	**1.50%**
Mortality	**BVG2010 Generational**

Sensitivities

The sensitivities of the 2015 pension liabilities to changes in assumptions are as follows:

		Impact on pension liabilities	
Factor	Assumption	Estimated increase %	Estimated increase £m
Discount rate	Decrease by 0.25%	4.1	0.6
Life expectancy	Increase by one year	1.6	0.2

Effect of the Scheme on the Group's future cashflows

	£m
Best estimate of employer's contribution in 2016	**0.4**
Best estimate of employees' contribution in 2016	**0.3**

The weighted average duration of the defined benefit obligation is around 16 years.

26. Commitments

At 30 September 2015 the Group has outstanding aggregate commitments for future lease payments (under non-cancellable operating leases) in respect of the following years:

	Land and buildings	
	2015 £m	2014 £m
Within one year	**2.6**	2.3
For years two to five	**5.8**	4.7
After five years	**3.7**	1.4
	12.1	8.4

Operating lease payments made in respect of land and buildings during the year were £2.9m (2014: £2.0m).

27. Auditor's remuneration

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

	2015 £m	2014 £m
Fees payable to the auditor for the audit of:		
– the Company's Annual Report & Accounts	**0.1**	0.1
– the Company's subsidiaries	**0.3**	0.2
Audit fees	**0.4**	0.3

Non-audit fees of £12,000 (2014: £12,000) were paid to the Group's auditor for carrying out "agreed upon procedures" on the Half Year Announcement, which is unaudited.

28. Exchange rates

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

	Average		Closing	
	2015	2014	**2015**	2014
US dollar (US$)	**1.54**	1.66	**1.51**	1.62
Canadian dollar (C$)	**1.91**	1.80	**2.03**	1.81
Australian dollar (A$)	**1.99**	1.81	**2.16**	1.85
Euro (€)	**1.35**	1.23	**1.36**	1.28

29. Subsequent events

On 12 October 2015 the Group completed the acquisition of 100% of West Coast Industrial Supplies Pty Limited based in Perth Australia and its affiliate company, West Coast Industrial Supplies New Caledonia SAS based near Noumea in New Caledonia (together "WCIS") for an aggregate maximum consideration of £9.8m (A$20.5m). The initial cash paid on acquisition was £8.5m (A$17.6m) but is subject to further adjustment for actual net assets at completion. Deferred consideration is also payable based on the performance of WCIS over the next twelve months and on the renewal of specific customer contracts. The WCIS businesses are established suppliers of gaskets, seals and associated products and services with a focus on the mining and power generation markets. 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 2015

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 2015 and the comparative year.

There were no 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 2015.

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 pages 66 to 67.

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.

(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.

1.6 Employee benefits continued

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 Consolidated 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 inventory 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.

1.8 Taxation continued
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 charge 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
Hospital field equipment	– five years

The depreciation method used, residual values and estimated useful lives are reviewed and changed, if appropriate, at least at each financial year end. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses arising on disposals are determined by comparing sales proceeds with carrying amount and are recognised in the Consolidated Income Statement.

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

(a) Research and development costs
Research expenditure is written off as incurred. Development costs are written off as incurred until it can be demonstrated that the conditions for capitalisation as described in 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 and supplier relationships are valued using a discounted cash flow model; databases are valued using a replacement cost model. 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 Consolidated 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 Consolidated 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.

1.13 Financial instruments continued

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).

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 Directors' 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 2015. 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 2019. 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 IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 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 2015

	Note	2015 £m	2014 £m
Fixed assets			
Investments	c	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(29.2)**	(33.6)
Total assets less current liabilities		**42.8**	38.4
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account		**37.1**	32.7
		42.8	38.4

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 16 November 2015 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 2014	5.7	32.7	38.4
Retained profit for the year	–	23.9	23.9
Dividends	–	(19.7)	(19.7)
Transfers of own shares (net)	–	0.2	0.2
At 30 September 2015	**5.7**	**37.1**	**42.8**

The notes on page 97 form part of these financial statements.

