DIPLOMA PLC

Annual Report & Accounts 2016

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.

Contents

Financial Highlights

Strong results and excellent free cash flow

	2016		2015
Revenue	£382.6m	+15%	£333.8m
Adjusted operating profit[1]	£65.7m	+9%	£60.3m
Adjusted operating margin[1]	17.2%		18.1%
Adjusted profit before tax[1,2]	£64.9m	+9%	£59.6m
Profit before tax	£54.0m	+4%	£51.8m
Free cash flow[3]	£59.0m	+46%	£40.3m

	2016 pence		2015 pence
Adjusted earnings per share[1,2]	41.9	+10%	38.2
Basic earnings per share	33.9	+4%	32.5
Total dividend per share	20.0	+10%	18.2
Free cash flow per share[3]	52.2	+46%	35.6

1 Before acquisition related charges.
2 Before fair value remeasurements and gain on disposal of assets.
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 68.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Chairman's Statement

Strong growth in shareholder value

The Group achieved a strong performance this year against a background of political volatility and challenging economic conditions in a number of our markets. Diploma has a long track record of consistent delivery and against this difficult market backdrop our aims and objectives remain unchanged. The Board remains focused on executing the Group's established strategy which is designed to deliver strong, double-digit growth in earnings and shareholder value over the economic cycle.

Faced with a low growth economic environment, the achievement of the Group's objectives this year has been driven by its success in executing its acquisition strategy and bringing carefully selected businesses into the Group, financed by strong cash generation and supported by a robust balance sheet.

Results

Group revenues increased in 2016 by 15% to £382.6m (2015: £333.8m), with acquisitions completed during the year contributing £16.3m and currency movements boosting the revenues of the overseas businesses when translated into UK sterling by £13.8m, when compared with last year. After adjusting for the contribution from acquisitions completed both this year and last year and for currency effects on translation, Group revenues increased by 3% on an underlying basis. Steady underlying revenue growth of 4% in both the Life Sciences and Controls Sectors more than offset a weaker performance from the Seals Sector where underlying revenues increased by 1%.

Adjusted operating profit increased by 9% to £65.7m (2015: £60.3m) and benefited from a contribution of £2.4m from acquisitions completed in the year and £2.7m from currency effects on translation. Adjusted operating margins reduced to 17.2% (2015: 18.1%) reflecting a further impact on gross margins in the Canadian and Australian Healthcare businesses from transactional currency effects because of the weaker Canadian and Australian dollars. Adjusted profit before tax increased by 9% to £64.9m (2015: £59.6m) and adjusted earnings per share ("EPS") increased by 10% to 41.9p (2015: 38.2p), reflecting a slight decrease in the effective tax rate.

The Group again generated very strong free cash flow of £59.0m (2015: £40.3m) which included a cash inflow of £6.3m from reduced working capital and £4.6m of cash realised on the sale of assets. Capital expenditure reduced this year to £3.7m (2015: £4.3m) reflecting lower investment in Healthcare field equipment as Canadian hospitals sought to limit their expenditure this year.

It was another good year for acquisition activity with investment of £32.7m (2015: £37.8m) in new businesses during the financial year, extending the Group's activities into new products and geographies in line with our strategic objectives.

The Group's balance sheet remains strong and after investing £32.7m in acquisitions and making distributions to shareholders of £21.0m (2015: £19.7m), the Group's net cash funds increased by £7.6m to £10.6m at 30 September 2016 (2015: £3.0m).

Dividends

The excellent free cash flow, helped by the cash received from the sale of assets this year, together with a positive acquisition environment, has led the Board to recommend an increase in the final dividend of 11% to 13.8p per share (2015: 12.4p). Subject to shareholder approval at the Annual General Meeting, this dividend will be paid on 25 January 2017 to shareholders on the register at 2 December 2016.

The total dividend per share for the year will be 20.0p (2015: 18.2p) which represents a 10% increase on 2015. 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.

"I am pleased with the good progress achieved this year against a background of challenging economic conditions."

Governance

Early in the year, we saw the retirement of Iain Henderson and Marie-Louise Clayton and the introduction of the Executive Management Group, which completed the process of developing and refreshing the Board. The Group is benefitting from the guidance and support of this strong and experienced team as it pursues the successful implementation of the Group's growth strategy.

Employees

The energy and commitment of our employees is a critical factor in the success of our Group. On behalf of the Board I wish to thank our employees for their commitment and hard work during this year. I remain confident of their ability to continue to respond to the new challenges which we will face in the coming year.

Outlook

Diploma has a strong and resilient business model with a broad geographic spread of businesses, supported by a robust balance sheet and consistently high free cash flow. This model has delivered a strong result this year benefitting from a good contribution from acquisitions and boosted by a currency tailwind in the final quarter.

Despite the current macroeconomic uncertainty in the global environment, the Board remains confident that the Group will continue to make further progress in the coming year from a combination of steady GDP plus organic growth and a strong and successful acquisition programme.

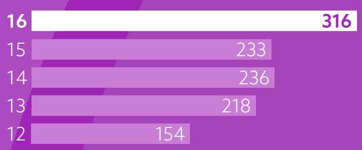
John Nicholas
Chairman
21 November 2016

Adjusted EPS growth (pence)

+8% p.a.[1]

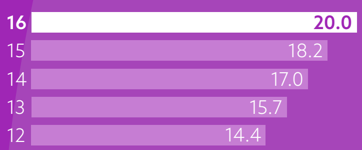
TSR growth (TSR index 2011 = 100)

26% p.a.[1]



Dividend growth (pence)

+11% p.a.[1]



1 Five-year compound.

Principal corporate objectives

- Achieve double-digit growth in adjusted EPS over the business cycle
- Generate TSR growth in the upper quartile of the FTSE 250
- Deliver progressive dividend growth with two times dividend cover

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Group at a Glance

A clearly defined strategy and consistent track record

GDP plus organic revenue growth	We focus on essential products and services, funded by customers' operating rather than capital budgets, giving resilience to revenues.
Attractive margins	Our attractive operating margins are sustained through the quality of customer service, the depth of technical support and value adding activities.
Acquisitions to accelerate growth	Carefully selected, value enhancing acquisitions accelerate the organic growth and take us into related strategic markets.
Strong cash flow	An ungeared balance sheet and strong cash flow fund our growth strategy while providing healthy and growing dividends.
Value creation	We aim to create value by consistently exceeding 20% ROATCE.

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

Life Sciences

Healthcare (83% of revenues)
Medical devices and related consumables and services supplied to hospital pathology laboratories, operating rooms and GI Endoscopy suites and clinics.

Environmental (17% of revenues)
Environmental analysers, containment enclosures and emissions monitoring systems.

29%
of revenues

SEE PAGES 14–17

Seals

Aftermarket (53% of revenues)
Next day delivery of seals, sealing products, filters and cylinder components for the repair of heavy mobile machinery.

Industrial OEMs (47% of revenues)
Sealing products and custom moulded and machined parts supplied to manufacturers of specialised industrial equipment.

44%
of revenues

SEE PAGES 18–21

Controls

Interconnect (76% of revenues)
Wiring, harness components and fasteners used in specialised applications in Aerospace, Defence, Motorsport, Energy, Medical and Industrial.

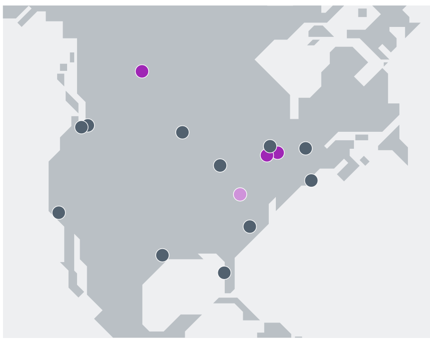
Fluid Controls (24% of revenues)
Temperature, pressure and fluid control products used in Food, Beverage and Catering industries.

27%
of revenues

SEE PAGES 22–25

The Group is well diversified by geographic and business area.

North America

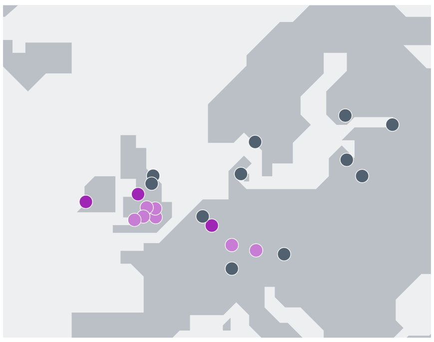


North American revenues (by destination) by sector

42%
of Group revenues

23% US
19% Canada

Europe



European revenues (by destination) by sector

48%
of Group revenues

23% UK
25% Continental Europe

Rest of World

Rest of World revenues (by destination) by sector

10%
of Group revenues

● Life Sciences ● Seals ● Controls

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Chief Executive's Review

Building larger, broader based businesses

"The Group's strategy, consistently applied, delivers strong growth in earnings and shareholder value."

Group strategy and corporate objectives

The Group's strategy is designed to generate strong 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.

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.

This year the Group delivered 10% growth in adjusted EPS, with modest underlying organic growth boosted by a good contribution from acquisitions completed over the last 18 months and from translational currency benefits. TSR growth this year has been 36%, which compares with a 4% increase in the median and a 23% increase in the upper quartile TSR performance of the FTSE 250 index (excluding Investment Trusts). Dividends have increased progressively in each of the last 17 years and this year the dividend has increased by 10%, covered 2.1 times by adjusted EPS.

Business model

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.

The key performance indicators ("KPIs") we use to measure the success of the business model relate to recurring income and stable revenue growth, sustainable and attractive margins and strong cash flow.

This year, underlying organic revenue growth has again been hard won against a background of challenging market conditions across all three Sectors and across all geographies served. Total revenue grew by 15%, of which 3% was underlying organic growth, with the balance coming from acquisitions and translational currency benefits. This continues a trend over five years of 11% compound annual revenue growth, with an average of 4% p.a. underlying organic revenue growth.

Adjusted operating margins this year were 17.2% of revenue, compared with a five-year average of 18.6% and as always there were a number of factors impacting the Group's margin. Margins were negatively impacted again this year by transactional currency effects in the Healthcare businesses, initial dilution from acquired businesses and reduced operating leverage in a lower growth environment. The Group's medium term target for operating margin, in an improved economic environment, remains 18–19%.

Agility and responsiveness in the businesses ensure close management of operating costs and working capital and deliver strong free cash flow. This year, free cash flow was very strong at £59.0m, which represented 124% of adjusted earnings, compared with an average of 96% over the last five years. The principal driver of the strong cash flow this year, was the close management of working capital which was managed back down to 16.6% of revenues by the year end, compared with a five-year average of 16–17%. In addition, free cash flow benefited this year from the sale of the Medivators product line and the sale of certain legacy properties.

Growth strategy

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 objectives for return on total investment.

Again we measure the success of the growth strategy with KPIs, the first of which is acquisition spend. To achieve the Group's objective of strong double-digit growth, acquisition spend at the level of ca.£30m p.a. is targeted. This year, the Group continued to benefit from a positive acquisition environment and invested ca.£33m in acquisitions, bringing the average over three years to ca.£30m p.a. The acquisitions completed over the last three years contributed 20% of 2016 revenues.

The Group's return on total investment measure is the pre-tax return on adjusted trading capital employed, excluding net cash, but including all goodwill and acquired intangible assets ("ROATCE"). This is used to measure the overall performance of the Group and very importantly, our success in creating value for shareholders through our acquisition programme. Over the last five years, ROATCE has comfortably exceeded the 20% target and this year was 21.1%.

Management strength

The success of the Group is built upon strong, self-standing management teams in the operating businesses, making decisions close to the customer and agile and responsive to changes in the market and competitive environment. The Group places very high importance on planning the development, motivation and reward structures for the ca.90 senior managers which make up the senior management cadre. This group has an average age of 47 and an average length of service of 11 years.

Although we place high importance on our decentralised organisation and the entrepreneurial culture this encourages, we also recognise that there are significant synergy benefits which can be achieved through managing clusters of similar businesses. Typically these synergies come in the form of cross-selling and joint purchasing between the businesses and shared back-office functions in finance and administration. There are also best practices which can be shared within the clusters in areas such as IT and digital capabilities.

At the beginning of this year, a formal Executive Management Group ("EMG") was established to ensure that we have a strong and broad-based senior management team in place to support the next stage of the Group's growth strategy. The members of the EMG are the senior managers responsible for the major business clusters and for certain key Group functions. The EMG combines individuals who have developed internally as well as selective external recruits. The EMG gives the senior management bench strength to manage a growing and broadly spread Group, while laying the groundwork for succession in key executive positions.

Strategic objectives

- Generate stable GDP plus organic revenue growth over the business cycle
- Maintain stable attractive margins
- Accelerate growth through carefully selected, value enhancing acquisitions
- Generate consistently strong cash flow to fund growth strategy and dividends
- Create value by consistently exceeding 20% ROATCE

For more information, please visit:
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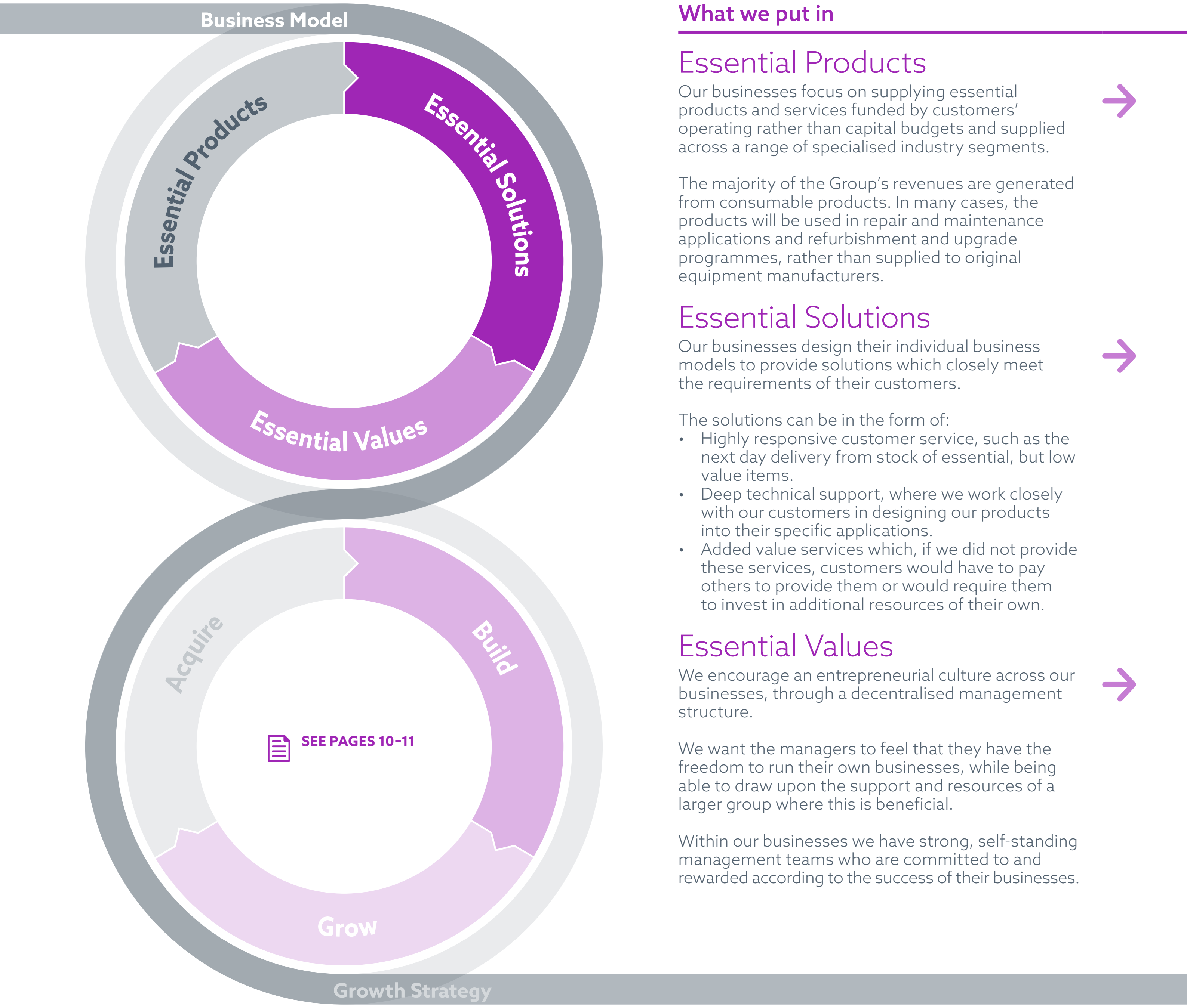
Our Business Model

Making 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 GDP plus levels of organic revenue growth, over the economic cycle, 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.

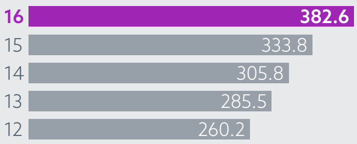
Our businesses achieve sustainable and attractive gross margins by offering strongly differentiated products and customer focused solutions within specialised market segments. By running efficient operations, these gross margins are converted into healthy operating margins.

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.

Agility and responsiveness in the businesses ensure close management of operating costs and working capital and deliver strong free cash flow.

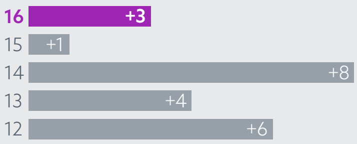
KPIs

Total revenue growth (£m)



+11% p.a.
Five-year compound

Underlying revenue growth (%)

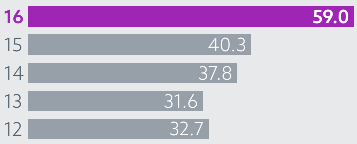


+4% p.a.
Five-year average

Adjusted operating margins (%)

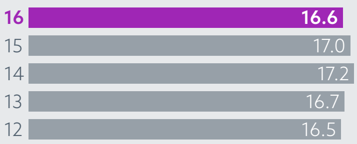
18–19%
Five-year average

Cash flow (£m)



£40m p.a.
Five-year average

Working capital (%)



16–17%
of revenue

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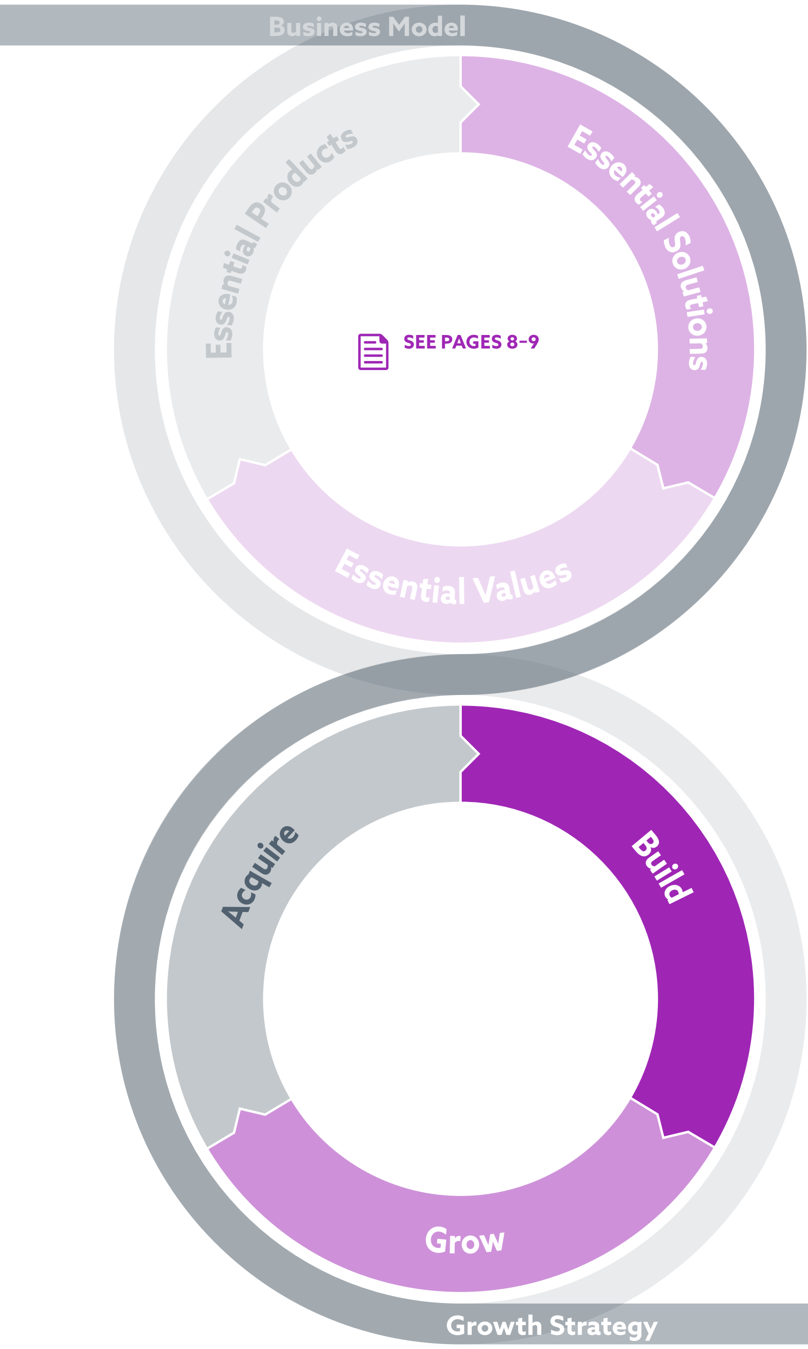
Growth Strategy

Delivering strong, double-digit growth



What we put in

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 post-tax 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 businesses 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 business to move to a new level of growth. The investment we make in new acquisitions 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.

The results of the Acquire, Build, Grow strategy can be seen in the improving revenue growth and operating margins post acquisition.

What we get out

The Group applies a consistent level of effort and resources to identifying and developing acquisition opportunities. However, the output in terms of acquisitions completed, ebbs and flows depending on the acquisition environment.

To achieve the Group's objective of strong double digit growth, acquisition spend of ca.£30m p.a. is targeted.

Over the last three years, this target has been met, with a total of ca.£90m invested in acquisitions. These acquisitions have contributed 20% of 2016 Group revenues.

Except in the case of smaller bolt-on acquisitions, the acquired companies maintain their distinct sales and marketing identity and strong independent management teams.

Where there are opportunities for synergies with other Group businesses, these are managed in larger business clusters.

Typically synergies within the business clusters come in the following areas:

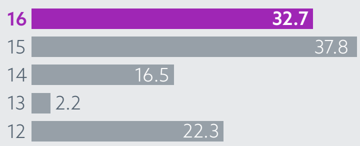
- Cross-selling between the businesses
- Joint purchasing between the businesses
- Shared operational infrastructure and shared back-office functions

By the third year post-acquisition, organic revenue growth for the acquired businesses is typically higher than the Group average and operating margins have improved by 200-300bps on average.

These improvements in financial performance ensure that the Group creates value through its acquisition programme and maintains ROATCE above the 20% threshold.

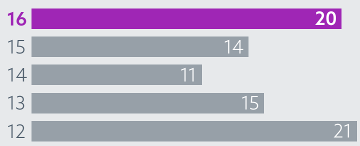
KPIs

Acquisition spend (£m)



£22m p.a.
Five-year average

Revenue from acquisitions (%)



Percentage of revenue from acquisitions completed over the last (rolling) three years

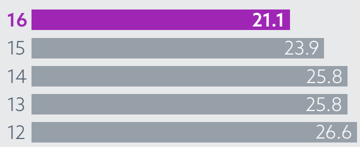
16%
Five-year average

Adjusted operating margin (Δbps)

Improvement in adjusted operating margin of acquired businesses three years after acquisition

200–300bps

ROATCE (%)



25%
Five-year average

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Our Year in Review

Strong performance in challenging markets

"The Group has delivered strong performance boosted by acquisitions and a currency tailwind."

In 2016, the Group has delivered a strong performance with hard won underlying organic growth across generally challenging markets, boosted by a good contribution from acquisitions and a currency tailwind in the final quarter.

The Group's revenues increased by 15%, with acquisitions completed during this year and the incremental impact from those completed last year, contributing 8% to revenue growth. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 4% to revenue growth, driven principally by the weakening of UK sterling in the last quarter of the year following the UK's Brexit vote on Europe. After adjusting for acquisitions and currency effects, underlying revenues increased by 3%.

Adjusted operating margins remained broadly in line with the first half of the year at 17.2%, continuing to be impacted by transactional currency effects in the Healthcare businesses and initial dilution from acquired businesses. The low growth environment limited the potential for operational leverage, but tight management of working capital and capital expenditure contributed to a very strong free cash flow performance.

Sector performance

In Life Sciences, reported revenues increased by 7%, with underlying revenues increasing by 4% on a constant currency basis. The Canadian Healthcare businesses faced significant budget pressures driven by the softer economy. The good growth achieved in the first half of the year against weak comparatives, reversed in the second half as comparatives became more challenging. The Healthcare businesses in Australia and Ireland also experienced similar economic and budgetary pressures but managed to deliver good levels of growth through their positioning in growing segments of the market. The Environmental businesses delivered solid GDP plus revenue growth and ended the year with an improved order book.

In Seals, reported revenues increased by 19%, with recent acquisitions contributing 12% to revenue growth and currency movements contributing a further 6% to revenue growth. After adjusting for acquisitions and currency effects, underlying revenues increased by 1%. In North America, core Aftermarket seal and gasket revenues were broadly flat. Strengthening of senior management and new growth initiatives are gaining traction and will position the businesses to take advantage of any increased activity and in particular, potential Infrastructure investment following the US election. Industrial OEM revenues in North America reduced by 1% against the background of generally slow industrial markets. The International Seals businesses outside of North America benefited from the acquisition of WCIS and a full year contribution from Kubo and delivered a 5% underlying increase in revenues, with a particularly strong performance from Kentek.

In Controls, reported revenues increased by 16%, with the acquisitions of Cablecraft and Ascome contributing 11% to revenue growth and currency movements contributing a further 1%. After adjusting for acquisitions and currency effects, underlying revenues increased by 4%, following strong underlying growth in the second half of the year, against less demanding comparatives. The Interconnect businesses delivered modest underlying growth with strong performances in Aerospace, Defence and Motorsport markets offsetting weaker Industrial markets. The Clarendon specialty fasteners business is now managed on a stand-alone basis and delivered strong double-digit growth in sales to aircraft seating and cabin interior manufacturers and to Motorsport teams. Fluid Controls delivered solid growth in revenues with an upturn in refrigeration equipment sales in the second half of the year.

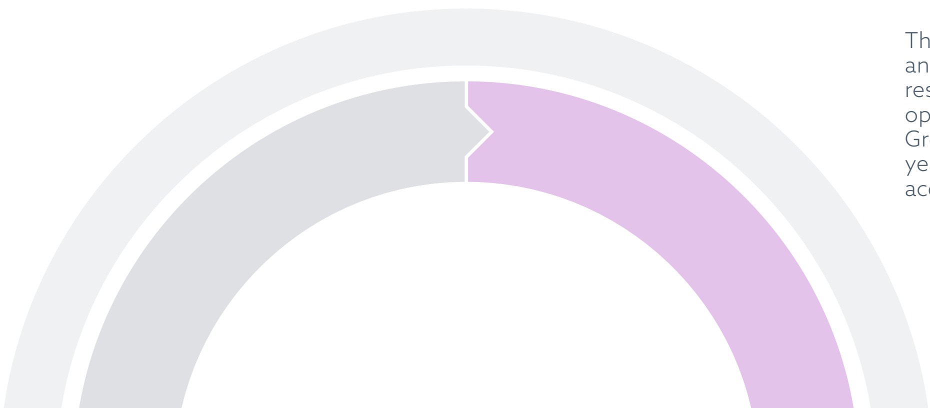
Acquisitions and disposals

The total acquisition expenditure over the last three years has been ca.£90m and these acquisitions contributed 20% of the Group's revenues in 2016.

During the year, the Group invested ca.£33m in acquiring new businesses, principally the acquisitions of Cablecraft in the Controls Sector and WCIS in the Seals Sector. Cablecraft is a leading UK based supplier of cable accessory products which broadens the Interconnect portfolio and extends the range of markets served. WCIS is a supplier of gaskets, seals and associated services which extends the Seals business into the Australasia region.

At the end of the year, the Vantage Healthcare business in Canada completed the sale of its Medivators endoscope reprocessor product line for a gross consideration of £2.8m (net consideration of £2.2m after expenses of sale and integration costs). Vantage has retained its other principal product lines (ca.60% of Vantage revenues) and is now managed as a division of the AMT business. AMT and Vantage together now form a strong Surgical Products business in Canada, with integrated back office and operational functions. Free cash flow in the year also benefited from the sale of three small legacy properties for aggregate proceeds of £2.3m.

The Group's strong balance sheet and free cash flow provide the resources to pursue further acquisition opportunities which will enhance the Group's earnings growth in future years. The Group's pipeline for further acquisitions remains encouraging.



Sector Review

Life Sciences

% of Group revenue

29%

Geography[1]
57% Canada
30% Europe
13% Rest of World

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

Products
72% Consumables
18% Instrumentation
10% Service

362
Employees

Principal businesses
Diploma Healthcare Group ("DHG")
a1-group

Seals

% of Group revenue

44%

Geography[1]
56% North America
34% Europe
10% Rest of World

Customers
39% Industrial OEMs
24% Heavy Construction
19% Other Industrial
13% Industrial Aftermarket
3% Dump & Refuse Trucks
2% Logging & Agriculture

Products
38% Seals & Seal Kits
18% Cylinders & Other
16% O-rings
11% Filters
11% Gaskets
6% Attachment Kits

803
Employees

Principal businesses
Hercules Fluid Power Group ("HFPG")
FPE Seals, Kentek, M Seals, Kubo, WCIS

Controls

% of Group revenue

27%

Geography[1]
60% UK
31% Continental Europe
9% Rest of World

Customers
32% Industrial
29% Aerospace & Defence
15% Food & Beverage
15% Motorsport
5% Energy & Utilities
4% Medical & Scientific

Products
42% Wire & Cable
19% Fasteners
13% Equipment & Components
12% Connectors
10% Control Devices
4% Other Controls

415
Employees

Principal businesses
IS-Group, Filcon, Cablecraft, Clarendon
Hawco Group

1 By destination.

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Sector Review continued

Life Sciences

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

Healthcare

The Diploma Healthcare Group ("DHG") in Canada comprises two 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"), now managed as part of AMT, supplies endoscopes and related consumables and service, as well as therapeutic devices utilised in GI Endoscopy suites in hospitals and private clinics.

DHG operates in Australia and New Zealand through Diagnostic Solutions ("DSL") and Big Green Surgical ("BGS") which are both located in Melbourne. DSL and BGS focus on similar market segments respectively to the Somagen and AMT businesses in Canada, as well as having similar product portfolios with a number of common suppliers.

DHG extended its operations in October 2014 into Europe with the acquisition of Technopath Distribution ("TPD"), an established supplier of products to the Biotechnology, Clinical Laboratory and Medical Device markets in Ireland and the UK. Similar to the other DHG businesses, TPD focuses on specialised laboratory diagnostics and specialty medical device segments, again leveraging a number of common suppliers.

Environmental

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

Principal operations

Healthcare

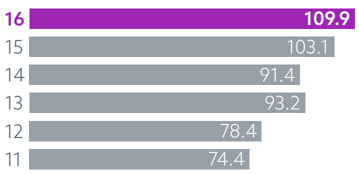
Somagen Diagnostics	Edmonton, AB, Canada
AMT Surgical	Kitchener, ON, Canada
Vantage Endoscopy	Kitchener, ON, Canada
Big Green Surgical	Melbourne, VIC, Australia
Diagnostic Solutions	Melbourne, VIC, Australia
Technopath Distribution	Ballina, Co. Tipperary, Ireland

Environmental

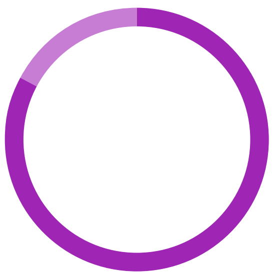
a1-CBISS	Tranmere, UK
a1-envirosciences	Düsseldorf, Germany

Revenue (£m)
(compound growth over five years)

+8% p.a.

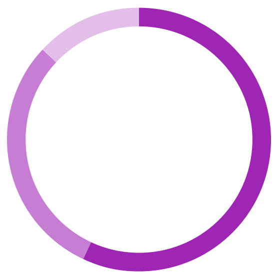


Principal segments



83% Healthcare
17% Environmental

Geography



57% Canada
30% Europe
13% Australasia

Market drivers

The DHG businesses in Canada supply into areas of **Healthcare** which are predominantly public sector funded. Private sector funding in Canada, representing ca.30% of healthcare expenditure in Canada in 2015, is largely focused on areas where DHG do not participate, specifically dental, cosmetic and eye surgery and pharmaceuticals. The principal demand driver for DHG is therefore the sustainable 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, ageing and well educated population demands high standards of service delivery, helping to ensure ongoing growing demand; per capita Healthcare spending in Canada is ca.C$6,000, placing Canada 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, Healthcare funding has still 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, Australia has 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 local markets.

Since 2014, 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 both countries. In such periods, Healthcare funding is tightly constrained 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 with such pressures, however, Healthcare funding has shown positive growth, with growth in total Healthcare expenditure of ca.2% and ca.5% respectively in Canada and Australia.

The principal market driver for the TPD business is Healthcare funding in the UK and Ireland. The total Healthcare expenditure in the UK and Ireland is ca.£200bn (of which the UK is ca.90%) which represents ca.10% of combined GDP. Of the total Healthcare expenditure, ca.80% is provided by public funding and 20% by private funding. Following the 2009 recession, annual growth in UK Healthcare expenditure has slowed to low single-digit levels, compared with average growth of 8% p.a. over the previous decade. In Ireland, Healthcare expenditure saw reductions year-on-year between 2009 and 2013, since when growth has resumed, again at low single digit levels.

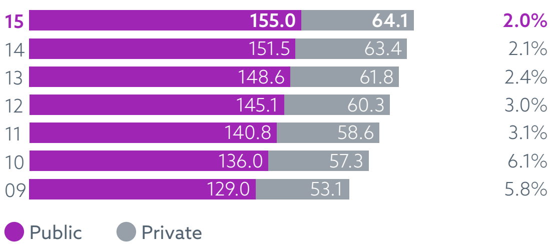
The a1-group supplies to customers in the **Environmental** industry in the UK, Germany and France. The market demand is largely driven by Environmental and Health & Safety regulations and growth in recent years has been driven by the need to be compliant with a range of EU regulations. Since market 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.

Total Healthcare expenditure as a percentage of GDP

	2011	2012	2013	2014	**2015**
Canada	11.3%	11.3%	11.2%	11.1%	**10.9%**
Australia	9.3%	9.5%	9.7%	9.8%	**10.0%**

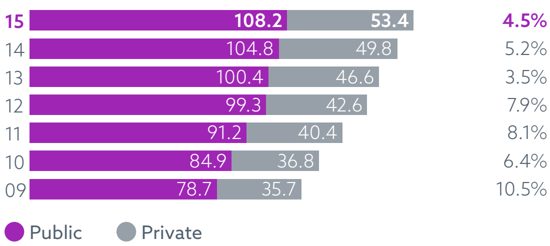
Sources: As below.

Canadian Healthcare expenditure (C$bn) % growth



Source: Canadian Institute for Health Information.

Australian Healthcare expenditure (A$bn) % growth



Source: Australian Institute of Health & Welfare.

Sector Review continued

Life Sciences

Sector performance

Reported revenues of the Life Sciences businesses increased by 7% to £109.9m (2015: £103.1m). Currency movements, on translation of the results from overseas businesses into UK sterling, contributed 3% to revenue growth; on a constant currency basis, underlying revenues increased by 4%.

Gross margins in the Healthcare businesses continued to be impacted on a transactional basis by the depreciation of the Canadian and Australian dollars relative to the US dollar. Realised exchange rates have stabilised in the second half of 2016, but at a level ca.10% below the average levels in 2015. Local management has continued to work closely with suppliers and customers to obtain pricing support but overall Healthcare gross margins reduced by 350bps compared to the prior year. The opportunity to mitigate the transactional currency effects through operating cost management is now limited and though Environmental margins have improved modestly, Sector adjusted operating margins have reduced by 260bps. Adjusted operating profits reduced by 7% to £19.6m (2015: £21.0m).

The Life Sciences businesses invested £1.9m in new capital during 2016 of which £0.9m (2015: £1.9m) was spent on acquiring field equipment for placement in hospitals and diagnostic laboratories. A further £0.6m was spent on completing the refurbishment of the new stand-alone leasehold facility for the TPD business in Ireland and £0.4m was spent on upgrading the general IT infrastructure of the businesses in Life Sciences. Free cash flow generated in 2016 increased by £3.4m to £19.0m of which £2.2m related to the disposal of the Medivators product line and the balance arose from a reduction in working capital and capital expenditure.

Healthcare

The DHG group of Healthcare businesses, which account for 83% of Life Sciences revenues, increased underlying revenues by 3% in constant currency terms; on translation to UK sterling, reported revenues increased by 6%.

In Canada, DHG revenues were broadly flat for the year as significant budget pressures continued to be felt throughout the Provincial Healthcare systems, driven by the tough economic environment. Revenue growth achieved in the first half of the year against weak comparatives was reversed in the second half as comparatives became more challenging. Reduced revenues in the Somagen clinical diagnostics business were broadly offset by growth in revenues in the surgical products businesses and in particular, strong Vantage results in the GI segment.

Somagen's consumable and service revenues were broadly flat, but capital revenues for the year reduced by ca.40%. The core clinical diagnostics business continued to be impacted by the freeze in capital spending in Quebec while the Province completes both the creation of integrated Health Centres under its "Bill 10" legislation and the Optilab reorganisation programme which is designed to achieve cost savings and efficiencies through consolidation of Quebec's public medical laboratories. Growth was also impacted by the introduction of stricter patient testing criteria in Alberta's colorectal screening programme, increasing the age threshold for eligibility and thus constraining the number of patient tests. To counter these headwinds, Somagen has generated good revenue growth from its successful a1c diabetes testing programme and has continued to invest in new product introductions designed to broaden Somagen's product portfolio in new growth segments.

AMT continued to face pricing pressures in its core electrosurgery business from the tender and evaluation processes introduced by Provincial shared services organisations and national group purchasing organisations. AMT has responded by introducing a broader product portfolio, providing customers with more options in major tender awards. AMT has also achieved strong double-digit growth in the supply of specialised surgical instruments and devices used in laparoscopic and other minimally invasive surgical procedures. In particular, strong growth in new surgical segments has been achieved with products sourced from new suppliers which have been added in recent years. These revenues have mitigated the revenue reductions from smoke evacuation products and electrosurgical accessories.

Vantage delivered good growth across its consumable product lines including argon plasma probes, endoscope reprocessor chemicals and other GI Endoscopy accessories, including specialised instruments and devices. Results were also boosted by strong growth in revenues across all of Vantage's core capital equipment product lines; this strong performance was against a weak prior year comparative which was constrained last year by delayed capital budget approvals.

In late September 2016, Vantage completed the sale of its Medivators endoscope reprocessor product line to Cantel Medical Corporation ("Cantel") for a gross consideration of £2.8m. Cantel, through its subsidiary Medivators, had been the supplier of these products to Vantage and consistent with its global strategy, had decided to establish a direct operation in Canada to market and sell the Medivators products alongside other Cantel product lines. In addition to purchasing the assets and liabilities of the Medivators product line, Cantel also took on the Vantage facility lease and a large proportion of the Vantage operational employees.

Revenue

£109.9m

	2016	2015
Revenue	**£109.9m**	£103.1m
Adjusted operating profit	**£19.6m**	£21.0m
Adjusted operating margin	**17.8%**	20.4%
Free cash flow	**£19.0m**	£15.6m
ROATCE	**17.7%**	21.1%

Vantage has retained its other principal product lines (ca.60% of Vantage revenues) and the related key commercial and clinical staff. From the start of the new financial year, Vantage is now being managed as a division of AMT, with integrated warehousing, logistics and back office functions. AMT and Vantage together now form a single, strong Surgical and GI specialty medical device business in Canada with the opportunity to gain good operational leverage from its increased scale.

In Australia, the Healthcare sector has experienced similar economic and budget pressures to Canada, but has the added capacity of private Healthcare spending to offset some of the economic constraints. Against this background, the BGS and DSL businesses have increased revenues by 15% in local currency terms. BGS continued to grow surgical product revenues strongly, with smoke evacuation programmes in existing and new accounts continuing to provide the main driver for growth. There was also a steady sales performance in electrosurgical grounding pads, laparoscopic electrodes and the enzymatic products acquired from Chemzyme as the product portfolio continues to grow. DSL has also achieved double-digit revenue growth in its clinical diagnostic products business, with the growth driven by capital equipment sales, in particular of capillary electrophoresis instruments used in testing for multiple myelomas and diabetes. Consumable product sales were broadly flat, reflecting softer prior year capital equipment sales, which is the key demand driver for consumable product revenues.

The TPD business is an established supplier to the Healthcare and Biotechnology markets in Ireland and the UK, acquired by DHG in October 2014. TPD delivered a second year of good revenue growth since acquisition, with growth in Healthcare driven by laboratory quality controls in the clinical diagnostic segment of the hospital laboratory market. There has also been significant growth in TPD's sales of specialty medical devices used in the interventional cardiology and digestive health areas of the hospital market. The Biotechnology product portfolio delivered good revenue growth in both consumables and capital equipment, all associated with rapid microbial identification and used in industrial laboratories across the Pharmaceutical, Food and Water sectors.

The TPD performance was achieved in a year when it completed a major facility move, with the accompanying disruption to operations. In January 2016, TPD consolidated and relocated its operations into an adjacent leased building, which had been refurbished and fitted out to meet TPD's requirements at a total cost of £0.8m. This new facility consolidated a number of fragmented, less efficient operations into a single facility and provides significant capacity to support DHG's growth ambitions in Europe.

Environmental

The a1-group of Environmental businesses in Europe, which account for 17% of Life Sciences Sector revenues, saw revenues increase by 5% in constant currency terms.

The a1-envirosciences business based in Germany increased revenues by 13% in Euro terms and ended the year with an improved order book. The strong growth was driven by demand for containment enclosures for the safe weighing of hazardous materials, particularly from Petrochemical and Pharmaceutical industry customers in Germany. The sales of high end elemental and trace analysers also continued to grow, with the range of mercury analysers seeing increasing demand.

The a1-CBISS business based in the UK saw revenues reduce by 1% with stable revenues from long term service contracts, but reductions in revenues from continuous emissions monitoring systems ("CEMS"). This sector remains buoyant with new Biomass and Energy from Waste ("EFW") plants an important part of the UK's energy portfolio, but competition is increasing in new sites built by major EPC contractors. a1-CBISS is responding by focusing on replacement systems and owner-operator sites where its specialist knowledge and customised software solutions give competitive advantage. The gas detection sector had a weak first half, as the slowdown in sales to Oil & Gas customers continued to impact activity levels, but recovered strongly in the second half. Revenues from service contracts, across both Environmental businesses, continue to grow with each capital installation and now represent a third of the combined revenues.

Highlights from the year

- Sector revenue growth of 7%; underlying growth of 4% after adjusting for currency
- In Canada, DHG revenues broadly flat with growth in Surgical Products offsetting reduced capital spend in Clinical Diagnostics; Vantage sold Medivators product line for £2.8m in September 2016
- In Australia, strong growth despite similar economic and budget pressures to Canada
- TPD in Ireland and the UK delivered a second year of good growth since acquisition; facility investment provides significant capacity to support DHG's growth in Europe
- Environmental businesses showed steady growth and ended the year with an improved 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

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Sector Review continued

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 which include Heavy Construction, Mining, Logging, 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 Mining, Oil & Gas, Pharmaceutical, Chemical, Food and Energy sectors, where products are required to support Maintenance, Repair and Overhaul ("MRO") operations.

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 design, material and manufacturer for the application, provide technical support and guidance during the product development process and deliver the logistics capabilities to supply from inventory to support small to medium sized production runs.

Market drivers
In North America (where ca.60% of Sector revenues are generated), the principal market driver for both the Aftermarket and Industrial OEM Seals businesses is the growth rate in the general industrial economy. In 2016, the US economy is forecast to show annual GDP growth of 1.8% (2015: 2.4%), driven primarily by strong consumer spending. US industrial production contracted in 2016 which was largely attributable to continued headwinds in the Oil & Gas, Mining, and Heavy Equipment sectors.

In Canada, 2016 GDP growth is forecast to increase to 1.7% (2015: 1.2%) as Oil & Gas and Mining sectors are expected to improve and non-commodity, export-driven industries remain competitive. In general, the

Principal operations

North America (HFPG)

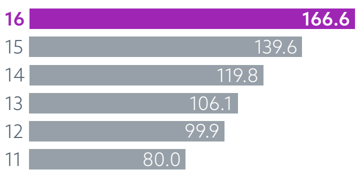
Aftermarket	
Hercules Bulldog	Clearwater & Tampa, FL, US
Hercules Canada	Barrie, ON & Dorval, QC, Canada
HKX	Monroe, WA, US
Industrial OEM	
All Seals	Lake Forest, CA & Houston, TX, US
J Royal	Clemmons, NC & Tallassee, AL, US; Shanghai, China
RT Dygert	Minneapolis, MN, Chicago, IL & Seattle, WA, US

International

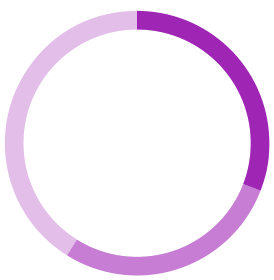
FPE Seals	Darlington, UK; Breda, The Netherlands
Kentek	Helsinki, Finland; St. Petersburg, Russia; Riga, Latvia
M Seals	Espergaerde, Denmark; Halmstad, Sweden; Beijing, China; Gateshead, UK
Kubo	Effretikon, Switzerland; Linz, Austria
WCIS	Perth & Brisbane, Australia; Noumea, New Caledonia

Revenue (£m)
(compound growth over five years)

+16% p.a.

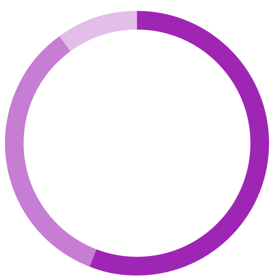


Principal segments



31% North America Aftermarket
28% North America Industrial OEM
41% International

Geography



56% North America
34% Europe
10% Rest of World

economic conditions in the South and Central American economies served by the North American Aftermarket businesses have remained challenging.

In 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 continued to rise through 2016 as contractors completed the build-out phases of construction projects. Additionally, housing starts in the US are forecast to increase to 1.2m from 1.1m in the prior year.

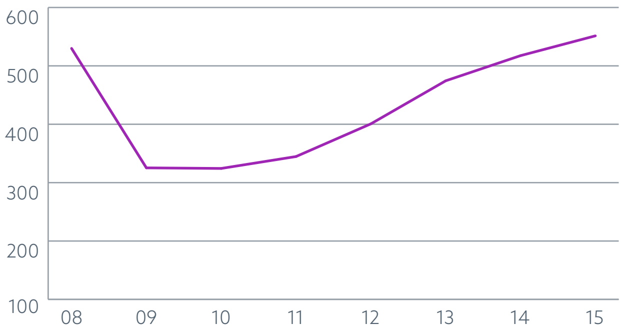
Unit sales in the US of Construction Equipment (defined as heavy mobile equipment including excavators above 14 tonnes, crawler dozers and wheeled loaders) is important as a medium term indicator for Hercules' replacement hydraulic seals activities, as the new heavy equipment will move out of the dealer warranty period in the following years. It is also a good short term indicator for the HKX attachment kit business. During 2015 and the first half of 2016, the demand for new equipment has remained flat as the general machine population is relatively new and equipment, previously used in the Oil & Gas and Mining sectors, continues to be released back through auction houses into the Construction sector. Contractors are also opting more for the rental model for their equipment needs.