Notes to the Parent Company Financial Statements

For the year ended 30 September 2015

a) Accounting policies

a.1 Basis of accounting

These financial statements have been prepared on a going concern basis, as discussed on pages 66 to 67, 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 £23.9m (2014: £20.3m).

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 the Group 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 other interests of the Group which qualify as related parties. There were related party transactions with the pension trustees of the Diploma Holdings PLC UK Pension Scheme, referred to in note 25.

a.6 Auditor's remuneration

Fees payable to the auditor for the audit of the Company's accounts of £3,500 (2014: £3,500) were borne by a fellow Group undertaking.

b) Directors' and employees' remuneration

No remuneration is paid directly by the Company; information on the Directors' remuneration (which is paid by an immediate holding company) and their interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 52 to 65. The Company had no employees (2014: none).

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2015 and 1 October 2014	**72.0**

Details of all of the subsidiaries of the Group are set out on page 101.

d) Share capital

	2015 Number	2014 Number	**2015 £m**	2014 £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 171,910 ordinary shares in the Company (2014: 293,539) were transferred from the Trust to participants in connection with the exercise of options in respect of awards which had vested under the 2011 Long Term Incentive Plan, as set out on page 64 in the Annual Report on Remuneration. The Trust also purchased 100,000 ordinary shares in the Company for £0.7m (2014: £Nil) during the year. At 30 September 2015 the Trust held 221,438 (2014: 293,348) ordinary shares in the Company representing 0.2% of the called up share capital. The market value of the shares at 30 September 2015 was £1.5m (2014: £2.0m).

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 2015 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 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 and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the company
As required by the Listing Rules we have reviewed the Directors' statement on pages 66 and 67 that the Group is a going concern. We have nothing material to add or draw attention to in relation to:
- the Directors' confirmation on page 34 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 35 to 37 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Directors' Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Director's explanation on page 34 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independence
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the company and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Risk	How the scope of our audit responded to the risk
Carrying value of goodwill The key assumptions used in the assessment of the carrying value of goodwill are determined with reference to judgemental factors such as projected cash flows and the appropriate discount rate. As at the year-end the Group held an aggregate of £89.3 million of goodwill (2014: £80.2 million). Refer to note 10 for details of these balances.	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 and consulting with our valuation specialists who benchmarked assumptions such as the 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.
Accounting for acquisitions There is a risk that the acquisition accounting for the businesses acquired in the year, as set out in note 22, has not been correctly applied. Specifically, there is a risk that incorrect judgements are made which results in inaccurate valuations of intangible assets. There is also a risk the valuation of any liability for future purchases of minority interests, as set out in note 20, is incorrectly recorded.	We have challenged the key assumptions made by management in accounting for the acquisitions. Specifically, we have reviewed the discount, tax and growth rates and in doing so we involved our own valuation specialists to assist us in our assessment. We have also re-calculated the liability of future purchases of minority interests and agreed this back to supporting forecasts.

Risk	How the scope of our audit responded to the risk
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. At the year-end the Group held inventories of £56.6 million net of impairment provisions of £5.9 million provision (2014: £54.1 million net of impairment provisions of 5.3 million provision). Refer to note 15 for details of these balances.	We evaluated the recorded provision, specifically checking those relevant inventory 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 receivables 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. At the year-end the Group held trade receivables of £44.8 million net of impairment provisions of £0.6 million (2014: £41.8 million net of impairment provisions of £0.5 million). Refer to note 16 for details of these balances.	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 receivables 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 £2.7 million (2014: £2.5 million), which is approximately 5% of profit before tax (2014: 5%).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £53,000 (2014: £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.

Audit of all components are performed at a materiality level not exceeding 50% of Group materiality.

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 11 (2014: 8) locations. Each of these 11 locations was subject to a full scope audit. An additional 8 (2014: 6) 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 75% (2014: 71%) of the Group's revenues and 80% (2014: 78%) of the Group's operating profit.

The Group audit team has designed and implemented a country visit programme to ensure that the Senior Statutory Auditor or another senior member of the Group audit team visits the component locations to hold discussions with the lead partner, review their working papers, conclude on any findings and attend close out meetings with local management. 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 and attended close out meetings by phone.

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 eleven 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). 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 reviews.

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

16 November 2015

Subsidiaries of Diploma PLC

	Group percentage of equity capital	Country of incorporation or registration
Life Sciences		
Somagen Diagnostics Inc	100%	Canada
AMT Surgical Inc	100%	Canada
Vantage Endoscopy Inc	100%	Canada
Big Green Surgical Company Pty Limited	100%	Australia
Diagnostic Solutions Pty Limited	100%	Australia
Diploma Healthcare Group NZ Limited	100%	New Zealand
Techno-Path (Distribution) Limited	80%	Ireland
A1-CBISS Limited	100%	England
a1-envirosciences GmbH	100%	Germany
Hitek Limited[1]	100%	England
Hitek Group Limited[1]	100%	England
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
M Seals AB	90%	Sweden
M Seals NCL Limited	100%	England
Diploma (Tianjin) Trading Co. Limited	100%	China
FPE Seals Limited	100%	England
A.B. Seals Limited[1]	100%	England
Swan Seals (Aberdeen) Limited	100%	Scotland
FPE Seals Europe BV	100%	Netherlands
Kentek Oy	90%	Finland
ZAO Kentek	90%	Russia
AO Kentek	90%	Russia
Kentek Eesti Ou	90%	Estonia
SIA Kentek Latvija	90%	Lativa
UAB Kentek Lietuva	90%	Lithuania
Rutin AG	100%	Switzerland
Kubo Tech AG	100%	Switzerland
Kubo Form AG	100%	Switzerland
Kubo Tech GmbH	100%	Austria
Kubo Immo AG	100%	Switzerland
Johannsen AG	100%	Switzerland
West Coast Industrial Supplies Pty Limited	100%	Australia
West Coast Industrial Supplies New Caledonia SAS	100%	New Caledonia
Controls		
IS Rayfast Limited	100%	England
IS Motorsport Inc	100%	USA
Amfast Limited[1]	100%	England
Specialty Fasteners Limited	100%	England
Clarendon Engineering Supplies Limited[1]	100%	England
Cabletec Interconnect Component Systems Limited[1]	100%	England
Sommer GmbH	100%	Germany
Filcon Electronic GmbH	100%	Germany
Hawco Limited	100%	England
Abbeychart Limited[1]	100%	England
HA Wainwright Limited[1]	100%	England
Microtherm Limited[1]	100%	England
Hawco Refrigeration Limited[1]	100%	England
Microtherm UK Limited[1]	100%	England
IS Group (Europe) Limited[1]	100%	England
Hymec Aerospace Fasteners Limited[1]	100%	England
Specialty Fasteners & Components Limited[1]	100%	England
Interconnect Components Services Group Limited[1]	100%	England
Cabletec Flexibles Limited[1]	100%	England
Intermediate Holding Companies		
Diploma Holdings PLC	100%	England
Diploma Holdings Inc	100%	USA
Pride Limited	100%	England
Diploma Australia Holdings Limited	100%	England
Diploma Canada Holdings Limited	100%	England
Diploma Overseas Limited	100%	England
Napier Group Limited	100%	England
Williamson Cliff Limited	100%	England
Newlandglebe Limited	100%	England
Diploma Germany Holding GmbH	100%	Germany
Diploma Canada Healthcare Inc	100%	Canada
Diploma Australia Healthcare Pty Limited	100%	Australia
Diploma Australia Seals Pty Limited	100%	Australia
a1-Envirosciences Limited[1]	100%	England
HB Sealing Products Limited	100%	Canada