For the Industrial OEM Seals businesses, the most appropriate indicator is the Industrial Production Index, which is forecast to contract slightly in 2016 after being essentially flat during 2015, as the stronger dollar and a continued slowdown in the natural resources sector offset stronger domestic consumer demand.

The International Seals businesses operate in a range of countries and diverse market sectors and each has its own specific market drivers. The most relevant market drivers and indicators are therefore the general GDP growth and the Industrial sector performance for each territory in which the businesses operate.

In the UK, economic growth is forecast to remain flat in 2016 at ca.1.8% (2015: 1.8%). The weakened UK sterling is giving short term benefits to exporters, but this is offset by uncertainty over the terms of any future EU trade deal which has led to investment decisions being postponed or deferred.

US construction spend (US$bn)

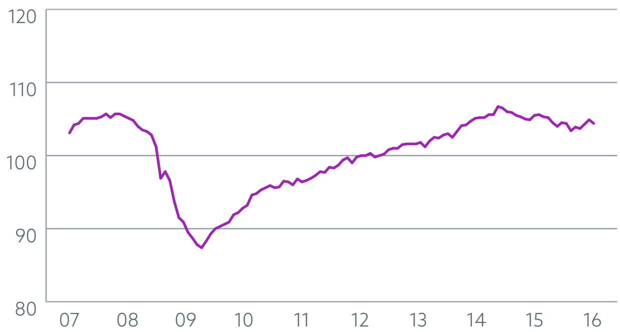


Source: Cyclast Intercast.

US construction equipment units ('000)

Source: Cyclast Intercast.

US industrial production index



Source: US Federal Reserve (seasonally adjusted).

In Continental Europe, the individual economies have remained variable in 2015 and 2016, driven by a number of contributing economic and geopolitical factors. Overall European GDP growth in 2016 is forecast to remain flat at ca.1.9% (2015: 2.0%) but has slowed following the UK referendum on EU membership ("Brexit"). The European economies have also been affected by the EU and US sanctions against Russia and reductions in exports as a result of the continuing fragility in the global economy.

In Australia, the economy has been adversely affected by the downturn in the Mining sector, which contracted by 7.4% during 2014 and has continued to decline in 2015. Despite this, overall Australia GDP grew by 2.5% in 2015 (2014: 2.7%), predominantly due to growth in the service sector of the economy.

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Sector Review continued

Seals

Sector performance

Reported revenues of the Seals businesses increased by 19% to £166.6m (2015: £139.6m). The Seals acquisitions completed during last year (Kubo and Swan Seals), along with the first year contribution from the WCIS acquisition (completed in October 2015), added 12% to Sector revenues. Currency movements, on translation of the results from overseas businesses to UK sterling, contributed a further 6% to Sector revenues. After adjusting for these acquisitions and for currency effects, underlying revenues increased by 1%.

Continued progress was made during the year in building a more substantial presence outside North America through a combination of organic growth and acquisition. The International Seals businesses based in the EMEA and Australasia regions, contributed £68.2m to Seals revenues in the year (2015: £47.3m) and now account for ca.40% of Sector revenues.

Across the Seals businesses, gross margins continued to be resilient, underpinned by the business model of superior product availability and added value technical services. The acquired businesses joined the Group with strong gross margins but with higher operating cost ratios and therefore lower initial operating margins. As a result, adjusted operating margins for the Sector reduced by 90bps to 16.9% (2015: 17.8%) and adjusted operating profits increased by 14% to £28.2m (2015: £24.8m).

During the year, £1.4m was invested in the Seals businesses, including an initial payment of £0.5m for the construction of a new facility for J Royal, close to their existing location in North Carolina; the total cost is expected to be ca.£2.5m. On completion of this project (scheduled for April 2017), the facility will be sold and leased back to the business. A further £0.5m was invested in new machinery and tooling, including two new seal cutting machines for the International Seals businesses and a new crane in WCIS. In addition, £0.4m was invested in IT infrastructure, including a substantial upgrade to the ERP information systems in Hercules Bulldog. The free cash flow generated in this Sector, which is after these investments, increased by over 40% to £24.9m reflecting both a full year contribution from the acquired businesses and a large reduction in working capital.

Revenue

£166.6m

	2016	2015
Revenue	**£166.6m**	£139.6m
Adjusted operating profit	**£28.2m**	£24.8m
Adjusted operating margin	**16.9%**	17.8%
Free cash flow	**£24.9m**	£17.8m
ROATCE	**20.1%**	23.7%

North American Seals

The North American Seals businesses, which account for ca.60% of Seals Sector revenues, saw revenues decrease by 2% on a constant currency basis against strong prior year comparatives. On translation to UK sterling, reported revenues increased by 7% due to the strengthening of the US dollar.

The HFPG **Aftermarket** businesses reported revenues 3% below last year in US dollar terms, with the core Hercules Bulldog seal and gasket revenues broadly flat against the prior year, but with a substantial reduction in HKX attachment kit revenues in an excavator market which continued to be depressed for most of the year.

In the domestic US market, Hercules Bulldog revenues were constrained by sluggish activity in the Heavy Construction sector, in particular in the resource dependent States. However, positive trends have started to develop in the Repair and Distributor segments and the revenue declines earlier in the year were reversed by the year end. Sales and marketing resources have been strengthened and specific growth initiatives continue to gain traction, including the sale of seal kits to large national rental fleets and contractors through dedicated buying portals. Additional business development focus has also been given to government customers, national accounts and speciality distributors. Additional new product lines have been introduced, including lifting slings and aftermarket cylinders for skid-steer equipment. Online revenues through Webstore continue to increase and now account for ca.20% of domestic US Aftermarket seal revenues.

In Canada, Hercules revenues increased by 3% in Canadian dollar terms despite unfavourable market conditions in the Mining, Quarrying and Oil & Gas sectors. The resulting economic conditions favour the repair market, which has helped drive revenue growth, along with sales of new products added to the 2016 catalogues in the first half of the year. Orders from hydraulic cylinder manufacturing customers have been relatively flat, mainly as a result of shifting customer demand, rather than significant gains or losses of business. In markets outside North America, Hercules Bulldog export revenues recovered in the second half and finished the year showing 3% growth. Strong growth in Mexico and Central America more than offset declines in resource dependent South American markets.

The HKX attachment kit business experienced a continuing, significant reduction in revenues reflecting the depressed market for new excavators in the US and Canada and the surplus of heavy mobile equipment. The increased proportion of factory installed kits continues to impede HKX's standard kit sales, but HKX is responding by marketing lower cost entry level kits which are upgradeable to provide a more complete range of capabilities. With equipment rentals and leases growing to 50% of new machine sales, HKX is also focusing its sales effort on kit programmes to support the dealer rental and lease operations.

The HFPG **Industrial OEM** businesses in North America saw revenues reduce by 1% against a background of generally slow industrial markets. J Royal delivered another year of solid growth, with good demand from its water meter and swimming pool equipment customers offsetting reduced demand from gas boiler, fuel management and filtration customers. RT Dygert and All Seals, which now share sales management and product development resources, saw revenues reduce by 3% against the prior year. RT Dygert generated good GDP plus levels of growth with its core industrial OEM accounts and distribution customers. However, these gains were more than offset by reduced sales to cylinder manufacturers as their businesses lost share to lower priced offshore suppliers and with reduced sales to catalogue distributors reflecting the weaker industrial markets. All Seals generated growth from customers in the Water and Medical sectors, but this growth was offset by reduced revenues in Aerospace, Oil & Gas and general Industrial OEMs and distributors.

The Industrial OEM businesses continue to respond to the overall low growth environment by maintaining strong relationships with core industrial equipment customers, ensuring high levels of customer service in support of existing projects, as well as offering more specialised material and product specifications to secure new projects. In particular, the businesses continue to look for opportunities to deploy higher specification, regulatory-compliant compounds for industries including Pharmaceutical, Water and Food equipment and for fuel dispensing applications.

International Seals

The International Seals businesses in the EMEA and Australasia regions, now account for ca.40% of Sector revenues and increased revenues by 5% on an underlying basis, after adjusting for currency effects and acquisitions.

The FPE Seals business increased revenues by 3% in UK sterling terms and continued to develop a more substantial, broader-based Aftermarket Seals business. At the beginning of the year, FPE Seals became fully operational from its new facility in Darlington in the UK, which is now the core operational hub for further expansion across the EMEA region. FPE Seals also has a small operation in the Netherlands which it has used as an initial pilot for the launch of the Webstore e-commerce solution. Following the relocation of the Bulldog operation to Tampa in September 2015, FPE experienced some product shipment delays in the first half of the year; the back orders were recovered in the second half to improve full year revenues. Swan Seals in Aberdeen has been impacted by the low oil price environment, but again showed some second half improvement in activity levels.

Kentek increased revenues by 16% in Euro terms and continued to respond well to the challenging economic conditions in Russia and Finland, under pressure from lower global demand in the Oil & Gas and Mining sectors and from the negative impact of economic sanctions on Russia. Despite these challenges and further weakness of the Russian rouble, Kentek delivered strong revenue growth in Russia, with good revenue increases from its newer sales offices. Kentek also benefited from increased investment by the Russian government in the Agricultural and Manufacturing sectors and has won a number of tenders with key Mining customers. In Finland, new management has given additional structure and impetus to the sales efforts which have re-established revenue growth. During the period, Kentek introduced a new own-branded filter range which is now gaining traction.

M Seals increased revenues by 1% in local currency terms with strong revenue growth in the core markets of Denmark and Sweden, where M Seals has built on its strong customer relationships to develop a number of major new projects. This growth was offset by reduced revenues from the M Seals operations in the UK which have been impacted by cut-backs in the Oil & Gas sector, particularly in the first half of the year. In the second half, there has been some recovery in demand and M Seals has seen some initial benefit from increasing sales efforts to specialised Industrial OEMs in other sectors of the UK market.

Kubo revenues decreased by 2% on a like-for-like basis (Swiss franc terms, including pre-acquisition revenues) as it faced challenging market conditions in its core industrial market in Switzerland. The strong Swiss franc (following its decoupling from the Euro in 2015) has made Swiss manufacturers less competitive in export markets and some have relocated production outside Switzerland. Against this background, Kubo has made progress in taking market share from competitors through sales initiatives, technical support and responsiveness. Kubo management has also focused on improving operational efficiency and expanding value adding activities. During the year, Kubo invested in a new seal machining centre to enable the business to respond quickly to urgent customer requirements for specialised seals, as well as replacing externally sourced products.

In October 2015, the Group completed the acquisition of WCIS, a supplier of gaskets, seals and associated products and services located in Australia and New Caledonia. WCIS has core capabilities in gaskets and mechanical seals, used in complex and arduous applications. Since its acquisition, WCIS core customers in the Mining sector, as expected, have faced difficult market conditions and this has held back revenues. However, progress has been made in Australia in strengthening the team to broaden sales coverage across a wider range of market sectors. In New Caledonia, WCIS signed new three-year contracts with its major customer for the provision of products and services.

Highlights from the year

- Sector revenue growth of 19% with acquisitions contributing 12%; underlying growth of 1% after adjusting for currency and acquisitions
- In North America, core Aftermarket seal and gasket revenues broadly flat
- Strengthening of senior sales and marketing management and new growth initiatives gaining traction
- Industrial OEM revenues in North America reduced by 1% against background of generally slow industrial markets
- International Seals businesses in EMEA and Australasia now ca.40% of Sector revenues. Underlying revenues increased by 5%, with a strong performance by Kentek

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
- Build larger, broader-based Seals business in the EMEA and Asia Pacific regions
- Explore opportunities more broadly in industrial distribution in North America

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Sector Review continued

Controls

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

Interconnect

The IS-Group, Filcon, Cablecraft and Clarendon businesses supply high performance interconnect products used in technically demanding applications in a range of industries including Aerospace, Defence, Motorsport, Energy, Medical, Rail and Industrial. Products include electrical wiring, protective sleeving, 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, customised labelling solutions, 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, cable markers, sleeving and trunking and specialty fasteners.

Fluid Controls

The Hawco Group businesses supply a range of fluid control products used broadly in the Food & Beverage sectors, 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.

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. Following the 2009 recession, gains in 2010 were reversed in 2011 and 2012 and since then there has been slow, steady growth. However, the index is still some 10% below pre-recession levels

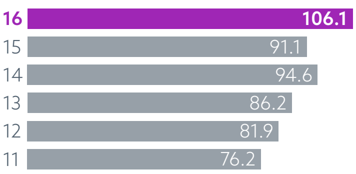
Principal operations

Interconnect	
IS-Group	
IS-Rayfast	Swindon, UK
IS-Cabletec	Weston-super-Mare, UK
IS-Sommer	Stuttgart, Germany
IS-Connect	Indianapolis, IN, US
Filcon	Munich, Germany
Cablecraft	Houghton Regis, Tewkesbury & Plymouth, UK
Clarendon	Leicester, Swindon & Totnes, UK

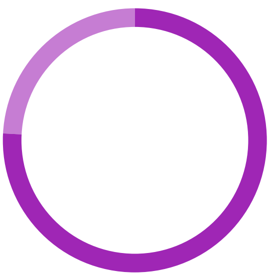
Fluid Controls	
Hawco Group	Guildford, Bolton & Faringdon, UK

Revenue (£m)
(compound growth over five years)

+7% p.a.

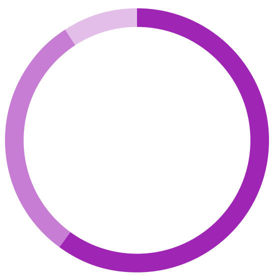


Principal segments



76% Interconnect 24% Fluid Controls

Geography



60% UK 31% Continental Europe 9% Rest of World and economic growth is more driven by the Services and Retail sectors. In Germany, the Production Sector Output index tracks a strong period of recovery through 2010 and 2011, since when it has slowly increased and is now back to pre-recession levels.

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

The Civil Aerospace market continued to grow steadily with growth in World Passenger Traffic averaging over 6% p.a. over the last five years and with continuing 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 market in the UK has shown some early signs of recovery, prompted by the military operations in Syria and Iraq, the emergence of new perceived threats and the UK commitment to maintain the NATO spend target of 2% of GDP through to 2020. In Germany, the government has also committed to increased defence spending in response to the same drivers.

In Motorsport, demand is impacted by the number of Formula 1 races and teams (both of which increased in the 2016 season) and development work related to technology and rule changes, which were limited in 2016 but with additional changes expected in 2017. The Formula E series continues to gain momentum but the relative spend in this series is low compared to Formula 1.

In the UK, investment in Rail infrastructure continues with more than £25bn committed in the five years to 2019 for major projects including Crossrail and the Thameslink and Great Western upgrades. More generally UK infrastructure investment is expected to increase with particular focus on utilities, transportation and IT/communications. In Germany, electricity generation and distribution 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 over 60% of their revenues from the Food & Beverage sector in the UK. In Food

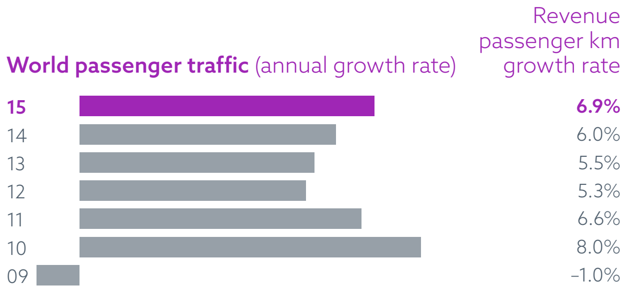
UK index of production (value)

Source: UK Office for National Statistics.
Calendar and seasonally adjusted, reference year 2013 = 100.

German production sector output (including construction)

Source: Deutsche Bundesbank.
Calendar and seasonally adjusted, reference year 2010 = 100.

World passenger traffic (annual growth rate)



Source: International Civil Aviation Organisation.

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 £1bn p.a. Abbeychart supplies both the coffee machine manufacturers and the Aftermarket sector, predominately in the UK but also in Europe.

Sector Review continued

Controls

Sector performance

Reported revenues of the Controls businesses increased by 16% to £106.1m (2015: £91.1m). The acquisitions of Cablecraft and Ascome, acquired in the first half of the year, added 11% to Sector revenues and currency movements contributed a further 1% to Sector revenues on translation to UK sterling. On an underlying basis, after adjusting for these acquisitions and currency effects, underlying revenues increased by 4%, following strong underlying growth in the second half of the year (9% increase) against less demanding comparatives.

Adjusted operating margins increased by 100bps to 16.9% (2015: 15.9%). Gross margins strengthened in the IS-Group and Clarendon businesses, offsetting margin pressure in the Hawco Group, while operating costs as a percentage of revenue remained broadly stable across the Controls businesses. The stronger operating margins of the newly acquired Cablecraft business also contributed to the improvement in the Sector average. Adjusted operating profits increased by 23% to £17.9m (2015: £14.5m).

Capital expenditure in this Sector remained modest at £0.4m (2015: £0.3m). The focus on developing Clarendon as a stand-alone Specialty Fasteners business led to £0.2m being invested in establishing a separate warehouse and offices for this business within the existing IS-Group facility in Swindon. A further £0.1m was invested in new tooling in Sommer and Cablecraft and £0.1m was spent on the general IT infrastructure across the Controls businesses. Free cash flow increased strongly to £16.4m reflecting stronger trading, including the additional contribution from Cablecraft and a modest reduction in working capital.

Revenue

£106.1m

	2016	2015
Revenue	£106.1m	£91.1m
Adjusted operating profit	£17.9m	£14.5m
Adjusted operating margin	16.9%	15.9%
Free cash flow	£16.4m	£11.4m
ROATCE	28.9%	30.5%

Interconnect

The Interconnect businesses account for 76% of Sector revenues and reported a revenue increase of 21% in UK sterling terms. After adjusting for the Cablecraft and Ascome acquisitions and for currency effects, underlying revenues increased by 4%.

The IS-Group businesses in the UK and US saw revenues increase by 2%, with a strong performance in the second half of the year more than compensating for the revenue decline in the first half. In response to the generally low growth environment in its industrial markets, sales resources were realigned to focus on sectors and customer accounts with the highest growth potential. Further business development programmes were also introduced and contributed to the improving trend in the second half of the year. Investments have also been made in developing digital media capabilities and in positioning the IS-Group as the supplier of choice for the full range of specialist cable harnessing components.

In Defence, general activity levels in electrical harnessing customers increased and the IS-Group benefited from specific programmes, including wiring and harness components supplied to the Scout/AJAX armoured fighting vehicle programmes and from communication cables used on submarines. In Aerospace, the IS-Group again benefited from a generally buoyant market, boosted by specific projects, including braided assemblies installed on Airbus A350 fuel pipes.

In Motorsport, activity benefited from additional races in the Formula 1 race schedule and increased investment from Toro Rosso and Renault, as well as from the new entrant Haas and the rebranded Manor Racing team. The IS-Group has also been closely involved with the 2017 America's Cup series, with products widely specified in the Test Boats and now also confirmed in the build programmes for the Race Boats. In the US, strong growth was achieved in its core Motorsport business, as well as related Industrial markets.

Industrial markets in the UK continued to be challenging with Energy revenues in particular showing a significant reduction, driven by the cut-backs in the Oil & Gas industry which have impacted sales of harness components to sub-sea cable manufacturers and other Oil & Gas markets. In Continental Europe, a competitive market saw sales to other sub-distributors reduce significantly in the first half of the year, but stabilise at this lower level in the second half of the year.

In Germany, IS-Sommer and Filcon reported a 3% increase in revenues in local Euro terms. Strong revenue growth in the Energy and Motorsport markets compensated for a weaker performance in Aerospace & Defence, while Industrial markets showed modest growth in line with the general industrial economy in Germany.

In the Energy sector, IS-Sommer has a strong and growing position in the supply of products used in the repair and maintenance of the low and medium-voltage electricity network. Demand for these products has been strong as 2016 has been an assessment year for the German power network which typically triggers a cyclical round of investments; weather conditions have also been favourable. IS-Sommer has increased its share of this growing market by offering good stock availability, experienced technical sales support and competitive pricing based on its purchasing power.

In Motorsport, Filcon achieved strong growth in the supply of specialist connectors to leading teams in a range of racing series; Filcon has the distinction of being the preferred supplier to the World Champions in the Formula 1, Le Mans 24 hour and World Rally Championship series. Increased activity is being seen in the Defence and Military Aerospace sector in Germany, where there is growing pressure on Germany to upgrade its military capabilities. The increased activity did not translate into firm orders until later in the year, but both Filcon and IS-Sommer will carry strong order books into the new financial year.

In February 2016, Filcon completed the acquisition of Ascome, a small distributor of specialist connectors into the Defence and Industrial markets in France. This acquisition provides greater presence for Filcon's operations in France, provides credible access to the French Defence sector and gives access to new products and suppliers.

In March 2016, the Group completed the acquisition of Cablecraft, a leading supplier of cable accessory products which are used to identify, connect, secure and protect electrical cables; own-branded and manufactured products account for ca.80% of revenues. In addition to broadening the Interconnect product portfolio, the acquisition has also extended the range of markets served. Cablecraft supplies to wholesalers and distributors serving electrical contractors in the Construction market and end users in the Rail industry, including signalling equipment specialists. The company also supplies to end users in the Industrial sector, including electric panel builders and contractors providing installation services to the Energy and Utilities sectors.

The Clarendon specialty fastener and component business increased revenues by 16% over the prior year. Last year, Clarendon's deliveries to its key aircraft seating customer were held back by changes to aircraft seat designs and delays to build schedules. In addition, Clarendon's deliveries to its largest customer were reduced during the implementation of a large new lineside supply project, using the "Clarendon Air" solution. This year, revenues have increased strongly as deliveries of inventory were resumed and the customer increased production as its new business class seating programmes ramped up. Clarendon also had significant success increasing sales to other aircraft seating and cabin interiors manufacturers and sub-contractors across Europe and introducing Clarendon Air to a number of new customers.

Clarendon also delivered strong revenue growth in its sales to the Motorsport sector. As with the IS-Group, Clarendon benefited from the increased number of races in Formula 1 as well as the increased investment from new entrants. In addition, revenues were boosted in the fourth quarter by increased development expenditure by teams preparing for design and rule changes planned for the 2017 season. In the Industrial and Defence markets, the business continues to differentiate itself from competitors through its range of own-designed and engineered fastening solutions and added value services.

Fluid Controls

The Hawco Group of Fluid Controls businesses, which account for 24% of Controls sector revenues, reported a 4% growth in revenues against the prior year.

Hawco has seen an upturn in sales in the second half of the year across all its markets and, in particular, from Refrigeration Equipment customers in Continental Europe and Turkey. Hawco has also benefited from establishing relationships with major air conditioning and refrigeration contracting groups who value Hawco's stock holding, next day delivery and exclusive supplier relationships; the partnering with independent trade counters has also proved successful. In the Industrial OEM market, Hawco has seen good success with its range of fire detection products, cartridge heaters and silicon heater lines.

Abbeychart has seen revenue growth pause in its core coffee segment, as overstocking at certain customers is being worked through. However, this is seen as temporary and Abbeychart has continued to enhance its offering of essential parts to service the broad range of espresso type machines being installed in an increasing number of outlets. In the soft drinks market, Abbeychart has continued to increase revenues and take market share, but in the water segment, revenues reduced as plumbed water dispensers continue to lose share against individual bottled water. To offset this decline, Abbeychart has focused growth initiatives in the craft brewing and export markets.

Highlights from the year

- Sector revenue increased by 16%; underlying increase of 4% after adjusting for currency and acquisitions
- The Interconnect businesses delivered modest underlying growth with strong performances in Aerospace, Defence and Motorsport offsetting weaker Industrial markets
- Strong double-digit growth in Clarendon sales of specialty fasteners to aircraft seating and cabin interior manufacturers and to Motorsport teams
- Acquisition of Cablecraft broadened the Interconnect product line and extended range of markets served
- Fluid Controls delivered solid growth in revenues with upturn in refrigeration equipment sales in second half

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 sectors
- Expand geographic reach outside UK and Northern Continental Europe

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Finance Review

Strong free cash flow funds acquisitions

17.2%
Adjusted operating margin

£59.0m
Free cash flow

21.1%
ROATCE

Results in 2016

Diploma delivered a strong performance this year, with revenues increasing by 15% to £382.6m and adjusted operating profit increasing by 9% to £65.7m. The Group's financial results were characterised by two factors: a strong contribution from businesses acquired during the past three years and the substantial weakening in UK sterling in the last quarter of the financial year, following the UK's Brexit vote on Europe.