1 Dormant company.

Financial Calendar, Shareholder Information and Advisors

Announcements (provisional dates):

First Quarter Statement released	20 January 2016
Annual General Meeting (2015)	20 January 2016
Half Year Results announced	16 May 2016
Third Quarter Statement released	31 August 2016
Preliminary Results announced	21 November 2016
Annual Report posted to shareholders	2 December 2016
Annual General Meeting (2016)	18 January 2017

Dividends (provisional dates):

Interim announced	16 May 2016
Paid	15 June 2016
Final announced	21 November 2016
Paid (if approved)	25 January 2017

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

Advisors

Investment Bankers
Lazard
50 Stratton Street
London W1J 8LL

Corporate Stockbrokers
Numis Securities
10 Paternoster Square
London EC4M 7LT

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

Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Bankers
Barclays Bank PLC
1 Churchill Place
London E14 5HP

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

Five Year Record

Year ended 30 September	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue	**333.8**	305.8	285.5	260.2	230.6
Adjusted operating profit	**60.3**	56.7	54.3	52.8	45.2
Finance (expense)/income	**(0.7)**	(0.5)	–	(0.2)	(0.3)
Adjusted profit before tax	**59.6**	56.2	54.3	52.6	44.9
Acquisition related charges	**(7.4)**	(6.4)	(5.6)	(6.4)	(4.8)
Fair value remeasurements	**(0.4)**	–	(0.2)	(0.2)	(0.9)
Profit before tax	**51.8**	49.8	48.5	46.0	39.2
Tax expense	**(14.4)**	(13.7)	(13.7)	(14.4)	(11.6)
Profit for the year	**37.4**	36.1	34.8	31.6	27.6
Capital structure					
Equity shareholders' funds	**189.6**	184.4	176.9	165.8	151.4
Minority interest	**5.2**	2.9	1.4	1.4	0.5
Add/(deduct): cash and cash equivalents	**(23.0)**	(21.3)	(19.3)	(11.4)	(17.8)
borrowings	**20.0**	–	–	3.5	5.6
retirement benefit obligations	**9.8**	4.3	4.7	5.4	5.4
acquisition liabilities	**6.6**	4.0	3.0	3.8	3.1
deferred tax, net	**5.9**	3.3	1.7	1.6	2.0
Reported trading capital employed	**214.1**	177.6	168.4	170.1	150.2
Add: historic goodwill and acquisition related charges, net of deferred tax	**53.6**	49.6	43.1	37.4	32.1
Adjusted trading capital employed	**267.7**	227.2	211.5	207.5	182.3
Net (decrease)/increase in net funds	**(17.4)**	2.9	11.8	(3.9)	(18.0)
Add: dividends paid	**19.9**	18.4	17.6	14.3	14.8
acquisition of businesses	**37.8**	16.5	2.2	22.3	28.2
Free cash flow	**40.3**	37.8	31.6	32.7	25.0
Per ordinary share (pence)					
Basic earnings	**32.5**	31.4	30.7	27.9	24.0
Adjusted earnings	**38.2**	36.1	34.8	33.1	27.9
Dividends	**18.2**	17.0	15.7	14.4	12.0
Total shareholders' equity	**167**	163	156	146	134
Dividend cover	**2.1**	2.1	2.2	2.3	2.3
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")	**23.9**	25.8	25.8	26.6	25.4
Working capital: revenue	**17.0**	17.2	16.7	16.5	16.1
Operating margin	**18.1**	18.5	19.0	20.3	19.6

Notes
1 Acquisition related charges comprise the amortisation and impairment of acquisition intangible assets, aquisitions expenses and adjustments to deferred consideration.
2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.
3 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.
4 Adjusted earnings per share is calculated in accordance with note 9 to the consolidated financial statements.
5 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.
6 Dividend cover is calculated on adjusted earnings as defined in note 2 to the consolidated financial statements.

Notes

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