The contribution from acquisitions completed both this year and last year was £26.6m to revenue and £4.2m to adjusted operating profit. With ca.75% of the Group's businesses based overseas, the impact on headline results from currency translation has led to an increase in revenues and adjusted operating profits of £13.8m and £2.7m respectively, when translated at last year's exchange rates.

Underlying organic growth in all of the Group's markets remained challenging throughout the year, which led to underlying revenues increasing by 3% this year. However, in this lower growth environment the Group focused on maximising free cash flow, which was again very strong at £59.0m. This will provide the resources to continue to pursue acquisition opportunities which should provide a good base for further earnings growth in future years.

Underlying revenues are after adjusting for the contribution from businesses acquired during the year (and from the incremental impact from those acquired last year) and for the impact on the translation of the results of the overseas businesses from the significant weakening in the UK sterling exchange rate in the last quarter of the year.

Adjusted operating margin

The Group's adjusted operating margin remained broadly in line with the first half of the year at 17.2% (compared with 18.1% last year), continuing to be impacted by weaker gross margins in the Healthcare businesses.

Diploma's Healthcare businesses represent ca.25% of Group revenues and their gross margins have again been impacted this year on a transactional basis by the substantial depreciation of the Canadian and Australian dollars, against the US dollar in particular, which is the currency in which most of their products are purchased. The depreciation of these two currencies began in late 2013 and has continued through the past two years, reaching a low point in mid-January 2016.

In this financial year, currency depreciation led to a 390bps reduction in the gross margins of the Canadian and Australian Healthcare businesses compared with last year. This reduction was partly mitigated by a combination of forward currency hedges, supplier cost reductions and tight control over operating costs. However, the ability of the Healthcare businesses to continue to mitigate this transactional impact on gross margins is now quite limited.

The Canadian and Australian exchange rates have remained relatively stable since the early part of this year at more favourable levels and this provided the businesses with an opportunity to resume forward currency hedging during the second half of the year. These hedging contracts should provide some respite to the currency pressure on gross margins in the new financial year, although both currencies have begun to weaken again in November 2016.

Transactional currency exposures in the rest of the Group's businesses were not significant during the year, despite the impact on the UK businesses in the last quarter of the year from the substantial weakening in UK sterling.

"The businesses acquired during the past three years contributed 20% of Group revenues in 2016."

The Group's adjusted operating margin was also impacted by acquired businesses which ordinarily join the Group with initial operating margins which are lower than the Group's adjusted operating margin. With the increased acquisition spend over the last three years, this has impacted the adjusted operating margin negatively by 30bps this year.

However, investment by the Group in these acquisitions to grow revenues, combined with synergy benefits, will generally improve margins in the 2-3 years post-acquisition and move them towards the Group's average.

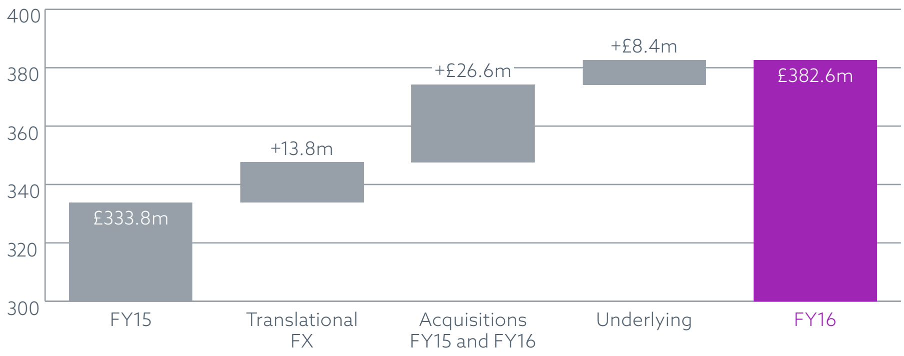
The Group's adjusted operating margin this year was also impacted positively by the mix of Group revenues and by the absence of one-off costs from last year's reorganisation in the Seals businesses. These together accounted for a 40bps improvement in the Group's adjusted operating margin.

Adjusted profit before tax, earnings per share and dividends

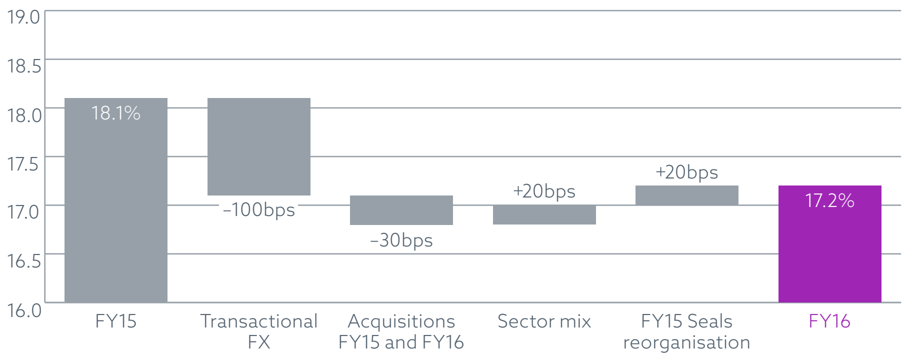
Adjusted profit before tax, which excludes the gain on sale of assets, increased by 9% to £64.9m (2015: £59.6m). The finance expense this year was £0.8m (2015: £0.7m) which included £0.4m (2015: £0.3m) of interest costs on borrowings drawn down during the year to help finance acquisitions. The notional interest expense on the Group's defined pension liabilities remained unchanged at £0.2m (2015: £0.2m) and £0.2m was paid as facility commitment fees.

Statutory profit before tax was £54.0m (2015: £51.8m), after acquisition related charges of £10.3m (2015: £7.4m), fair value remeasurements of £1.3m (2015: £0.4m) and a gain of £0.7m (2015: £Nil) on disposal of assets. The acquisition related charges largely comprise the amortisation of acquisition intangible assets and the fair value remeasurements relate to the put options held over minority interests. The increase in the charge for remeasurements reflects the increase in the liability to acquire these minority interests, all of which are overseas interests, as a result of the significant depreciation in UK sterling.

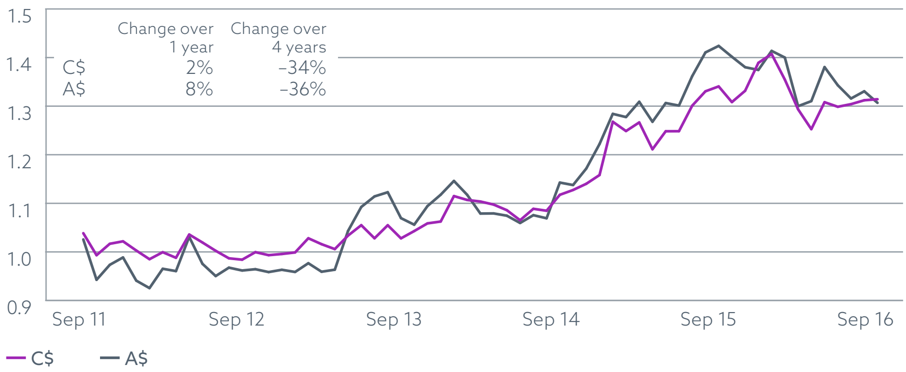
Underlying revenue bridge – FY2016 (£m)



Adjusted operating margin bridge – FY2016 (%)



Transactional impact base currency (US$)



The Group's effective tax charge on adjusted profit in 2016 was 60bps below the previous year at 25.7% of adjusted profit before tax. The charge this year benefited from a further reduction in the UK corporation tax rate to 20% (2015: 20.5%) and from lower tax rates applied to the businesses acquired during the past two years; however the effective tax rate in the US increased to 38% (2015: 36%) because of much lower manufacturing tax credits this year.

Adjusted earnings per share ("EPS") increased by 10% to 41.9p, compared with 38.2p last year and the statutory basic EPS increased to 33.9p (2015: 32.5p).

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 particularly strong free cash flow provides the Directors with confidence to recommend an increase in the final dividend of 11% to 13.8p per share (2015: 12.4p). This gives a total dividend per share for the year of 20.0p per share which represents a 10% increase on the prior year dividend of 18.2p. The dividend remains 2.1 times covered by adjusted EPS, unchanged from last year.

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Finance Review continued

Disposal of assets
The Group made a gain of £0.7m after tax on the sale of assets during the year and this is disclosed separately on the face of the Consolidated Income Statement. The Vantage Healthcare business in Canada disposed of the Medivators product line for consideration of £2.2m, after both expenses of sale and providing for the costs of integrating the retained Vantage business with its affiliate business, AMT based in Kitchener. A gain after tax of £0.3m was realised on this disposal. The Medivators product line accounted for ca.8% of DHG's total revenues in 2016, but only ca.3% of adjusted operating profit as a substantial part of the business's infrastructure, including a large proportion of Vantage's operational employees, were transferred to the purchaser as part of the transaction. During the year, the Group also sold three small legacy properties for aggregate proceeds of £2.3m which realised a gain of £0.4m after tax.

Free cash flow
The Group generated very strong free cash flow in 2016 which increased by £18.7m to £59.0m (2015: £40.3m). A reduction in working capital contributed £6.3m to cash resources (2015: outflow of £1.9m) and the proceeds from the sale of assets added a further £4.6m to free cash flow. Free cash flow represents cash available to invest in acquisitions or return to shareholders and this year represented a cash conversion of adjusted earnings of 124% (2015: 93%).

The Group's businesses continued to work hard during the second half of the year to further reduce working capital, particularly in a low growth economic environment. These efforts to reduce working capital were again largely focused on improving inventory procurement processes designed to constrain the growth in inventories across the Group's businesses.

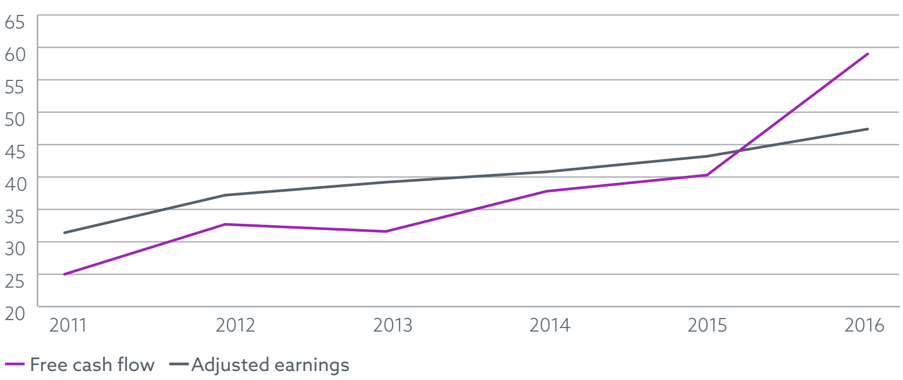
The Group's KPI performance metric of working capital as a proportion of revenue reduced to 16.6% at 30 September 2016, compared with 17.0% last year; this metric reduces to 15.3% on a constant currency basis.

Group tax payments increased by £2.2m to £17.6m (2015: £15.4m) and included £1.5m on pre-acquisition tax liabilities relating to Cablecraft and WCIS. On an underlying basis and before the currency effects of translation, cash tax payments represented ca.23% of adjusted profit before tax which was unchanged from last year.

The Group's capital expenditure this year was more modest at £3.7m, compared with £4.3m last year. Within this total expenditure, an initial £0.5m was invested by J Royal, a Seals business based in the US, on the construction of a new expanded facility, close by their existing facility in North Carolina. The total construction cost of this facility is expected to be ca.£2.5m on completion in April 2017 when it will be sold and leased back to the business. Operationally, a further £0.9m was invested by the Seals businesses during the year, including £0.5m on acquiring two new seal cutting machines, a new crane and other tooling equipment. A scheduled upgrade of the US Seals ERP system cost £0.2m and £0.2m was spent on general infrastructure improvements across the Sector.

In Life Sciences, Vantage saw its expenditure on funding equipment contracts on a cost per procedure ("CPP") basis reduce to £0.3m (2015: £1.0m). The investment in field equipment acquired in support of customer contracts with hospitals also reduced to £0.6m from £0.9m last year as the Canadian hospitals cut back their expenditure. The completion of the refurbishment of TPD's new leasehold facility in Ireland cost £0.6m and a further £0.4m was invested on general infrastructure improvements across the Sector, including IT upgrades.

Cash conversion (£m)



"The Group generated very strong free cash flow in 2016 which increased to £59.0m."

Capital expenditure in the Controls businesses remained very modest at £0.4m and included £0.2m on establishing a separate stand-alone warehouse and offices for Clarendon's developing specialty fasteners business in the existing IS-Group facility in Swindon. The remaining £0.2m was invested in new tooling and on upgrading IT infrastructure across the Sector.

The Company paid the PAYE income tax liability of £0.3m (2015: £1.0m) on the exercise of LTIP share awards, in exchange for reduced share awards to participants. No further shares in the Company were acquired by the Employee Benefit Trust this year, following last year's £0.7m expenditure on the acquisition of 100,000 shares.

The Group spent £32.7m of the free cash flow on acquisitions, as described below and £21.4m (2015: £19.9m) on paying dividends to both Company and minority shareholders.

Acquisitions completed during the year
The Group invested a further £32.7m in acquiring new businesses this year (2015: £37.8m), including £1.9m on acquiring outstanding minority interests and £0.7m of deferred consideration.

The largest investment this year of £21.3m was made in March 2016 to acquire Cablecraft, a leading supplier of cable accessory products, managed from its principal facility near Dunstable in the UK. A further £8.4m was invested in October 2015 to acquire the WCIS businesses in Australia and New Caledonia which supply gaskets, seals and associated products mainly to the Mining industry. In February 2016, a small connector business based in France was acquired for £0.4m by Filcon, to broaden its access to the European connector markets.

These acquisitions added £18.4m to the Group's acquired intangible assets, which represents the valuation of customer and supplier relationships which will be amortised over periods ranging from five to ten years. At 30 September 2016, the carrying value of the Group's acquired intangible assets was £54.6m. Goodwill increased by £25.9m to £115.2m at 30 September 2016; £11.8m related to businesses acquired during the year (including fair value adjustments to the assets acquired) and £14.1m reflected the impact on overseas goodwill from the depreciation in the UK sterling exchange rate.

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 was significant headroom on the valuation of this goodwill, compared with the carrying value of goodwill at the year end.

Liabilities to minority shareholders

The Group's liability to purchase outstanding minority shareholdings at 30 September 2016 decreased to £5.1m (2015: £5.7m), following the £1.9m purchase in July of an outstanding 10% minority shareholding in TPD. However, the liability at the year end was impacted by the substantial weakening in the UK sterling exchange rate which increased the UK sterling liability payable to these minorities which are all based overseas.

At 30 September 2016, there remain put options over the outstanding minority interests held in M Seals, Kentek and TPD which were valued at £5.1m, based on the Directors' latest estimate of the Earnings before Interest and Tax of these businesses when these options crystallise. None of these options are exercisable within the next year.

In addition to the liability to minority shareholders, the Group also has a liability at 30 September 2016 for deferred consideration of up to £1.7m (2015: £0.9m) which comprises the amount likely to be paid to the vendors of businesses purchased during the year, based on the Group's best estimate of the performance of these businesses next year. During the year, £0.7m was paid as deferred consideration relating to acquisitions completed in earlier years and £0.2m was released and was included as a deduction from acquisition related charges.

Return on adjusted trading capital employed and capital management

A key performance metric that the Group uses to measure 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 2016, the Group ROATCE had reduced to 21.1% (2015: 23.9%) which largely reflected the mismatch of a stronger average UK sterling exchange rate used to translate the operating profit of overseas businesses and the much weaker exchange rate used to translate the Adjusted TCE of these overseas businesses at the year end. Adjusted TCE is defined in note 2 to the consolidated financial statements.

The Group continues to maintain a strong balance sheet with net cash funds of £10.6m (2015: £3.0m) at 30 September 2016, comprising cash funds of £20.6m, offset by £10.0m of bank borrowings. Surplus cash funds are generally repatriated to the UK, unless they are required locally to meet certain commitments, including acquisitions.

On 7 March 2016, the Group exercised the final part of the accordion option within its existing revolving multi-currency credit facilities and increased its committed bank facility by £10.0m to the maximum available of £50.0m. These additional funds were provided at a cost of 30bps and were used to assist in financing the acquisition of Cablecraft. These bank facilities are committed until June 2017 and are used to meet any shortfall in cash to fund acquisitions. These facilities will be reviewed and extended or renewed at a similar amount during the first half of the next financial year.

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 2016 of £2.5m (2015: £2.3m).

The Group maintains a legacy 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 is being carried out as at 30 September 2016 and the results of this exercise will be reported in next year's Annual Report. In Switzerland, local law requires Kubo to provide a contribution based pension for all employees, which are funded by employer and employee contributions. This pension plan is managed for Kubo through a separate multi-employer plan of non-associated Swiss companies which pools the funding risk between participating companies.

The Group continues to make regular cash contributions to the UK scheme at an annual rate of £0.3m, as agreed with the scheme actuary, with the objective of closing the funding deficit over the next six years. However, given the substantial reduction in bond yields at 30 September 2016, compared with those used to value the pension liabilities at the last valuation in 2013, it is very likely that these cash contributions will have to be increased in future years to eliminate the funding deficit. In Switzerland, Kubo's annual cash contribution to the pension scheme is £0.3m (2015: £0.2m).

Both the UK defined benefit scheme and the Kubo contribution scheme are accounted for in accordance with IAS 19 (Revised). At 30 September, the aggregate accounting pension deficit in these two schemes increased by £7.4m to £17.2m because of a further significant reduction of bond yields compared to last year. The gross aggregate pension liability in respect of these two schemes at 30 September 2016 increased by £11.6m to £56.1m which is funded by £38.9m of assets.

Potential impact of Brexit

The outcome of the UK's Brexit vote to leave the European Union is unlikely to materially impact the Group's businesses at an operational level as only ca.25% of the Group's overall revenues are generated in the UK. In addition, these businesses, as well as those based in Continental Europe, are substantially "in country" industrial suppliers of goods with very little sales activity being carried out across country borders.

At a macroeconomic level however, the Group's financial results have already been, and are likely to continue to be, impacted by the rapid and substantial depreciation in UK sterling that followed the Brexit vote. This has resulted in gains to the Group's reported revenues, operating profits and net assets from translating the results of the Group's overseas businesses into UK sterling.

In addition, it is also likely that the Group's UK based businesses may be impacted to a lesser degree from substantially weaker UK sterling; this may have an adverse effect on their operating margins because of an increase in the cost of their goods purchased from overseas for sale in the UK.

The Group's UK businesses remain alert to these economic risks and are already taking action to mitigate the impact on their operating margins through a combination of seeking supplier cost reductions, price increases to customers and tight control over operating costs.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Internal Control and Risk Management

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 further 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.

The Group uses 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 a 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.

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.

The Board has also considered the risks associated with the UK's Brexit vote to leave the European Union and this is explained further on page 29 in the Finance Review.

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 2019. 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.

The Directors confirm that this review and analysis also considers the principal risks facing the Group, as described on pages 31 to 33 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.

Key
Increase
No change
Decrease

Strategic risk – Downturn in major markets

Risk description & assessment	Mitigation	Change
Adverse changes in the major markets in which the businesses operate can have a significant impact on performance. This year, a number of geopolitical and economic factors have caused uncertainty in our principal markets and caused volatility in the performance of key economies. The effects of these changes can 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, which are often specific to their application; this offers a degree of protection against customers quickly switching business to achieve a better price. • A high proportion of the Group's revenues comprises consumable products which are purchased as part of the customer's 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.	Increase

Strategic risk – Loss of key suppliers

Risk description & assessment	Mitigation	Change
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. Currently no single supplier represents more than 10% of Group revenue and only six 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.	No change

Strategic risk – Supplier strategy change

Risk description & assessment	Mitigation	Change
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.	No change

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Internal Control and Risk Management continued

Strategic risk – Loss of key customer(s)

Risk description & assessment	Mitigation	Change
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 is invested in ensuring that these customers are retained and encouraged not to switch to another supplier. In addition to providing high levels of customer service and value added activities, close integration is established where possible with customers' systems and processes.	→

Operational risk – Product liability

Risk description & assessment	Mitigation	Change
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 across 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 – Loss of key personnel

Risk description & assessment	Mitigation	Change
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 an impact on performance, for a limited time period. The average length of service of the ca.90 senior managers in the Group is 11 years and 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.	→

Key
Increase
No change
Decrease

Financial risk – Foreign currency – Translational exposure

Risk description & assessment	Mitigation	Change
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 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 2016, ca.75% of the Group's revenue and adjusted operating profits were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to increase revenue by £13.8m and increase adjusted operating profit by £2.7m. It is estimated that a strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £4.5m (7%), due to currency translation. Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2016, the Group's non-UK sterling trading capital employed in overseas businesses was £199.0m (2015: £171.4m), which represented 77% of the Group's trading capital employed. It is estimated that a strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £18.1m. Details of average exchange rates used in the translation of overseas earnings and of year-end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 29 to the consolidated financial statements.	The Group operates across a number of diverse geographies but does not hedge translational exposure.	Increase

Financial risk – Foreign currency – Transactional exposure

Risk description & assessment	Mitigation	Change
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.	Increase

Accounting risk – Inventory obsolescence

Risk description & assessment	Mitigation	Change
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 £1.1m 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.	No change

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Corporate Responsibility

Employees

Building and developing the skills, competencies, motivation and teamwork of employees is recognised by the Board as being essential to achieving the Group's business objectives. The stability and commitment of the employees is demonstrated by the average length of service which continues to remain 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	2016	2015	2014
Average number of employees in year	**1,602**	1,449	1,264
Females as percentage of total	**36%**	34%	35%
Length of service (years)	**6.7**	6.6	6.3
Average staff turnover	**24.9%**	23.0%	21.5%
Sick days lost per person	**3.0**	3.0	3.0

The Group encourages healthy lifestyles and the level of sick days lost per person is heavily influenced by a small number of employees who are on long term sick leave.

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

	2016		2015	
	Male	**Female**	Male	Female
Directors	**5**	**1**	6	2
Senior managers	**72**	**21**	71	19
Employees	**950**	**549**	910	497
Total	**1,027**	**571**	987	518

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 the 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 2016, the Group employed five disabled employees.

Employment policies throughout the Group have been established to comply with relevant local 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 Market Abuse Regulation of the Financial Conduct Authority, employees are required to seek approval of the Group Company Secretary 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 Chief Executive Officer 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 ensure compliance with 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.

The Group has this year introduced requirements for near miss reporting to ensure that Health & Safety hazards are proactively identified and appropriate mitigation put in place to ensure that they do not result in Health & Safety incidents.

	2016	2015	2014
Minor injuries	**87**	54	55
Reportable lost time incidents[1]	**11**	4	5
Minor injuries per 1,000 employees	**54.3**	37.3	43.5
Reportable lost time incidents[1] per 1,000 employees	**6.9**	2.8	4.0

1 Three or more days' absence from workplace.

The absolute level of minor injuries has increased this year and also increased when normalised to a rate per 1,000 employees. The vast majority of these minor injuries resulted in no lost time and were considered low level. The Group has improved its reporting of Health and Safety related issues and it is likely that the increased number of minor incidents is in part due to improved awareness and reporting. The number of reportable lost time incidents has also increased; over half of these reported incidents were less than five days' absence from the workplace. Owing to the nature of the Group's operations, the most common types of injury relate to minor cuts, slips/trips or manual handling injuries.

All injuries are fully investigated and corrective actions and preventative measures put in place to ensure that the incident 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 2016.

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 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
UK listed companies are required to report their global levels of Greenhouse Gas ("GHG") emissions in their Annual Report & Accounts. This 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 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	**2016**	2015
Direct emissions (Scope 1)	Natural gas	**714**	824
	Owned transport	**100**	94
Indirect emissions (Scope 2)	Electricity	**2,732**	2,226
Gross emissions		**3,547**	3,144
Tonnes CO_2e per £1m revenue		**9.3**	9.4

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.

A selection of community and charitable activities from the year include:

In North America
- Somagen Diagnostics supported the Canadian Blood Services in their Partners for Life programme and supports an academic award in Alberta, Canada for Biomedical Engineering Technology.
- Various charitable events at Hercules US including support to local charities such as United Way, Clothes To Kids, The Haven and Paul B. Stephens Exceptional School for Disabled Children.
- J Royal provided support for the National Pancreatic Cancer Foundation and the Save the Children Federation.

In Europe and Australia
- Kubo Group sponsored an athlete to enable them to compete in the Special Olympics.
- a1-CBISS took part in the Three Peaks Challenge and the Anglesey Half Marathon to support Claire's House Children's Hospice.
- WCIS in Australia took part in a sponsored walk to raise money for Breast Cancer Research.
- DSL in Australia built Billy Carts for the Children First Foundation which provides support and funding for children in developing countries for Healthcare services.
- Big Green Surgical supported the Bangla Smile Project by providing sterile disposable surgical instruments to help children in Bangladesh.
- FPE Seals supported Downs syndrome research by entering a team into the Great North Run and supported a breast cancer charity.
- Hawco Group supported a London to Paris cycle ride for Pancreatic Cancer UK and the Little Princess Trust which provides wigs for children with cancer.

The Group also contributes to local worthwhile causes and charities and in 2016 the Group made donations to charitable organisations of £44,958 (2015: £35,504). No political donations were made.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Board of Directors

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. He has 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 multinational 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 appointed Chairman of the Audit Committee on 17 November 2015.

Skills and experience:
Anne was 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.

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.

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

Corporate Governance

John Nicholas
Chairman

"We made good progress this year with delivering a number of the objectives we identified at our Strategy Meeting held in 2015."

Members of Board	Attendance
Chairman	
John Nicholas	7/7
Independent non-Executive Directors	
Marie-Louise Clayton (retired on 16 November 2015)	1/1
Andy Smith	7/7
Charles Packshaw	7/7
Anne Thorburn	7/7
Executive Directors	
Iain Henderson (retired on 20 January 2016)	2/2
Nigel Lingwood	7/7
Bruce Thompson	7/7

Dear Shareholder

This year has been a much quieter and more stable year in terms of Governance activities after the past two years during which the Board was substantially refreshed and more formal Governance policies and processes developed and implemented.

This period of stability has provided an opportunity for me to focus on both the principal tasks and objectives that arose from the Board's Strategic Review held in June last year and the recommendations that arose from the external evaluation of the Board carried out in September last year. Similarly, both Anne Thorburn and Andy Smith have this year settled into their new roles as Chairs of the Audit and Remuneration Committee respectively, following their appointments last year.

In June this year, the scheduled Board meeting was largely devoted to reviewing the progress achieved to date in addressing the key objectives and actions agreed at our Strategy Meeting held the previous year. One of these tasks related to the greater emphasis to be focused on finding high quality acquisitions and it was therefore very encouraging to have completed three new acquisitions this year which have both broadened the Group's activities into new geographies and market sectors. Overall I am satisfied that we have made good progress this year with delivering a number of the objectives we identified at our Strategy Meeting and we hope to continue with this next year.

We have an ongoing objective to ensure that the Board has an opportunity to meet with management and employees of our businesses by holding at least one scheduled Board meeting each year at one of the Group's operating companies. In March we visited the Clarendon facility in Leicester during which we received presentations from management of the Clarendon specialty fasteners businesses and had an opportunity to talk with employees who work at this facility. Further visits to our businesses have been planned for the next financial year.

Succession planning continues to be a principal focus of the Board. Following Iain Henderson's retirement from the Board earlier this year, good progress has been made by the Chief Executive Officer in setting up a formal Executive Management Group comprising a small group of senior managers drawn from across the businesses. The Board is encouraged by the breadth of experience and challenge this team has brought to the Group's operations and look forward to continuing this development in the future.

The coming financial year brings a busy work load to the Board with Anne Thorburn leading the Audit Committee's audit tender process as we approach the tenth year with Deloitte LLP as Company auditor and with Andy Smith commencing the formal triennial review of the Board's policies governing Directors' remuneration. The result of the audit tender is likely to be announced later in 2017 and the proposed policies on Directors' Remuneration will be put to shareholders for approval at the AGM in January 2018.

Finally, as ever I do hope that as shareholders in the Company you will be able to find time to attend our AGM on Wednesday, 18 January 2017. 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
21 November 2016

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 Code"). The previous Code published in September 2014 was revised with minor amendments and reissued by the Financial Reporting Council in April 2016. Set out on pages 39 to 61 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 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.

The Company's auditor Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the Provisions of the 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 Anne Thorburn
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: two

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

Remuneration Committee

Chaired by Andy Smith
Number of meetings in the year: four

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.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Corporate Governance continued

Leadership

Board composition

The Board currently comprises a Chairman, two Executive Directors and three independent non-Executive Directors. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Committee Report on page 53. The biographical details of the Board members are set out on pages 36 and 37.

John Nicholas is Chairman of the Board and the Nomination Committee. Each of the three independent non-Executive Directors performs additional roles; Charles Packshaw serves as Senior Independent Director, Andy Smith is Chairman of the Remuneration Committee and Anne Thorburn is Chairman of the Audit Committee.

Activities of the Board

The Company's governance framework is set out on page 39 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 for a formal review of the Company's strategy at the end of June 2015 in Zurich, Switzerland. The Board received a number of presentations and had thorough and challenging reviews with Executive management. In 2016, the Board reviewed progress against the objectives set at the Group strategy session and will undertake the next formal review in late 2017 or early 2018.

Meetings of the Board

The Board has this year increased its scheduled meetings in the financial year to seven, largely 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 meet more frequently if required.

The Board ensures that at least one of the scheduled meetings is held on site at one of the Group's facilities, where the Board has an opportunity to both receive presentations from local management and meet employees of that business. In June 2016 the Board's scheduled meeting reviewed the Group's strategic objectives identified at the strategy session held in 2015 and the Chief Executive Officer provided an update on the progress achieved in implementing these objectives.

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 Nomination Committee Report which is set out on page 47.

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. In 2016, the Board received presentations from senior management of the Clarendon specialty fasteners business.

Following the new appointments to the Board last year, a managed induction programme was set up which included a visit by each of the new non-Executive Directors to the major business units in each of the Group's Sectors where they have an opportunity to meet with senior management in these businesses. Meetings were also 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 specially 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 performances is presented by the Chairman to the Board and actions and objectives are agreed for the following year.

Following the externally led evaluation of the effectiveness of the Board carried out in 2015, the Board this year completed its annual evaluation of the Board's effectiveness using internal resources. The exercise encompassed an evaluation of the Board as a whole, the Board Committees and of individual Directors.

The externally led evaluation of the Board carried out in 2015 covered seven topics: Board role and responsibilities; oversight; arrangements for Board meetings; support of the Board; Board composition; working together and outcome and achievements.

The facilitator of this evaluation concluded last year that the Board's effectiveness was strong with an average score of 73% across each of the seven topics assessed. The facilitator also 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 controls over cyber-risk on a more regular basis. During the year, the Board received a Paper which set out both the risks that existed across the Group's businesses in connection with cyber-crime and the controls that had been set up at the larger business clusters to mitigate this risk. The Board also agreed to appoint a member of senior management who would have responsibility for monitoring and reporting to the Board any significant potential cyber-attacks on the Group's businesses.
- the Board should target a timetable for circulating Board papers and minutes to all members of the Board. A revised timetable has now been agreed and has been put into operation.

The internal Board evaluation which was carried out in August 2016 was less rigorous than the externally led evaluation carried out last year. The results of the review were satisfactory and there were no negative performance issues identified from the evaluation that related to individual Directors or the performance of the Board Committees.

The issues identified in this evaluation were more broadly focused on matters that the Board believed should be further developed for discussion at meetings of the Board. These matters included:

- competitive factors facing the principal businesses in each of the Sectors;
- potential impact of innovative or disruptive technologies on the Group's activities; and
- strategies to manage the Group in a post Brexit and potentially lower growth environment.

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 all of the 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.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Corporate Governance continued

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 ("the Articles") 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.

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 30 to 33 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 and Canada 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 Report & Accounts of the past seven years, current and historic share price information, news releases, and 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 are 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 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

Anne Thorburn
Chairman of the Audit Committee

"There is a strong culture across the Group of maintaining robust and effective systems of internal control."

Members of Committee:	Attendance
Anne Thorburn (Chairman, appointed on 17 November 2015)	6/6
Marie-Louise Clayton (retired on 16 November 2015)	1/1
Charles Packshaw	6/6
Andy Smith	6/6

Dear Shareholder
I was appointed to the Board in September last year and became Chairman of the Audit Committee in November. I completed a detailed induction process with excellent input from the executives and finance staff, particularly the Group Internal Audit Manager. I also visited a number of the larger business units and had discussions with senior operational management. I observed a strong culture across the Group of maintaining robust and effective systems of internal control over both financial and operational processes. I also noted a particular focus on rapid integration of new acquisitions to achieve the required Group standards.

While there were no significant new regulatory requirements to address this year, the Committee's agenda was very full and is described in detail on page 44. The Group's financial and operational policies and processes are well established and no significant control weaknesses were noted from the issues reviewed by the Committee during this year. However, it is important to continuously review and develop the risk management and control systems to support the ongoing growth of the Group. During 2016 we introduced an improved whistleblowing process and approved plans to increase the Internal Audit resource.

The Committee remains satisfied that the external auditor carries out a robust and effective audit with appropriate challenge of executive management. However, in 2017 we will be initiating an external audit tender process as Deloitte LLP approaches its ten year anniversary as Group auditor.

Finally, I look forward to meeting shareholders at the AGM on 18 January 2017 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
21 November 2016

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.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Audit Committee Report continued

Audit Committee

The Committee is chaired by Anne Thorburn and comprises three independent non-Executive Directors. The Chair of the Committee is a qualified accountant, who has recent and relevant financial experience.

The Audit Committee is satisfied that as a whole, the Committee has sufficient knowledge and competence in the Sectors in which the Group operates in order to provide appropriate challenge to management.

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 commenced its review of the Company's audit tender timetable and processes in preparation for the audit tender which is likely to carried out during the Spring/Summer of 2017. As part of this process, the Committee Chair arranged initial meetings with potential engagement partners from the audit firms that are likely to be asked to tender for the audit. This timing will ensure that there is sufficient opportunity, if necessary to transition the audit of the Group from the incumbent auditor to the auditor-elect. It is currently anticipated that the auditor-elect will shadow the audit of 30 September 2017 results, before taking on sole responsibility as auditor of the Company following the AGM in 2018.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 September 2016 and up to the date of this report.

Audit Committee Agenda – 2016

- 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 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 Trading Updates at meetings held in January, March and August.
- 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 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 auditor.
- Reviewed the Group's policy on whistleblowing and the introduction of a dedicated external telephone hotline service for all employees to raise concerns.
- Reviewed the Group's policy on non-audit services which may be provided by the auditor.
- Reviewed the ESMA guidance on "Alternative Performance Measures" to ensure that the Group's adjusted measures remained compliant.
- Reviewed the implications of FRS 101 that will impact the Group's UK statutory reporting companies, including the Parent Company, Diploma PLC.
- Reviewed terms and implications of the Competition & Markets Authority Order and the EU Audit Directive and Audit Regulation.
- 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 auditor to assess them.

The main issues reviewed in the year ended 30 September 2016 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 Sector being tested for impairment. These judgements are primarily the calculation of the discount rate, the achievability of strategic 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 are to be amortised. The Committee also discussed the fair value adjustments and the value attributed to deferred consideration. 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.

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 calculation of, and accounting for the gain on sale of assets in 2016, the Group's two pension scheme arrangements, (accounted for in accordance with IAS 19 (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 30 to 33.

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 pre-defined 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 into a separate Group management reporting system, operated by the Group finance department. There is no re-keying of financial data and very limited use is made of spreadsheets by the Group businesses to report monthly financial results. The Group finance department continues to develop the functionality of this management reporting system to provide greater insights into the activities of the Group's businesses. The Group's internal auditor regularly audits the base data at each business to ensure it is 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. In addition, senior management of each business are required to confirm their adherence with Group accounting policies, processes and systems of internal control by means of a representation letter addressed to 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 2015 to the date of this Report. Taking into account the matters set out on pages 30 to 33 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.

Audit Committee Report continued

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. The Audit Committee has approved the recruitment of an additional internal audit resource, to commence in the New Year and be based from the United Kingdom.

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 current year, with the exception of concerns reported in connection with weak systems of internal control in the recently acquired WCIS businesses. These weaknesses were quickly addressed by local management with the assistance of resources in Group Finance and the control environment has now been stabilised. More generally, recommendations were made on other internal audits this year relating to inadequate inventory reconciliations, weak user access controls in some ERP systems and more timely and detailed employee expense reporting.

As well as carrying out Internal Audit on financial transactions, work was also targeted this year to ensure high level controls were in place to mitigate the risk of cyber-attacks and on processes and documentation supporting foreign currency hedging.

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 formalising month end close procedures, policies for inventory provisioning and controls over supplier master file data.

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 services

The Committee has reviewed its internal guidelines covering the type of non-audit work that can be carried out by the external auditor of the Company, in light of the new regulation set out in the EU Audit Directive and Audit Regulation 2014. These Regulations came into force on 17 June 2016 and apply to the Company from 1 October 2017.

The Regulations substantially curtail those non-audit services which can be provided by the auditor to the Company and in particular, prohibits all tax related services, including compliance services as well as general advice, and all consultancy and advisory services. The Regulations require that Board approval is required if eligible non-audit services, such as due diligence and similar assurance services exceed 30% of the prior year Group audit fee and the Company may not allow eligible non-audit services to exceed 70% of the Group audit fee, calculated on a rolling three-year basis.

In Diploma PLC, taxation services are not provided by the Group's audit firm; a separate firm is retained to provide tax advice and any assistance with tax compliance matters generally. In addition, due diligence exercises on acquisitions and similar transactions are not provided by the auditor, but are placed with other firms.

The Group auditor is retained to carry out assurance services to the Committee in connection with carrying out "agreed upon procedures" on the Group's Half Year consolidated financial statements.

The Group Finance Director does not have delegated authority to engage the auditor to carry out any non-audit work, but must seek approval from the Chairman of the Audit Committee.

The Committee assures itself of the auditor's independence by receiving regular reports from the external auditor 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 £13,000 paid to Deloitte LLP during the year are set out in note 28 to the consolidated financial statements.

Sanctions

The Audit Committee continued to work with senior management of the Company, in conjunction with local management of Kentek's Russian operations, to ensure ongoing compliance with EU and US led sanctions. 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. These training programmes are regularly carried out and the e-learning training programme is being 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. The Committee approved the roll out of a dedicated 24/7 Whistleblowing Hotline across the Group. The Policy, together with Hotline posters are placed on site noticeboards across the Group. Employees are encouraged to raise concerns via the Hotline which is managed by an independent external company. Reports to the Hotline 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 Whistleblowing matters were reported to the Committee under this policy during the year.

Nomination Committee Report

Members of Committee	Attendance
John Nicholas (Chairman)	2/2
Marie-Louise Clayton (retired on 16 November 2015)	–
Charles Packshaw	2/2
Andy Smith	2/2
Anne Thorburn	2/2

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

The Group Company Secretary acts as 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 41.

Andy Smith and Anne Thorburn, the two non-Executive Directors appointed in 2015, completed their tailored induction programmes during 2016, having visited the larger facilities since appointment. The Chairman has reviewed and agreed the training and development needs of individual Directors and encourages them to continually update their skills, together with knowledge and familiarity with the Company to fulfil their role on the Board and Board Committees.

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 ("EMG") 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 activities. Members of the EMG were confirmed in the early part of the year and formal meetings over two days were held in March and September at which members of the EMG discussed key issues relating to both the shorter term challenges facing the Group and longer term development of strategy and operational initiatives.

The Committee also carries out a review of the Board's succession plans for management and their direct reports at a formal meeting of the Committee and the Board in January each year. This exercise also sets out development plans to target potential successor senior management in the Group over the next five years.

The Committee has also reviewed succession planning for the non-Executive Directors. While the Board has been recently refreshed, the Chairman's intention is to stagger retirement among the non-Executive Directors in order to maintain continuity and to preserve Board balance.

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 2016

- Completed the initial managed induction programmes of non-Executive Directors appointed in 2015.
- Evaluated the balance of skills, knowledge and experience on the Board and its diversity, including gender.
- Considered succession planning in relation to the Executive Directors and senior management.
- Reviewed Board members' register of conflicts of interest.

Remuneration Committee Report

Andy Smith
Chairman of the Remuneration Committee

"Our remuneration policies remain appropriate and continue to deliver a fair and balanced reward package."

Members of Committee:	Attendance
Andy Smith (Chairman)	4/4
Anne Thorburn	4/4
John Nicholas	4/4
Marie-Louise Clayton (retired on 16 November 2015)	–
Charles Packshaw	4/4

Dear Shareholder
Executive remuneration has been the subject of much analysis and debate generally this year and the Committee has noted the emerging views and trends. The Committee is confident that the Company's present policy, as approved by shareholders in January 2015, remains appropriate and continues to provide an effective mechanism to reward and incentivise Executives to deliver outstanding performance and achieve the Company's strategic objectives.

The Regulations governing Directors' remuneration require the remuneration policy to be reviewed during 2017 and this will enable the Committee to present an updated remuneration policy for shareholder approval at the AGM in January 2018. In carrying out the review, the Committee will take into account appropriate external guidance, including the recent publication on Principles of Remuneration issued by the Investment Association, and will consult as appropriate with the Company's larger shareholders.

This year's Annual Report on Remuneration is set out on pages 54–61 of the Annual Report. Remuneration policies have been applied without adjustment.

Base salaries for Executive Directors for the new financial year (that is, from 1 October 2016) have increased by 2.5% (2015: 3%) in line with general wage inflation and the increases applied generally across the Group's senior management cadre.

The financial element of the annual performance bonus paid to the Executive Directors this year was at 95% of the maximum (2015: 51% of the maximum) as determined by the targets set for the increase in adjusted earnings per share. The Group delivered an increase of 10% in adjusted EPS and the Committee considers the bonus payment to be an appropriate level of reward for a very strong performance in a global environment of sluggish growth.

The LTIP awards for the three years ended 30 September 2016 vested at 45% of the maximum (2015: 25%). This was determined by a compound increase of 7% p.a. in adjusted earnings per share and of 14% p.a. in total returns to shareholders over the period. The shareholder returns from Diploma PLC have for many years remained well above the median returns reported by the FTSE 250 Index, as shown in the graph on page 59, and, accordingly, the Committee considers the level of LTIP awards vesting to be appropriate.

As indicated in last year's Report, Iain Henderson retired as an Executive Director of the Company following the AGM on 20 January 2016 and from full-time employment with the Group on 31 March 2016. The Committee was clear that Iain should be treated as a "good leaver" given his performance and contribution over 18 years' service and this was communicated to all shareholders via the London Stock Exchange RNS at the time. Accordingly, Iain received his salary and contractual benefits up to 31 March 2016. His annual performance bonus and LTIP awards (including the award that would have vested at 30 September 2017) have been performance-tested as at 30 September 2016 and then reduced pro-rata to recognise Iain's actual employment period.

The Committee will continue to take an active role in reviewing the overall remuneration at senior levels in the organisation to ensure that they remain consistent with the actual performance delivered and effective in attracting and retaining the talent that the Group needs.

I look forward to meeting shareholders at this year's AGM on 18 January 2017 and will be pleased to answer any questions or concerns they have on the Company's remuneration policy.

Andy Smith
21 November 2016

Remuneration Committee

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

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 on 21 January 2015. This Policy, which was set out in the 2014 Annual Report, 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 2016. 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 and includes 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 at the AGM in January 2015, with the exception that the Committee has approved clawback provisions to PSP awards and the annual bonus plan granted to Executive Directors after 1 October 2015. This recommendation was included in the 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 2016

- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets and the subsequent bonus awards for 2016.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP and SMP awards made in 2013 which crystallised in 2016.
- Approved the exercise of nil cost options.
- Approved the 2016 Remuneration Committee Report.
- Reviewed the AGM 2016 votes on the 2015 Remuneration Committee Report.
- Reviewed the Committee's terms of reference.
- Maintained watching brief on external reports on Directors' remuneration.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Remuneration Committee Report continued

Directors' Remuneration Policy

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 adjusted 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 adjusted 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 have also been set for the Chief Operating Officer (for the six months until his retirement on 31 March 2016) and for 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 award

The Company operates a long term incentive award 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. At the minimum performance threshold, 25% of the PSP awards will vest.

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).

Remuneration Committee Report continued

Directors' Remuneration Policy

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

1 Retired from the Board on 20 January 2016.

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

Clawback provisions apply to PSP 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 PSP 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 PSP) 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	20 Jan 16	20 Jan 18
Charles Packshaw	1 Jun 13	20 Jan 16	1 Jun 19
Andy Smith	9 Feb 15	20 Jan 16	9 Feb 18
Anne Thorburn	7 Sep 15	20 Jan 16	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.

Remuneration Committee Report continued

Annual Report on Remuneration

The following section of this Report provides details of the implementation of the Remuneration Policy for all Directors for the year ended 30 September 2016. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors

Total remuneration in 2016 and 2015

	Bruce Thompson		Nigel Lingwood		Iain Henderson[1]	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Salary	**474**	460	**306**	297	**90**	286
Benefits	**24**	23	**19**	18	**4**	17
Pension	**95**	92	**61**	59	**18**	57
Annual performance bonus	**565**	294	**288**	181	**139**	174
Short term remuneration (cash)	**1,158**	869	**674**	555	**251**	534
Long term incentive plans – dividend equivalent (cash)	**6**	–	**4**	–	**3**	–
Long term incentive plans – performance element	**374**	204	**242**	132	**358**	127
Long term incentive plans – share appreciation element	**96**	66	**62**	43	**76**	41
Long term share price based remuneration (non-cash)	**470**	270	**304**	175	**434**	168
Total	**1,634**	1,139	**982**	730	**688**	702

1 Iain Henderson's salary, benefits and pension are for the 16 week period ended 20 January 2016 and includes the value of all long-term incentive awards.

The aggregate short term remuneration paid to the Executive Directors in the year ended 30 September 2016 was £2.1m (2015: £2.0m).

Iain Henderson retired as a Director of the Company on 20 January 2016 and from full-time employment on 31 March 2016, following 18 years' service. Iain Henderson was treated as a "good leaver" as he had played a major role in developing and implementing the growth strategy of the Group. Iain Henderson received full salary and contractual benefits (including pension contributions) up to the date of his retirement on 31 March 2016. Iain Henderson was also eligible for a pro-rated bonus up to a maximum of 50% of his annual salary for the year ended 30 September 2016. Iain Henderson's long-term incentive awards vested to the extent to which the applicable performance conditions were met, with pro-rating applied for time served, on the basis of 2.5 out of 3 years completed for awards which vested at 30 September 2016 and 1.5 out of 3 years completed for awards which would, but for his retirement, have vested at 30 September 2017, based on the testing of performance criteria for the two years ended 30 September 2016.

Base salary

The average base salary increase for Executive Directors which applied from 1 October 2015 was 3%, compared with 4% for the Group's senior management cadre. On 15 November 2016, the Committee approved an increase of 2.5% in base salaries for the Executive Directors which will apply in respect of the year beginning 1 October 2016.

Benefits

	2016				2015			
	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**	**10**	**1**	**24**	13	9	1	23
Nigel Lingwood	**11**	**7**	**1**	**19**	11	6	1	18
Iain Henderson[1]	**2**	**2**	**–**	**4**	10	6	1	17

1 Iain Henderson's benefits are for the 16 week period ended 20 January 2016.

Pension

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% (2015: 20%) of base salary were applied as follows:

	2016			2015		
	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	**95**	**–**	**95**	92	–	92
Nigel Lingwood	**61**	**–**	**61**	59	–	59
Iain Henderson[1]	**18**	**–**	**18**	57	–	57

1 Iain Henderson's pension contributions are for the 16 week period ended 20 January 2016.

Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2016 with regard to the following performance measures:

(1) Group financial objectives – Bruce Thompson: 100% of bonus. Nigel Lingwood and Iain Henderson: 75% of bonus

Performance measure	Performance in 2016	Overall assessment against targets
Adjusted EPS	The minimum performance target was 95% of 2015 adjusted EPS, the on-target performance was 39.0p (which was equivalent to 2% above 2015 adjusted EPS) and the maximum target was at least 10.5% growth above 2015 adjusted EPS. Adjusted EPS grew by 10% in reported terms. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE.	95% of maximum

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

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

Performance measure	Performance in 2016	Overall assessment against targets
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. Ensure compliance with FRC guidance and regulation. Contribute to strategic development of Group. Manage and develop Investor Relations programme.	90% of maximum
Iain Henderson	Delivery of specified projects. Orderly handover of responsibilities.	90% of maximum

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2016 is as follows:

	2016 actual bonus – as a percentage of 2016 base salary						2016 bonus delivered as cash
	Minimum	On-target	Maximum	Financial objectives	Individual performance objectives	Total bonus	£000
Bruce Thompson	5%	63%	125%	119.2%		119.2%	565
Nigel Lingwood	5%	50%	100%	71.0%	23.0%	94.0%	288
Iain Henderson[1]	5%	50%	100%	71.0%	23.0%	94.0%	139

1 Iain Henderson's bonus has been pro-rated for the six month period ended 31 March 2016.

The annual performance bonus for the financial year beginning 1 October 2016 will be in accordance with the Policy set out on page 51. The performance targets set for the annual performance bonus will be disclosed in next year's Annual Report & Accounts.

Long term incentive awards

Performance conditions

Set out below is a summary of the performance conditions that apply to both the long-term incentive awards which vest in 2016 and the outstanding PSP awards, including those granted in February 2015 and December 2015.

With effect from 1 October 2014, new PSP awards were granted at 175% of base salary; no further awards have been made under the SMP and the final SMP awards vested 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 2013, as set out below.

Remuneration Committee Report continued

Annual Report on Remuneration

The first performance condition for the PSP 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 (December 2013)	Percentage of existing awards vesting		New awards (from October 2014)	% of new awards vesting
Adjusted EPS growth (over three years)	PSP	SMP	Adjusted EPS growth (over three 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 (2013)	Percentage of existing awards vesting		New awards (from 2014)	% of new awards vesting
TSR relative to FTSE 250 Index (over three 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 2016

The PSP and SMP awards made to the Executive Directors on 9 December 2013 and the PSP award made to Iain Henderson on 5 February 2015, were subject to operating performance conditions as set out in the table above, independently assessed over a three year period ended 30 September 2016 and over a two year period ending 30 September 2016, respectively. The outcome of each award is shown in the table below:

Adjusted earnings per share:

	Base EPS	EPS at 30 Sep 2016	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (9 December 2013)	34.5p[1]	**41.9p**	6.7%	13.7%	50%	**22.8%**
SMP (9 December 2013)	34.5p[1]	**41.9p**	6.7%	16.7%	50%	**11.4%**
PSP (5 February 2015)[2]	36.1p	**41.9p**	7.7%	14.0%	50%	**23.8%**

1 Amended to reflect change in accounting policy for notional pension interest.
2 Award vesting to I Henderson only, following his retirement from the Board on 20 January 2016, as explained above.

TSR growth against FTSE 250 (excluding Investment Trusts)

	TSR at 30 Sep 2016	Median	Maximum target	Maximum award	Vested award
PSP (9 December 2013)	**14.3% p.a.**	6.7% p.a.	18.7% p.a.	50%	**37.0%**
SMP (9 December 2013)	**14.3% p.a.**	6.7% p.a.	21.7% p.a.	50%	**18.5%**
PSP (5 February 2015)[1]	**16.1% p.a.**	5.3% p.a.	19.1% p.a.	50%	**41.4%**

1 Award vesting to I Henderson only, following his retirement from the Board on 20 January 2016, as explained above.

As a result of the above performance conditions, 59.8% and 29.9% respectively, of the shares awarded as nil cost options vested to each director under the PSP and SMP awards made on 9 December 2013. In addition 65.2% of the shares awarded as nil cost options vested to Iain Henderson (only) under the PSP award made on 5 February 2015.

Set out below are the shares which vested to each Executive Director at 30 September 2016 in respect of these awards. The shares vesting to Iain Henderson are stated after each of the awards have been time pro-rated to reflect Iain Henderson's retirement as explained on page 54.

		Share price at date of grant pence	Share price at 30 Sep 2016 pence	Proportion of award vesting	Shares vested Number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson	– PSP	700.0p	879.0p	59.8%	35,624	249	64	313
	– SMP	700.0p	879.0p	29.9%	17,812	125	32	157
					53,436	374	96	470
Nigel Lingwood	– PSP	700.0p	879.0p	59.8%	23,066	161	42	203
	– SMP	700.0p	879.0p	29.9%	11,533	81	20	101
					34,599	242	62	304
Iain Henderson[3]	– PSP	700.0p	879.0p	59.8%	18,510	130	33	163
	– SMP	700.0p	879.0p	29.9%	9,255	65	16	81
	– PSP (2015)	755.5p	879.0p	65.2%	21,597	163	27	190
					49,362	358	76	434

1 The performance element represents the face value of awards 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 2016 or, in the case of Iain Henderson, the two year period ended 30 September 2016.
3 The awards for I Henderson have been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016 and pro-rated at 1.5 of 3 years for two year performance period ended 30 September 2016.

Dividend equivalent payments

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

Long term incentive plan – awards granted in the year

The CEO and Group Finance Director received grants of PSP awards on 17 December 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 page 56.

Outstanding share-based performance awards

Set out below is a summary of the share-based awards outstanding at 30 September 2016, 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 2013 and 175% of base salary for February and December 2015. No awards will vest unless the performance conditions set out on page 56 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 2015	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2016
Bruce Thompson									
9 December 2013	700.0p	417	30 Sep 2016	30 Sep 2016	59,571	–	35,624	23,947	–
5 February 2015	755.5p	805	30 Sep 2017	30 Sep 2017	106,552	–	–	–	106,552
17 December 2015	730.0p	829	30 Sep 2018	30 Sep 2018	–	113,630	–	–	113,630
Nigel Lingwood									
9 December 2013	700.0p	270	30 Sep 2016	30 Sep 2016	38,571	–	23,066	15,505	–
5 February 2015	755.5p	520	30 Sep 2017	30 Sep 2017	68,795	–	–	–	68,795
17 December 2015	730.0p	535	30 Sep 2018	30 Sep 2018	–	73,356	–	–	73,356
Iain Henderson[1]									
9 December 2013	700.0p	260	30 Sep 2016	30 Sep 2016	37,143	–	18,510	18,633	–
5 February 2015	755.5p	500	30 Sep 2017	30 Sep 2017	66,248	–	21,597	44,651	–

1 The awards for I Henderson have been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016 and pro-rated at 1.5 of 3 years for two year performance period ended 30 September 2016.

Remuneration Committee Report continued

Annual Report on Remuneration

Diploma PLC 2011 Share Matching Plan

	Market price at date of award	Face value of the award at date of grant £000	Pledged investment shares	End of performance period	Maturity date	Shares over which awards held at 1 Oct 2015	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2016
Bruce Thompson									
9 December 2013	700.0p	417	15,786	30 Sep 2016	30 Sep 2016	59,571	**17,812**	**41,759**	**–**
Nigel Lingwood									
9 December 2013	700.0p	270	10,221	30 Sep 2016	30 Sep 2016	38,571	**11,533**	**27,038**	**–**
Iain Henderson[1]									
9 December 2013	700.0p	260	9,843	30 Sep 2016	30 Sep 2016	37,143	**9,255**	**27,888**	**–**

1 The award for I Henderson has been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016.

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 2016 are set out on page 60.

Services from external advisors (unaudited)
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 long-term incentive plans and to clawback provisions.

The Committee also receives general advice from New Bridge Street on remuneration matters from time to time. 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	£856
New Bridge Street	Committee	General advice on Remuneration Policy	None	–
MEIS	Committee	Data analysis	None	£7,000

Shareholder voting at previous Annual General Meeting (unaudited)
The Remuneration Committee's Annual Report ("Report") for the year ended 30 September 2015 was approved by shareholders at the AGM held on 20 January 2016, with the following votes being cast:

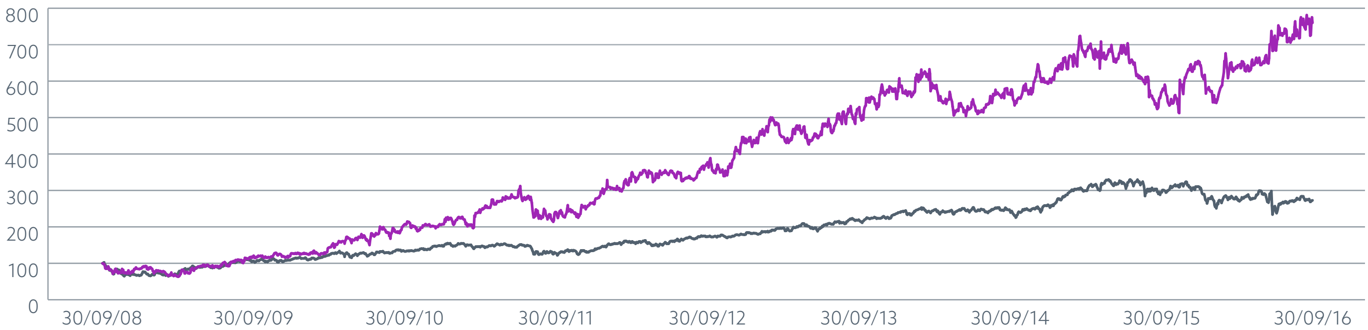
	Report	
Votes for	92,480,463	98.8%
Votes against	1,095,620	1.2%
Withheld	38,145	

There is no requirement to propose a resolution on the Directors' Remuneration Policy ("Policy") at the AGM held in 2017 and shareholders will next be asked to vote on the Remuneration Policy at the AGM in 2018, following a review of Policy in 2017. The votes in favour of the Policy at the AGM held on 21 January 2015 was 94.6%.

Aligning pay with performance (unaudited)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the eight-year period ended 30 September 2016 against the FTSE 250 Index as the Company is a member of this Index.

Growth in the value of a hypothetical £100 holding over eight 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.

Chief Executive Officer remuneration compared with annual growth in TSR

	2016	2015	2014	2013	2012	2011	2010	2009
Annual growth in TSR	**+36%**	–1%	+8%	+42%	+54%	+16%	+71%	+21%
	£000	£000	£000	£000	£000	£000	£000	£000
Salary, pensions and benefits	**593**	575	523	504	484	454	435	429
Annual performance bonus	**565**	294	339	164	367	360	345	102
Short term remuneration	**1,158**	869	862	668	851	814	780	531
Long term incentive plans (including dividend equivalent)	**476**	270	984	1,733	979	887	507	303
Chief Executive Officer total remuneration	**1,634**	1,139	1,846	2,401	1,830	1,701	1,287	834
Actual bonus as a percentage of the maximum	**95%**	51%	65%	33%	95%	100%	100%	30%
Actual share award vesting as a percentage of the maximum	**45%**	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	+3	+3	+3	+92	+33
Senior management cadre	+4	0	0	+17	+7

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.

Remuneration Committee Report continued

Annual Report on Remuneration

Relative importance of Executive Director remuneration (unaudited)

	2016 £m	2015 £m	Change £m
Total employee remuneration	75.8	63.8	12.0
Total dividends paid	21.0	19.7	1.3

Executive Directors' 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 2016 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2015	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2016[5]	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	2015	40,579	40,579	–	–	£1	Nov 2015	Dec 2022
	2016	–	–	53,436	53,436	£1	Nov 2016	Dec 2023
Nigel Lingwood	2015	26,311	26,311	–	–	£1	Nov 2015	Dec 2022
	2016	–	–	34,599	34,599	£1	Nov 2016	Dec 2023
Iain Henderson	2015	25,299	25,299	–	–	£1	Nov 2015	March 2017
	2016	–	–	49,362	49,362	£1	Nov 2016	March 2017

1 Bruce Thompson exercised 40,579 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £300,487.
2 Nigel Lingwood exercised 26,311 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £194,833.
3 Iain Henderson exercised 25,299 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £187,339.
4 On 11 December 2015, the aggregate number of shares received by the participants was reduced by 43,328 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 740.5p.
5 The closing price of an ordinary share on 30 September 2016 was 879.0p (2015: 665.0p).

Executive Directors' interests in ordinary shares

The Executive Directors' interests in ordinary shares of the Company were as follows:

	As at 30 Sep 2016[1]				As at 30 Sep 2015			
			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	850,000	53,436	220,182	–	993,385	40,579	166,123	59,571
Nigel Lingwood	275,000	34,599	142,151	–	275,000	26,311	107,366	38,571
Iain Henderson	506,022	–	103,391	37,143	517,912	25,299	103,391	37,143

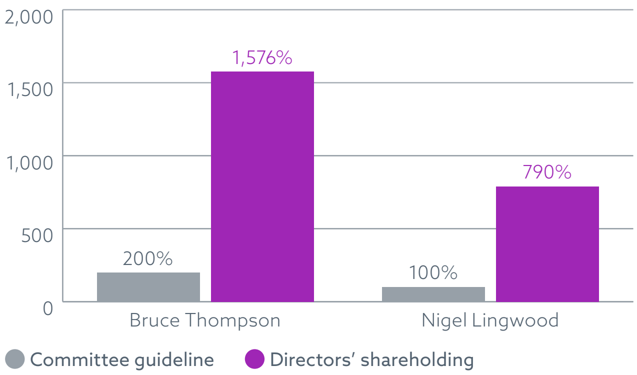
1 Iain Henderson's interests shown as at date of retirement from the Board on 20 January 2016 and are before vesting of these long-term incentive awards and before any pro-ration of awards.

Interests in ordinary shares include investment shares pledged under the Company's 2011 SMP and shares held through personal saving vehicles. As of 21 November 2016, 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 the Group Finance Director is 100% of base salary. The guidelines also require that, in relation to long-term incentive awards, vested shares (net of tax) should be retained by the individual until the required shareholding level is reached. As at 21 November 2016, both Executive Directors exceeded the applicable shareholding guidelines.

Shareholdings at 30 September 2016 against guidelines (%)



Nigel Lingwood was Senior Independent Director and Chairman of the Audit Committee at Creston plc and received £37,917 as fees during the year ended 30 September 2016.

Chairman and non-Executive Directors' remuneration

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

	Total fees	
	2016 £000	2015 £000
John Nicholas	**137**	106
Marie-Louise Clayton (retired on 16 November 2015)	**6**	46
Charles Packshaw	**52**	46
Andy Smith	**52**	29
Anne Thorburn (appointed on 7 September 2015)	**52**	4

The non-Executive Directors received a basic annual fee of £47,400 during the year and there were additional fees paid in 2016 of £5,000 (2015: £Nil) 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 2016, the Board approved an increase of 2.5% in the Chairman's fee to £140,400 per annum and in the total annual fee paid to non-Executive Directors to £53,600, both to take effect from 1 October 2016.

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 2016	As at 30 Sep 2015
John Nicholas	**5,000**	5,000
Charles Packshaw	**1,500**	1,500
Andy Smith	**5,500**	5,500
Anne Thorburn	**3,000**	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.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Directors' Report

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

Shareholders

Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England and 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 35; the Strategic Report on pages 1 to 35 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, 18 January 2017 in the Brewers Hall, Aldermanbury Square, London EC2V 7HR. A circular setting out the proposed resolutions, including a resolution to reappoint 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 18 November 2016, 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.	8.91
Mondrian Investment Partners Limited	7.21
Brown Brothers Harriman & Co.	6.15
Mawer Investment Management Limited	5.75
Royal London Asset Management Limited	5.14
BlackRock, Inc.	4.24
Standard Life Investments Limited	3.97

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 PLC Employee Benefit Trust

While ordinary shares are held within the Diploma PLC 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 PLC 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 20 January 2016. In the year ended 30 September 2016, the Company has not allotted any shares. These powers will expire at the conclusion of the 2017 AGM and resolutions to renew the Directors' powers are therefore included within the Notice of the AGM in 2017.

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 20 January 2016. In the year to 30 September 2016 the Company has not acquired any of its own shares. This authority will expire at the conclusion of the 2017 AGM and a resolution to renew the authority is therefore included within the Notice of the AGM in 2017.

Financial

Results and dividends

The profit for the financial year attributable to shareholders was £38.3m (2015: £36.7m). The Directors recommend a final dividend of 13.8p per ordinary share (2015: 12.4p), to be paid, if approved, on 25 January 2017. This, together with the interim dividend of 6.2p (2015: 5.8p) per ordinary share paid on 15 June 2016 amounts to 20.0p for the year (2015: 18.2p).

The results are shown more fully in the consolidated financial statements on pages 64 to 93 and summarised in the Finance Review on pages 26 to 29.

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 35. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 26 to 29. In addition, pages 77 to 79 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 30 to 33.

The Group also has a committed multi-currency revolving bank facility of £50.0m which expires on 23 June 2017. At 30 September 2016, the Group had cash funds of £20.6m and had borrowings of £10.0m. The Directors remain confident that these facilities will be extended or renewed before they expire on 23 June 2017.

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 IFRS 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) including FRS 101 ("Reduced Disclosures Framework").

The Group financial statements are required by law and IFRS as adopted by the EU, to present fairly the financial position and the performance of the Group; the Act 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 IFRS, 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 IFRS 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, are 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 21 November 2016 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 2016

	Note	2016 £m	2015 £m
Revenue	3,4	**382.6**	333.8
Cost of sales		**(245.4)**	(212.8)
Gross profit		**137.2**	121.0
Distribution costs		**(8.4)**	(6.8)
Administration costs		**(73.4)**	(61.3)
Operating profit	3	**55.4**	52.9
Gain on disposal of assets	23	**0.7**	–
Financial expense	6	**(2.1)**	(1.1)
Profit before tax		**54.0**	51.8
Tax expense	7	**(14.9)**	(14.4)
Profit for the year		**39.1**	37.4
Attributable to:			
Shareholders of the Company		**38.3**	36.7
Minority interests	21	**0.8**	0.7
		39.1	37.4
Earnings per share			
Basic and diluted earnings	9	**33.9p**	32.5p

Alternative Performance Measures (Note 2)

	Note	2016 £m	2015 £m
Operating profit		**55.4**	52.9
Add: Acquisition related charges	11	**10.3**	7.4
Adjusted operating profit	3,4	**65.7**	60.3
Deduct: Interest expense	6	**(0.8)**	(0.7)
Adjusted profit before tax		**64.9**	59.6
Adjusted earnings per share	9	**41.9p**	38.2p

The notes on pages 68 to 91 form part of these consolidated financial statements.

Consolidated Statement of Income and Other Comprehensive Income

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Profit for the year		**39.1**	37.4
Items that will not be reclassified to the Consolidated Income Statement			
Actuarial losses in the defined benefit pension schemes	26c	**(6.6)**	(1.9)
Deferred tax on items that will not be reclassified	7	**1.0**	0.4
		(5.6)	(1.5)
Items that may be reclassified to Consolidated Income Statement			
Exchange rate gains/(losses) on foreign currency net investments		**31.7**	(8.2)
Gains on fair value of cash flow hedges	19	**0.2**	1.5
Net changes to fair value of cash flow hedges transferred to the Consolidated Income Statement	19	**(1.5)**	(0.3)
Deferred tax on items that may be reclassified	7	**0.3**	(0.3)
		30.7	(7.3)
Total comprehensive income for the year		**64.2**	28.6
Attributable to:			
Shareholders of the Company		**62.7**	28.1
Minority interests		**1.5**	0.5
		64.2	28.6

Consolidated Statement of Changes in Equity

For the year ended 30 September 2016

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Shareholders' equity £m	Minority interests £m	Total equity £m
At 1 October 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		–	–	–	–	**–**	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)	**–**
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**
Total comprehensive income		–	31.0	(1.0)	32.7	**62.7**	1.5	**64.2**
Share-based payments	5	–	–	–	0.4	**0.4**	–	**0.4**
Minority interests acquired	21	–	–	–	2.0	**2.0**	(2.0)	**–**
Tax on items recognised directly in equity	7	–	–	–	0.1	**0.1**	–	**0.1**
Notional purchase of own shares		–	–	–	(0.3)	**(0.3)**	–	**(0.3)**
Dividends	8,21	–	–	–	(21.0)	**(21.0)**	(0.4)	**(21.4)**
At 30 September 2016		**5.7**	**30.5**	**0.2**	**197.1**	**233.5**	**4.3**	**237.8**

The notes on pages 68 to 91 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 September 2016

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill	10	**115.2**	89.3
Acquisition intangible assets	11	**54.6**	40.2
Other intangible assets	11	**1.0**	1.2
Investment	12	**0.7**	0.7
Property, plant and equipment	13	**23.7**	22.8
Deferred tax assets	14	**0.2**	0.4
		195.4	154.6
Current assets			
Inventories	15	**66.8**	56.6
Trade and other receivables	16	**59.9**	51.3
Cash and cash equivalents	18	**20.6**	23.0
		147.3	130.9
Current liabilities			
Trade and other payables	17	**(60.6)**	(45.1)
Current tax liabilities		**(2.7)**	(2.9)
Other liabilities	20	**(1.7)**	(2.5)
Borrowings	25	**(10.0)**	–
		(75.0)	(50.5)
Net current assets		**72.3**	80.4
Total assets less current liabilities		**267.7**	235.0
Non-current liabilities			
Borrowings	25	**–**	(20.0)
Retirement benefit obligations	26	**(17.2)**	(9.8)
Other liabilities	20	**(5.1)**	(4.1)
Deferred tax liabilities	14	**(7.6)**	(6.3)
Net assets		**237.8**	194.8
Equity			
Share capital		**5.7**	5.7
Translation reserve		**30.5**	(0.5)
Hedging reserve		**0.2**	1.2
Retained earnings		**197.1**	183.2
Total shareholders' equity		**233.5**	189.6
Minority interests	21	**4.3**	5.2
Total equity		**237.8**	194.8

The consolidated financial statements were approved by the Board of Directors on 21 November 2016 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

The notes on pages 68 to 91 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Operating profit		**55.4**	52.9
Acquisition related charges	24	**10.3**	7.4
Non-cash items	24	**4.6**	3.7
Decrease/(increase) in working capital	24	**6.3**	(1.9)
Cash flow from operating activities	24	**76.6**	62.1
Interest paid		**(0.6)**	(0.5)
Tax paid		**(17.6)**	(15.4)
Net cash from operating activities		**58.4**	46.2
Cash flow from investing activities			
Acquisition of businesses (including expenses)	22	**(30.1)**	(36.6)
Deferred consideration paid	20	**(0.7)**	(0.6)
Proceeds from sale of business (net of expenses)	23	**2.2**	–
Purchase of property, plant and equipment	13	**(3.5)**	(4.0)
Purchase of other intangible assets	11	**(0.2)**	(0.3)
Proceeds from sale of property, plant and equipment	23	**2.4**	0.1
Net cash used in investing activities		**(29.9)**	(41.4)
Cash flow from financing activities			
Acquisition of minority interests	20	**(1.9)**	(0.6)
Dividends paid to shareholders	8	**(21.0)**	(19.7)
Dividends paid to minority interests	21	**(0.4)**	(0.2)
Purchase of own shares by the Employee Benefit Trust		**–**	(0.7)
Notional purchase of own shares on exercise of share options		**(0.3)**	(1.0)
(Repayment)/proceeds of borrowings, net	25	**(10.0)**	20.0
Net cash used in financing activities		**(33.6)**	(2.2)
Net (decrease)/increase in cash and cash equivalents		**(5.1)**	2.6
Cash and cash equivalents at beginning of year		**23.0**	21.3
Effect of exchange rates on cash and cash equivalents		**2.7**	(0.9)
Cash and cash equivalents at end of year	18	**20.6**	23.0

Alternative Performance Measures (Note 2)

	Note	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents		**(5.1)**	2.6
Add: Dividends paid to shareholders	8	**21.0**	19.7
Dividends paid to minority interests	21	**0.4**	0.2
Acquisition of businesses (including expenses)	22	**30.1**	36.6
Acquisition of minority interests	20	**1.9**	0.6
Deferred consideration paid	20	**0.7**	0.6
Repayment/(proceeds) of borrowings, net	25	**10.0**	(20.0)
Free cash flow		**59.0**	40.3
Cash and cash equivalents	18	**20.6**	23.0
Borrowings	25	**(10.0)**	(20.0)
Net cash	25	**10.6**	3.0

The notes on pages 68 to 91 form part of these consolidated financial statements.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Notes to the Consolidated Financial Statements

For the year ended 30 September 2016

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 21 November 2016. These statements are presented in UK sterling, with all values rounded to the nearest 100,000, 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 FRS 101 "Reduced Disclosure Framework", and are set out in a separate section of the Annual Report & Accounts on pages 92 and 93.

2. Alternative performance measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) performance 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 including the tax impact on the items included in the calculation of adjusted profit, 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

The Chief Operating Decision Maker ("CODM") for the purposes of IFRS 8 is the Chief Executive. The financial performance of the segments are reported to the CODM on a monthly basis and this information is used to allocate resources on an appropriate basis.

For management reporting purposes, the Group is organised into three main reportable 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 35. 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, acquisition 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 2016 £m	Life Sciences 2015 £m	Seals 2016 £m	Seals 2015 £m	Controls 2016 £m	Controls 2015 £m	Group 2016 £m	Group 2015 £m
Revenue – existing	**109.9**	103.1	**159.9**	139.6	**96.5**	91.1	**366.3**	333.8
– acquisitions	**–**	–	**6.7**	–	**9.6**	–	**16.3**	–
Revenue	**109.9**	103.1	**166.6**	139.6	**106.1**	91.1	**382.6**	333.8
Adjusted operating profit – existing	**19.6**	21.0	**27.5**	24.8	**16.2**	14.5	**63.3**	60.3
– acquisitions	**–**	–	**0.7**	–	**1.7**	–	**2.4**	–
Adjusted operating profit	**19.6**	21.0	**28.2**	24.8	**17.9**	14.5	**65.7**	60.3
Acquisition related charges	**(2.9)**	(3.1)	**(5.0)**	(3.6)	**(2.4)**	(0.7)	**(10.3)**	(7.4)
Operating profit	**16.7**	17.9	**23.2**	21.2	**15.5**	13.8	**55.4**	52.9

	Life Sciences 2016 £m	Life Sciences 2015 £m	Seals 2016 £m	Seals 2015 £m	Controls 2016 £m	Controls 2015 £m	Group 2016 £m	Group 2015 £m
Operating assets	**35.1**	31.4	**70.3**	60.0	**44.4**	36.0	**149.8**	127.4
Investment	**–**	–	**0.7**	0.7	**–**	–	**0.7**	0.7
Goodwill	**52.8**	44.9	**39.1**	29.6	**23.3**	14.8	**115.2**	89.3
Acquisition intangible assets	**10.6**	13.0	**30.4**	25.4	**13.6**	1.8	**54.6**	40.2
	98.5	89.3	**140.5**	115.7	**81.3**	52.6	**320.3**	257.6
Unallocated assets:								
– Deferred tax assets							**0.2**	0.4
– Cash and cash equivalents							**20.6**	23.0
– Corporate assets							**1.6**	4.5
Total assets	**98.5**	89.3	**140.5**	115.7	**81.3**	52.6	**342.7**	285.5
Operating liabilities	**(17.9)**	(14.7)	**(22.9)**	(16.2)	**(18.8)**	(13.5)	**(59.6)**	(44.4)
Unallocated liabilities:								
– Deferred tax liabilities							**(7.6)**	(6.3)
– Retirement benefit obligations							**(17.2)**	(9.8)
– Acquisition liabilities							**(6.8)**	(6.6)
– Corporate liabilities							**(3.7)**	(3.6)
– Borrowings							**(10.0)**	(20.0)
Total liabilities	**(17.9)**	(14.7)	**(22.9)**	(16.2)	**(18.8)**	(13.5)	**(104.9)**	(90.7)
Net assets	**80.6**	74.6	**117.6**	99.5	**62.5**	39.1	**237.8**	194.8
Other Sector information								
Capital expenditure	**1.9**	2.5	**1.4**	1.5	**0.4**	0.3	**3.7**	4.3
Depreciation and amortisation	**2.0**	1.7	**1.9**	1.3	**0.6**	0.5	**4.5**	3.5

Alternative Performance Measures (Note 2)

	Life Sciences 2016 £m	Life Sciences 2015 £m	Seals 2016 £m	Seals 2015 £m	Controls 2016 £m	Controls 2015 £m	Group 2016 £m	Group 2015 £m
Net assets	**80.6**	74.6	**117.6**	99.5	**62.5**	39.1	**237.8**	194.8
Add/(less):								
– Deferred tax, net							**7.4**	5.9
– Retirement benefit obligations							**17.2**	9.8
– Acquisition liabilities							**6.8**	6.6
– Net cash funds							**(10.6)**	(3.0)
Reported trading capital employed							**258.6**	214.1
– Historic goodwill and acquisition related charges, net of deferred tax	**28.0**	25.0	**22.7**	20.2	**8.5**	8.4	**59.2**	53.6
Adjusted trading capital employed	**108.6**	99.6	**140.3**	119.7	**71.0**	47.5	**317.8**	267.7
ROATCE[1]	**17.7%**	21.1%	**20.1%**	23.7%	**28.9%**	30.5%	**21.1%**	23.9%

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

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Strategic Report
Governance
Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2016

4. Geographic segment analysis by origin

	Revenue		Adjusted operating profit		Non-current assets[1]		Trading capital employed		Capital expenditure	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
United Kingdom	**97.4**	87.7	**16.1**	14.5	**42.3**	25.2	**59.6**	42.7	**0.5**	0.4
Rest of Europe[2]	**105.6**	77.1	**15.6**	11.7	**73.8**	57.1	**91.8**	71.6	**1.2**	0.5
North America[3]	**179.6**	169.0	**34.0**	34.1	**78.4**	71.2	**107.2**	99.8	**2.0**	3.4
	382.6	333.8	**65.7**	60.3	**194.5**	153.5	**258.6**	214.1	**3.7**	4.3

1 Non-current assets exclude the investment and deferred tax assets.
2 Rest of Europe includes the Australian Seals businesses.
3 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 48 to 61. The amount charged against operating profit in the year in respect of Director short term remuneration was in aggregate £2.4m (2015: £2.3m). The charge for share-based payments of £0.4m (2015: £0.5m) relates to the Group's Long Term Incentive Plan ("LTIP"), described in the Remuneration Committee Report. The fair value of services provided as consideration for part of the grant of the LTIP awards has been based on a predicted future value model and was £0.2m (2015: £0.2m).

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

	2016 £m	2015 £m
Wages and salaries	**66.5**	55.9
Social security costs	**6.4**	5.1
Pension costs	**2.5**	2.3
Share-based payments	**0.4**	0.5
	75.8	63.8

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

	2016 Number	2015 Number
Life Sciences	**387**	379
Seals	**813**	722
Controls	**388**	335
Corporate	**14**	13
Number of employees – average	**1,602**	1,449
Number of employees – year end	**1,598**	1,505

6. Financial expense

	2016 £m	2015 £m
Interest expense and similar charges		
– bank facility and commitment fees	**(0.2)**	(0.2)
– interest payable on bank and other borrowings	**(0.4)**	(0.3)
– notional interest expense on the defined benefit pension scheme (note 26b)	**(0.2)**	(0.2)
Interest expense and similar charges	**(0.8)**	(0.7)
– fair value remeasurement of put options (note 20)	**(1.3)**	(0.4)
Financial expense	**(2.1)**	(1.1)

The fair value remeasurement of £1.3m (2015: £0.4m) comprises £0.5m (2015: £0.5m) which relates to an unwinding of the discount on the liability for future purchases of minority interests and a movement in the fair value of the put options of £0.8m debit (2015: £0.1m credit).

7. Tax expense

	2016 £m	2015 £m
Current tax		
The tax charge is based on the profit for the year and comprises:		
UK corporation tax	**2.9**	2.6
Overseas tax	**13.7**	12.5
	16.6	15.1
Adjustments in respect of prior year:		
UK corporation tax	**(0.2)**	(0.1)
Overseas tax	**(0.2)**	0.4
Total current tax	**16.2**	15.4
Deferred tax		
The net deferred tax credit based on the origination and reversal of timing differences comprises:		
United Kingdom	**(1.6)**	(1.0)
Overseas	**0.3**	–
Total deferred tax	**(1.3)**	(1.0)
Total tax on profit for the year	**14.9**	14.4

In addition to the above credit for deferred tax included in the Consolidated Income Statement, deferred tax relating to the retirement benefit scheme and cash flow hedges of £1.3m was credited (2015: £0.1m credit) directly to the Consolidated Statement of Income and Other Comprehensive Income. A further £0.1m (2015: £Nil) 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 £0.1m (2015: £Nil) less a deferred tax charge of £Nil (2015: £Nil).

The gain on disposal of assets during the year included a net credit of £0.3m as described in note 23. This comprised a £0.5m deferred tax credit that was partially offset by a £0.2m current tax 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 20.0% to the profit before tax of £54.0m and the amount set out above is as follows:

	2016 £m	2015 £m
Profit before tax	**54.0**	51.8
Tax on profit at UK effective corporation tax rate of 20.0% (2015: 20.5%)	**10.8**	10.6
Effects of:		
– change in UK tax rates	**(0.1)**	–
– higher tax rates on overseas earnings	**4.1**	3.7
– adjustments to tax charge in respect of previous years	**(0.4)**	0.3
– other permanent differences	**0.5**	(0.2)
Total tax on profit for the year	**14.9**	14.4

The Group earns its profits in the UK and overseas. The UK corporation tax rate was unchanged at 20.0%. 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 2016 was also 20.0% (2015: 20.5%) and this rate has been used for tax on profit in the above reconciliation. The Group's net overseas tax rate is higher than that in the UK, primarily because the profits earned in the US are taxed at rates of up to ca.38%.

The UK deferred tax assets and liabilities at 30 September 2016 have been calculated based on the future UK corporation tax rate of 17.0%, substantively enacted at 30 September 2016.

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8. Dividends

	2016 pence per share	2015 pence per share	2016 £m	2015 £m
Interim dividend, paid in June	**6.2**	5.8	**7.0**	6.6
Final dividend of the prior year, paid in January	**12.4**	11.6	**14.0**	13.1
	18.6	17.4	**21.0**	19.7

The Directors have proposed a final dividend in respect of the current year of 13.8p per share (2015: 12.4p) which will be paid on 25 January 2017, subject to approval of shareholders at the Annual General Meeting on 18 January 2017. The total dividend for the current year, subject to approval of the final dividend, will be 20.0p per share (2015: 18.2p).

The Diploma PLC Employee Benefit Trust holds 172,577 (2015: 221,438) shares, which are ineligible 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 113,058,835 (2015: 113,007,084) and the profit for the year attributable to shareholders of £38.3m (2015: £36.7m). There are no potentially dilutive shares.

Adjusted earnings per share

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

	2016 pence per share	2015 pence per share	2016 £m	2015 £m
Profit before tax			**54.0**	51.8
Tax expense			**(14.9)**	(14.4)
Minority interests			**(0.8)**	(0.7)
Earnings for the year attributable to shareholders of the Company	**33.9**	32.5	**38.3**	36.7
Acquisition related charges	**9.1**	6.5	**10.3**	7.4
Fair value remeasurement of put options	**1.1**	0.4	**1.3**	0.4
Gain on disposal of assets	**(0.6)**	–	**(0.7)**	–
Tax effects on acquisition related charges and fair value remeasurements	**(1.6)**	(1.2)	**(1.8)**	(1.3)
Adjusted earnings	**41.9**	38.2	**47.4**	43.2

10. Goodwill

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2014	44.2	21.0	15.0	80.2
Acquisitions	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
Acquisitions (note 22)	–	4.0	7.8	11.8
Exchange adjustments	7.9	5.5	0.7	14.1
At 30 September 2016	**52.8**	**39.1**	**23.3**	**115.2**

The Group tests goodwill for impairment generally twice a year. For the purposes of impairment testing, goodwill is allocated to each of the Group's three operating Sectors. This reflects the lowest level within the Group at which goodwill is monitored by management and 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 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 2017 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.11% (2015: 12%). 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 2014	41.3	15.6	2.5	59.4	2.9
Additions	–	–	–	–	0.3
Acquisitions	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
Additions	–	–	–	–	0.2
Acquisitions (note 22)	18.4	–	–	18.4	–
Disposals	(0.9)	(3.6)	–	(4.5)	(0.2)
Exchange adjustments	8.8	3.3	0.3	12.4	1.8
At 30 September 2016	**78.6**	**21.8**	**2.9**	**103.3**	**5.6**
Amortisation					
At 1 October 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
Charge for the year	6.9	2.2	0.2	9.3	0.5
Disposals	(0.5)	(2.6)	–	(3.1)	–
Exchange adjustments	3.8	1.7	0.2	5.7	1.5
At 30 September 2016	**33.3**	**12.9**	**2.5**	**48.7**	**4.6**
Net book value					
At 30 September 2016	**45.3**	**8.9**	**0.4**	**54.6**	**1.0**
At 30 September 2015	29.2	10.5	0.5	40.2	1.2

Acquisition related charges are £10.3m (2015: £7.4m) and comprise £9.3m (2015: £6.9m) of amortisation of acquisition intangible assets, £1.2m of acquisition expenses (2015: £0.5m) and a credit of £0.2m relating to adjustments to deferred consideration (2015: £Nil).

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 IT equipment and includes software licences.

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12. Investment

	2016 £m	2015 £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 2016, 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 2014	8.6	2.8	10.5	5.5	27.4
Additions	–	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[1]	–	–	–	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
Additions[2]	0.5	0.9	1.2	0.9	3.5
Acquisitions	–	0.2	0.7	–	0.9
Disposals	(2.2)	(0.9)	(1.5)	(0.8)	(5.4)
Transfers	(1.5)	–	1.5	–	–
Exchange adjustments	2.4	0.6	4.6	1.9	9.5
At 30 September 2016	**15.0**	**3.6**	**19.3**	**9.4**	**47.3**
Depreciation					
At 1 October 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
Charge for the year	0.5	0.4	1.7	1.4	4.0
Disposals	(0.2)	(0.9)	(1.4)	(0.4)	(2.9)
Exchange adjustments	0.8	0.8	4.1	0.8	6.5
At 30 September 2016	**3.9**	**1.5**	**12.7**	**5.5**	**23.6**
Net book value					
At 30 September 2016	**11.1**	**2.1**	**6.6**	**3.9**	**23.7**
At 30 September 2015	13.0	1.6	4.5	3.7	22.8

1 During 2015, £1.2m of inventory relating to hospital field equipment held in Diploma Healthcare Group in support of customer contracts was transferred from inventory to hospital field equipment.
2 During the year, the Group spent £0.5m on constructing a new facility in Clemmons, US for J Royal. The facility is expected to be completed in April 2017 when it will be sold and leased back to the business.

Land included within freehold properties above, but which is not depreciated, is £3.4m (2015: £4.2m). Capital commitments contracted, but not provided, were £1.9m (2015: £0.1m) relating to the remaining costs associated with the development of a new facility for J Royal.

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 2016 is £1.0m (2015: £1.0m), with a book value of £Nil.

14. Deferred tax

The movement on deferred tax is as follows:

	2016 £m	2015 £m
At 1 October	(5.9)	(3.3)
Credit for the year (note 7)	1.3	1.0
Acquisitions (note 22)	(3.7)	(4.0)
Disposals	0.5	–
Accounted for in Other Comprehensive Income	1.3	0.1
Exchange adjustments	(0.9)	0.3
At 30 September	(7.4)	(5.9)

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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Property, plant and equipment	0.4	0.3	(1.8)	(1.8)	(1.4)	(1.5)
Goodwill and intangible assets	–	–	(11.4)	(8.0)	(11.4)	(8.0)
Retirement benefit obligations	3.1	2.0	–	–	3.1	2.0
Inventories	1.4	1.1	–	–	1.4	1.1
Share-based payments	0.2	0.2	–	–	0.2	0.2
Trading losses	0.2	0.3	–	–	0.2	0.3
Other temporary differences	0.8	0.6	(0.3)	(0.6)	0.5	–
	6.1	4.5	(13.5)	(10.4)	(7.4)	(5.9)
Deferred tax offset	(5.9)	(4.1)	5.9	4.1	–	–
	0.2	0.4	(7.6)	(6.3)	(7.4)	(5.9)

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 £4.5m (2015: £3.2m).

15. Inventories

	2016 £m	2015 £m
Finished goods	66.8	56.6

Inventories are stated net of impairment provisions of £7.8m (2015: £5.9m). During the year £1.1m (2015: £1.5m) was recognised as a charge against operating profit, comprising the write-down of inventories to net realisable value.

16. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	55.5	45.4
Less: impairment provision	(0.7)	(0.6)
	54.8	44.8
Other receivables	2.4	4.0
Prepayments and accrued income	2.7	2.5
	59.9	51.3

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

	2016 £m	2015 £m
UK sterling	18.2	14.5
US dollars	11.7	9.9
Canadian dollars	8.5	8.2
Euro	9.8	8.1
Other	7.3	4.7
	55.5	45.4

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16. Trade and other receivables continued

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

	2016 £m	2015 £m
Not past due	45.6	36.9
Past due, but not impaired	9.2	7.9
Past due, but impaired	0.7	0.6
	55.5	45.4

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

	2016 £m	2015 £m
Up to one month past due	7.6	5.9
Between one and two months past due	1.2	1.4
Between two and four months past due	0.3	0.5
Over four months past due	0.1	0.1
	9.2	7.9

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

	2016 £m	2015 £m
At 1 October	0.6	0.5
Charged against profit, net	0.1	0.3
Set up on acquisition	–	0.1
Utilised by write-off	–	(0.3)
At 30 September	0.7	0.6

17. Trade and other payables

	2016 £m	2015 £m
Trade payables	35.8	25.8
Other payables	2.7	2.0
Other taxes and social security	4.3	3.1
Accruals and deferred income	17.8	14.2
	60.6	45.1

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

	2016 £m	2015 £m
UK sterling	9.2	6.8
US dollars	14.8	10.5
Canadian dollars	0.9	0.5
Euro	8.7	6.8
Other	2.2	1.2
	35.8	25.8

18. Cash and cash equivalents

	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2016 Total £m	UK £m	US$ £m	C$ £m	Euro £m	Other £m	2015 Total £m
Cash at bank	6.9	3.5	1.8	2.6	2.1	16.9	4.5	4.7	1.5	3.2	2.6	16.5
Short term deposits	3.0	0.2	0.2	–	0.3	3.7	6.0	–	0.2	–	0.3	6.5
	9.9	3.7	2.0	2.6	2.4	20.6	10.5	4.7	1.7	3.2	2.9	23.0

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 33 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 no significant unrecoverable trade receivables; there have been no other significant trade receivables written off in the past five years other than £0.2m written off in 2015.

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 2016 £m	Carrying amount 2015 £m
Trade receivables	**54.8**	44.8
Other receivables	**2.4**	4.0
Cash and cash equivalents	**20.6**	23.0
	77.8	71.8

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 2016 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 £50.0m revolving bank facility which expires on 23 June 2017. During the year the Group exercised an accordion option in respect of £10.0m and increased the committed bank facility to the maximum facility of £50.0m in order to provide cash resources to complete an acquisition during the year. Interest on this facility is payable at between 120 and 170bps over LIBOR, depending on the ratio of net debt to EBITDA. The Group will review its bank facilities during the next financial year. At 30 September 2016, £10.0m of the facility had been drawn down (2015: £20.0m).

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

	2016 £m	2015 £m
Expiring within one year	**40.0**	–
Expiring within two years	**–**	20.0
Expiring after two years	**–**	–

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19. Financial instruments continued

The Group's financial liabilities are as follows:

	Carrying amount 2016 £m	2015 £m
Trade payables	**35.8**	25.8
Other payables	**2.7**	2.0
Other liabilities (note 20)	**6.8**	6.6
	45.3	34.4
The maturities of the undiscounted financial liabilities are as follows:		
Less than one year	**40.2**	30.5
One to two years	**2.0**	0.6
Two to five years	**3.9**	4.7
	46.1	35.8
Less: discount	**(0.8)**	(1.4)
	45.3	34.4

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 and Euros. 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 £0.8m (2015: £0.2m) 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 2016 was £25.9m (2015: £25.2m). The net fair value of forward foreign exchange contracts used as hedges at 30 September 2016 was £0.2m (2015: £1.2m). The amount removed from Other Comprehensive Income and taken to the Consolidated Income Statement in cost of sales during the year was £1.5m (2015: £0.3m). The change in the fair value of cash flow hedges taken to Other Comprehensive Income during the year was £0.2m (2015: £1.5m).

Management considers that the most significant foreign exchange risk relates to the US dollar, Canadian dollar and Euro. The Group's sensitivity to a 10% strengthening in UK sterling against each of these currencies (with all other variables held constant) is as follows:

	2016 £m
Decrease in adjusted operating profit (at average rates)	
US dollar: UK sterling	**(1.8)**
Canadian dollar: UK sterling	**(1.4)**
Euro: UK sterling	**(0.9)**
Decrease in total equity (at spot rates)	
US dollar: UK sterling	**(4.3)**
Canadian dollar: UK sterling	**(7.9)**
Euro: UK sterling	**(1.6)**

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

	2016 £m	2015 £m
Future purchases of minority interests	**5.1**	5.7
Deferred consideration	**1.7**	0.9
	6.8	6.6
Analysed as:		
Due within one year	**1.7**	2.5
Due after one year	**5.1**	4.1

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

	2016 £m	2015 £m
At 1 October	**5.7**	3.5
Acquisition of minority interest on exercise of option	**(1.9)**	(1.4)
Put options entered into during the year	**–**	3.2
Unwinding of discount	**0.5**	0.5
Fair value remeasurements	**0.8**	(0.1)
At 30 September	**5.1**	5.7

At 30 September 2016, the Group retained put options to acquire minority interests in TPD, Kentek and M Seals. On 14 July 2016 and following the exercise of a put option, the Group acquired 10% of the minority interest outstanding in TPD for total consideration of £1.9m (€2.3m).

At 30 September 2016, 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 2016.

This led to a remeasurement of the fair value of these put options and the liability was increased by £0.8m (2015: reduced by £0.1m) which related to foreign exchange and by a £0.5m (2015: £0.5m) charge from unwinding the discount on the liability. In aggregate £1.3m (2015: £0.4m) has been charged to the Consolidated Income Statement.

The put options to acquire the remaining minority interest of 10% held in TPD are exercisable in November 2017 and November 2019; the put option to acquire the minority interest of 10% held in M Seals and the 10% held in Kentek are exercisable in October 2018.

Deferred consideration comprises the following:

	2016 £m	2015 £m
Kentek	**–**	0.8
HPS	**–**	0.1
WCIS	**0.6**	–
Cablecraft	**1.0**	–
Ascome	**0.1**	–
At 30 September	**1.7**	0.9

The amounts outstanding at 30 September 2016 are expected to be paid within the next twelve months and will largely be based on the performance of these businesses in the period following their acquisition by the Group.

During the year, outstanding deferred consideration of £0.6m (€0.8m) was paid to the vendor of Kentek relating to the purchase of his minority interest last year. In addition, £0.1m (US$0.2m) was paid to the vendor of HPS in respect of the performance of the business in the year ended 30 September 2015. The balance of £0.2m was not required and has been deducted from acquisition related charges in note 11.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2016

21. Minority interests

	£m
At 30 September 2014	2.9
Acquisition of TPD	3.2
Share of minority 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
Share of minority net assets acquired of TPD	(2.0)
Share of profit	0.8
Dividends paid	(0.4)
Exchange adjustments	0.7
At 30 September 2016	**4.3**

22. Acquisition of businesses

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 cash paid on acquisition was £7.6m (A$15.8m), after adjustments to net assets of £1.2m (A$2.7m) and including net debt acquired of £0.4m (A$0.8m), but before acquisition expenses of £0.4m (A$0.8m). Maximum deferred consideration of up to £1.0m (A$2.0m) is payable based both on the performance of WCIS during the year ended 30 September 2016 and on the renewal of specific customer contracts.

On 24 February 2016, the Group acquired 100% of Ascome SARL, based in Paris, France, for total consideration of £0.7m (€0.8m), including cash acquired of £0.3m (€0.4m); £0.6m (€0.7m) was paid on completion and £0.1m will be paid in 2017.

On 8 March 2016, the Group acquired 100% of Cablecraft Limited based in Houghton Regis, England, together with its trading subsidiaries Birch Valley Plastics Limited and Krempfast Limited (together "Cablecraft") for initial consideration of £27.2m, which included £6.2m of surplus cash and was before acquisition expenses of £0.7m. A further £0.1m was paid based on the final net assets at completion. Maximum deferred consideration of up to £5.0m is payable based on the performance of Cablecraft for the 12 months ended 31 March 2017.

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

	WCIS		Cablecraft		Ascome		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	–	5.2	–	13.0	–	0.2	–	18.4
Deferred tax	0.3	(1.3)	–	(2.3)	–	(0.1)	0.3	(3.7)
Property, plant and equipment	0.5	0.5	0.4	0.4	–	–	0.9	0.9
Inventories	1.6	0.5	2.1	1.7	0.1	0.1	3.8	2.3
Trade and other receivables	1.8	1.8	2.8	2.8	0.2	0.2	4.8	4.8
Trade and other payables	(2.2)	(2.2)	(1.7)	(1.7)	(0.1)	(0.1)	(4.0)	(4.0)
Net assets acquired	**2.0**	**4.5**	**3.6**	**13.9**	**0.2**	**0.3**	**5.8**	**18.7**
Goodwill	–	4.0	–	7.7	–	0.1	–	11.8
	2.0	8.5	3.6	21.6	0.2	0.4	5.8	30.5
Cash paid		7.6		27.3		0.6		35.5
Debt acquired		0.6		–		–		0.6
Cash acquired		(0.2)		(6.7)		(0.3)		(7.2)
Expenses of acquisition		0.4		0.7		0.1		1.2
Net cash paid, after acquisition expenses		**8.4**		**21.3**		**0.4**		**30.1**
Deferred consideration payable		0.5		1.0		0.1		1.6
Less: expenses of acquisition		(0.4)		(0.7)		(0.1)		(1.2)
Total consideration		**8.5**		**21.6**		**0.4**		**30.5**

Goodwill of £11.8m 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 2016, the newly acquired WCIS business contributed £6.7m to revenue and £0.7m to adjusted operating profit, the newly acquired Cablecraft business contributed £9.2m to revenue and £1.7m to adjusted operating profit and the newly acquired Ascome business contributed £0.4m to revenue and had a negligible contribution 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 £23.2m to revenue and £3.6m 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. Disposal of assets

	2016 £m
Gain on disposal of business	0.3
Gain on disposal of properties	0.4
Gain on disposals (net of tax)	**0.7**

Gain on disposal of business

On 26 September 2016, Vantage Inc. a business in the Diploma Healthcare Group sold its endoscope reprocessing business assets for cash consideration of £2.8m (C$5.3m); £2.2m net of expenses of sale. Vantage Inc. remains a continuing operation within the Diploma Healthcare Group. The gain has been accounted for as follows:

	2016 £m
Consideration:	
Cash consideration, net of expenses of sale	2.2
Net assets disposed:	
Intangible assets (note 11)	(1.4)
Property, plant and equipment	(0.6)
Current assets	(1.5)
Current liabilities	1.4
Gain on disposal before tax	**0.1**
Tax credit on disposal of business	0.2
Gain on disposal of business from continuing operations	**0.3**

Gain on disposal of properties

In March 2016, the Group sold freehold properties with a net book value of £2.0m for £2.3m, giving rise to a gain before tax of £0.3m. The tax on this disposal was a credit of £0.1m resulting in a total gain of £0.4m.

A further £0.1m of cash proceeds were received on the disposal at net book value of operational tangible assets in the normal course of business.

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

	2016 £m	2016 £m	2015 £m	2015 £m
Operating profit		55.4		52.9
Acquisition related charges (note 11)		10.3		7.4
Adjusted operating profit		65.7		60.3
Depreciation or amortisation of tangible and other intangible assets	4.5		3.5	
Share-based payments expense	0.4		0.5	
Cash paid into defined benefit schemes (note 26)	(0.3)		(0.3)	
Non-cash items		4.6		3.7
Operating cash flow before changes in working capital		70.3		64.0
Increase in inventories	(1.3)		–	
(Increase)/decrease in trade and other receivables	(0.3)		0.2	
Increase/(decrease) in trade and other payables	7.9		(2.1)	
Decrease/(increase) in working capital		6.3		(1.9)
Cash flow from operating activities, before acquisition expenses		76.6		62.1

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2016

25. Net cash

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

	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents	**(5.1)**	2.6
Decrease/(increase) in borrowings	**10.0**	(20.0)
	4.9	(17.4)
Effect of exchange rates	**2.7**	(0.9)
Movement in net cash	**7.6**	(18.3)
Net cash at beginning of year	**3.0**	21.3
Net cash at end of year	**10.6**	3.0
Comprising:		
Cash and cash equivalents	**20.6**	23.0
Borrowings	**(10.0)**	(20.0)
Net cash at 30 September	**10.6**	3.0

The Group has a committed multi-currency revolving facility of £50.0 million (2015: £40.0 million) which expires on 23 June 2017. On 7 March 2016, the Group exercised an accordion option to increase the committed bank facility from £40.0 million to a maximum facility of £50.0 million. At 30 September 2016, the Group had total borrowings under this facility of £10.0 million (2015: £20.0 million). Interest on this facility is payable between 120 and 170bps over LIBOR, depending on the ratio of net debt to EBITDA. The Group will review its bank facilities during the next financial year.

26. Retirement benefit obligations

The Group maintains two pension arrangements which are accounted for under IAS 19 (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 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 Kubo pension scheme is a defined contribution based scheme, which for various technical reasons, is required under IFRS to be accounted for in accordance with IAS 19 (Revised).

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

	2016 £m	2015 £m
Diploma Holdings PLC UK Pension Scheme	**10.0**	6.1
Kubo Pension Scheme	**7.2**	3.7
Pension scheme net deficit	**17.2**	9.8

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

	2016 £m	2015 £m
Diploma Holdings PLC UK Pension Scheme	**(0.2)**	(0.2)
Kubo Pension Scheme	**(0.3)**	(0.2)
Amounts charged to the Consolidated Income Statement	**(0.5)**	(0.4)

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. The next triennial actuarial valuation of the Scheme will be carried out as at 30 September 2016 and the results of the valuation will be reported in the 2017 Annual Report & Accounts. 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.

26. Retirement benefit obligations continued

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

	2016 £m	2015 £m
Market value of Scheme assets:		
Equities	22.0	18.6
Bonds	6.1	5.6
Cash	–	0.2
	28.1	24.4
Present value of Scheme liabilities	(38.1)	(30.5)
Pension scheme net deficit	(10.0)	(6.1)

b) Amounts charged to the Consolidated Income Statement

	2016 £m	2015 £m
Charged to operating profit	–	–
Interest cost on liabilities	(1.1)	(1.2)
Interest on assets	0.9	1.0
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

	2016 £m	2015 £m
Investment gain/(loss) on Scheme assets in excess of interest	5.0	(0.8)
Effect of changes in financial assumptions on Scheme liabilities	(9.3)	(1.1)
Effect of changes in demographic assumptions on Scheme liabilities	0.3	–
Experience adjustments on Scheme liabilities	–	–
Actuarial losses charged in the Consolidated Statement of Income and Other Comprehensive Income	(4.0)	(1.9)

The cumulative amount of actuarial losses recognised in the Consolidated Statement of Income and Other Comprehensive Income, since the transition to IFRS, is £10.3m (2015: £6.3m).

d) Analysis of movement in the pension deficit

	2016 £m	2015 £m
At 1 October	6.1	4.3
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	4.0	1.9
At 30 September	10.0	6.1

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

	2016 £m	2015 £m
At 1 October	30.5	29.2
Interest cost	1.1	1.2
Loss on changes in actuarial assumptions	9.0	1.1
Benefits paid	(2.5)	(1.0)
At 30 September	38.1	30.5

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2016

26. Retirement benefit obligations continued

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

	2016 £m	2015 £m
At 1 October	**24.4**	24.9
Interest on assets	**0.9**	1.0
Return on Scheme assets less interest	**5.0**	(0.8)
Contributions paid by employer	**0.3**	0.3
Benefits paid	**(2.5)**	(1.0)
At 30 September	**28.1**	24.4

The actual return on the Scheme assets during the year was a £5.9m gain (2015: £0.2m gain).

Assets

The Scheme's assets are held in passive unit funds managed by Legal & General Investment Management and at 30 September 2016, the major categories of assets were as follows:

	2016 %	2015 %
North America equities	**20**	20
UK equities	**19**	19
European equities (non-UK)	**19**	19
Asia Pacific and Emerging Markets equities	**20**	18
Corporate bonds	**13**	13
Index-linked gilts	**9**	10
Cash	**0**	1

Principal actuarial assumptions for the Scheme at balance sheet dates

		2016	2015	2014
Inflation rate	– RPI	**3.2%**	3.1%	3.3%
	– CPI	**2.4%**	2.3%	2.5%
Expected rate of pension increases	– CPI	**2.4%**	2.3%	2.5%
Discount rate		**2.3%**	3.8%	4.1%

Demographic assumptions

Mortality table used:	S1NxA
Year the mortality table was published:	CMI 2015
Allowance for future improvements in longevity:	Year of birth projections, with a long term improvement rate of 1.0%
Allowance made for members to take a cash lump sum on retirement:	Members are assumed to take 100% of their maximum cash sum (based on current commutation factors)

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

Sensitivities

The sensitivities of the 2016 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%	10.8	4.1
Inflation	Increase by 0.5%	4.4	1.7
Life expectancy	Increase by one year	2.8	1.1

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 retirements since 2005.

26. Retirement benefit obligations continued

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 being carried out as 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 ASGA Pensionskasse, a multi-employer plan of non-associated companies which pools risks between participating companies. As at 30 September 2016 the ASGA Pensionskasse had a local coverage ratio of 108.7%.

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

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

	2016 £m	2015 £m
Assets of the Kubo Scheme[1]	**10.8**	10.3
Actuarial liabilities of the Kubo Scheme	**(18.0)**	(14.0)
Pension scheme net deficit	**(7.2)**	(3.7)

1 The assets of the Kubo Scheme are held as part of the funds managed by ASGA Pensionskasse.

b) Amounts charged to the Consolidated Income Statement

	2016 £m	2015 £m
Service cost	**(0.3)**	(0.2)
Charged to operating profit	**(0.3)**	(0.2)
Net interest cost charges to finance expenses	**–**	–
Amount charged to the Consolidated Income Statement	**(0.3)**	(0.2)

c) Analysis of movement in the pension deficit

	2016 £m	2015 £m
At 1 October	**3.7**	3.7
Amounts charged to the Consolidated Income Statement	**0.3**	0.2
Contributions paid by employer	**(0.3)**	(0.2)
Net effect of remeasurements of Kubo Scheme assets and liabilities	**2.6**	–
Exchange adjustments	**0.9**	–
At 30 September	**7.2**	3.7

Principal actuarial assumptions for the Kubo Scheme at 30 September 2016	2016	2015
Expected rate of pension increase	**0%**	0%
Expected rate of salary increase	**1.0%**	1.0%
Discount rate	**0.15%**	0.75%
Interest credit rate	**0.50%**	1.50%
Mortality	**BVG2015**	BVG2010

Sensitivities

The sensitivities of the 2016 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%	10.6	1.9
Life expectancy	Increase by one year	7.0	1.3

Effect of the Kubo Scheme on the Group's future cash flows	£m
Best estimate of employer's contribution in 2017	**0.4**
Best estimate of employees' contribution in 2017	**0.4**

The weighted average duration of the defined benefit obligation is approximately 20 years.

Notes to the Consolidated Financial Statements continued

For the year ended 30 September 2016

27. Commitments

At 30 September 2016 the Group has outstanding aggregate commitments for future lease payments (under non-cancellable operating leases) in respect of the following years:

	Land and buildings		Other		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Within one year	**3.4**	2.6	**1.0**	0.9	**4.4**	3.5
For years two to five	**7.4**	5.8	**1.3**	1.2	**8.7**	7.0
After five years	**3.2**	3.7	**–**	–	**3.2**	3.7
	14.0	12.1	**2.3**	2.1	**16.3**	14.2

Other commitments comprise plant and machinery, motor vehicles and office equipment. Operating lease payments made during the year in respect of land and buildings and other commitments were £4.2m (2015: £2.9m) and £1.1m (2015: £1.0m), respectively.

28. Auditor's remuneration

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

	2016 £m	2015 £m
Fees payable to the auditor for the audit of:		
– the Company's Annual Report & Accounts	**0.1**	0.1
– the Company's subsidiaries	**0.4**	0.3
Audit fees	**0.5**	0.4

Non-audit fees of £13,000 (2015: £12,000) principally being amounts paid to the Group's auditor for carrying out "agreed upon procedures" on the Half Year Announcement, which is unaudited.

29. Exchange rates

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

	Average		Closing	
	2016	2015	**2016**	2015
US dollar (US$)	**1.41**	1.54	**1.30**	1.51
Canadian dollar (C$)	**1.87**	1.91	**1.71**	2.03
Euro (€)	**1.28**	1.35	**1.16**	1.36
Swiss franc (CHF)	**1.40**	1.48	**1.26**	1.48
Australian dollar (A$)	**1.92**	1.99	**1.70**	2.16

Group Accounting Policies

For the year ended 30 September 2016

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 2016 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 2016.

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 62 and 63.

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 assets, liabilities and 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 tangible and intangible assets, liabilities and contingent liabilities acquired.

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. There were no discontinued operations in either 2016 or 2015.

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 ca.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 plan is operated by Diploma Holdings PLC and 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 plan 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 plan – 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 ("Other Comprehensive Income"):
      - Actuarial gains and losses arising on the assets and liabilities of the plan arising from actual experience and any changes in assumptions at the end of the year.

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

c) Share-based payments: Equity-settled transactions (which are where the Executive Directors and certain senior employees receive a part of their remuneration in the form of shares in the Company, or rights over shares) 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.

Group Accounting Policies continued

For the year ended 30 September 2016

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.
   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.
   iii) All resulting exchange differences are recognised in 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 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.

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

Property, plant and equipment are stated 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 repairs and maintenance expenditure is charged to the Consolidated Income Statement in the period in which it is incurred.

Freehold land is not depreciated. 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 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	– 5 years

1.9 Property, plant and equipment continued

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 unless forecast revenues for a particular project exceed attributable forecast development costs in which case they are capitalised 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 may be acquired as a result of a business combination, include, but are not limited to, customer lists, supplier lists, databases, technology and software and patents 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 of customer and supplier relationships on larger acquisitions 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. Transaction costs are expensed and are not included in the cost of acquisition.

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. Impairment losses cannot be subsequently reversed.

b) Impairment of other tangible and intangible assets
Other tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses and any subsequent reversals are recognised 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 nominal value.

Group Accounting Policies continued

For the year ended 30 September 2016

1.13 Financial instruments continued

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 holds derivative financial instruments in the form of forward foreign exchange contracts to hedge its foreign currency exposure. These derivatives are designated as cash flow hedges.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequent changes in the fair value of foreign currency derivatives which are designated and effective as hedges of future cash flows are recognised in equity in the hedging reserve and in Other Comprehensive Income, and are reclassified to profit or loss on maturity of the derivative. Changes in the fair value of foreign currency derivatives which are ineffective or do not meet the criteria for hedge accounting in accordance with IAS 39 are recognised immediately in the Consolidated Income Statement.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

No derivative contracts have been designated as fair value hedges or net investment hedges.

f) Borrowings

Borrowings are initially recognised at the fair value of the consideration received. They are subsequently measured at amortised cost. Borrowings are classified as non-current when the repayment date is more than 12 months from the period-end date or where they are drawn on a facility with more than 12 months to expiry.

1.14 Investments (available for sale financial assets)

The investment held by the Group comprises equity shares which are not held for the purposes of equity trading and in accordance with IAS 39 is classified as available for sale. They are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in 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 Related parties
There are no related party transactions (other than with the Executive Directors who are considered to be key management) that are required to be disclosed in accordance with IAS 24. Details of their remuneration are given in the Remuneration Committee Report on pages 48 to 61.

1.20 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 2016. Set out below are those which are considered most relevant to the Group:

- IFRS 15 "Revenue from Contracts with Customers": IFRS 15 is effective for the Group for the year ended 30 September 2019. The Group is completing an impact assessment on the consolidated financial statements but expects the impact to be isolated to the Life Sciences Sector.
- IFRS 16 "Leases": IFRS 16 is effective for the Group for the year ended 30 September 2020 and the Group anticipates commencing an impact assessment on the consolidated financial statements towards the end of 2017.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- IAS 1 "Disclosure Initiative – Amendments to IAS 1"
- IAS 16 and IAS 38 "Clarification of acceptable methods of depreciation and amortisation"
- IFRS 14 "Regulatory deferral accruals"
- IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"
- IFRS 9 "Financial Instruments"

1.21 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 1.20 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:

1.21.1 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.

1.21.2 Accounting for acquisitions
When the Group makes a large acquisition it recognises the identifiable assets and liabilities, including intangible assets, at fair value, with the difference between the fair value of net assets acquired and the fair value of consideration paid comprising goodwill. The most significant assets acquired are intangible assets (predominantly customer relationships); the key assumptions used to determine the valuation of intangible assets acquired are the forecast cash flows, the discount rate and customer attrition. Customer relationships are valued using a discounted cash flow model. Acquisitions often comprise an element of deferred consideration and may include a minority interest, which are subject to put options. These put options are also required to be fair valued at the date of acquisition. Deferred consideration is fair valued based on Directors' estimate of future performance of the acquired entity.

1.21.3 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.

1.21.4 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 Statement of Financial Position

As at 30 September 2016

	Note	2016 £m	2015 £m
Fixed assets			
Investments	c	**72.0**	72.0
Creditors: amounts falling due within one year			
Amounts owed to subsidiary undertakings		**(20.5)**	(29.2)
Total assets less current liabilities		**51.5**	42.8
Capital and reserves			
Called up equity share capital	d	**5.7**	5.7
Profit and loss account		**45.8**	37.1
		51.5	42.8

The financial statements of Diploma PLC, company number 3899848, were approved by the Board of Directors on 21 November 2016 and signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

Parent Company Statement of Changes in Equity

For the year ended 30 September 2016

	Share capital £m	Shareholders' equity £m	Total equity £m
At 1 October 2014	5.7	32.7	38.4
Total Comprehensive Income	–	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
Total Comprehensive Income	–	29.3	29.3
Dividends	–	(21.0)	(21.0)
Transfers of own shares (net)	–	0.4	0.4
At 30 September 2016	**5.7**	**45.8**	**51.5**

The notes on page 93 form part of these financial statements.

Notes to the Parent Company Financial Statements

For the year ended 30 September 2016

a) Accounting policies

a.1) Basis of accounting

The Parent Company financial statements have been prepared in accordance with the Companies Act 2006 and FRS 101 "Reduced Disclosures Framework". The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly, they continue to adopt the going concern basis in preparing the Parent Company Financial Statements. The Parent Company Financial Statements are presented in UK sterling and all values are rounded to the nearest million pound (£m) except when otherwise indicated.

As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. There were no gains or losses either in the current or preceding years recognised in other comprehensive income.

In the transition to FRS 101 from extant UK GAAP, the Company has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. The transition to FRS 101 from extant UK GAAP has not required any measurement and recognition adjustments to previously reported equity, net assets or profit after taxation.

The following disclosures have not been provided as permitted by FRS 101:

- a cash flow statement and related notes;
- a comparative period reconciliation for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS;
- an additional statement of financial position for the beginning of the earliest comparative period; and
- disclosures in respect of the compensation of key management personnel as required.

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemption under FRS 101 available in respect of the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 "Share-based Payment" in respect of group settled share-based payments.

a.2) Dividends

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) Diploma PLC Employment Benefit Trust and employee share schemes

Shares held by the Diploma PLC 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) Auditor's remuneration

Fees payable to the auditor for the audit of the Company's accounts of £3,500 (2015: £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 48 to 61. The Company had no employees (2015: none).

c) Investments

	£m
Shares in Group undertakings	
At 30 September 2016 and 1 October 2015	**72.0**

A full list of subsidiary and other related undertakings are set out on page 98. On transition to FRS 101, the Company's opening cost of investments in subsidiary undertakings has been taken as deemed cost, being the carrying amount under extant UK GAAP. This has no impact on the carrying amounts previously reported.

d) Share capital

	2016 Number	2015 Number	**2016 £m**	2015 £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 48,861 ordinary shares in the Company (2015: 171,910) 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 60 in the Remuneration Committee Report. At 30 September 2016, the Trust held 172,577 (2015: 221,438) ordinary shares in the Company representing 0.2% of the called up share capital. The market value of the shares at 30 September 2016 was £1.5m (2015: £1.5m).

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 2016 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, including FRS 101 "Reduced Disclosure Framework"; 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, and the related notes 1 to 29 and the Group Accounting policies. This also comprises the Company Statement of Financial Position, the Company Statement of Changes in Equity and its related notes (a) to (d). 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), including FRS 101 "Reduced Disclosure Framework".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 63 and the Directors' statement on the longer term viability of the Group contained within the Strategic Report on page 30.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 30 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 31 to 33 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 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 30 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 Group 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 group'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 Group 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.

For each of these risks we assessed whether the key controls, which are in place to prevent material misstatements in the financial statements, were designed appropriately. In addition, we assessed that the implementation of these controls was, in practice, effective in preventing such material misstatements.

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.

Last year our report included one other risk which is not included this year: appropriateness of trade receivables provisioning.

This risk was no longer one of the areas which had the greatest impact on our audit strategy. The majority of the Group's receivables are current and the level of bad debt write-offs has fallen on the prior year. The amount of overdue debt as a percentage of gross debtors has also fallen on the prior year. The policy applied in calculating the receivable provision remained consistent.

The description of the below risks should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 45.

Risk	How the scope of our audit responded to the risk
Recoverability of goodwill and assessment for impairment Refer also to page 43 (Audit Committee Report), page 87 for the Group Accounting Policies and note 10 of the consolidated financial statements (page 72). As at the year end the Group held an aggregate of £115.2m of goodwill (2015: £89.3m) on the Statement of Financial Position and, as such, it is the most significant asset class. This goodwill has been recognised in respect of acquisitions that the Group has undertaken in the current and prior years. We consider that the carrying value of goodwill is a key area due to the judgemental inputs involved in the assessment for impairment. There are a number of such inputs used when assessing for impairment including projected cash flows, determination of the discount rate, the allocation of cash-generating units, long term growth rates and the sensitivities applied.	We have obtained management's goodwill impairment review calculations and assessed the mechanical accuracy of the model. Furthermore, we challenged the assumptions and inputs used in the impairment model including the cash flow projections, discount rates, cash-generating unit allocation, long term growth rates and the sensitivities applied and disclosed. Our procedures included reviewing forecast cash flows with reference to historical trading performance and the Board-approved budget, and consulting with our valuation specialists who benchmarked assumptions such as the discount rate to external macroeconomic and market data. We challenged management's allocation of cash-generating units by confirming that it was consistent with prior years, assessing whether they still represented the smallest group of assets that generated independent cash flows, and confirmed that the allocation is consistent with how financial information is reported within the business. The long term growth rate used in the cash flow projections was assessed to check that it did not exceed the average long term growth rate in any territories in which the Group operates. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by reperforming 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 Refer also to page 43 (Audit Committee Report), page 87 for the Group Accounting Policies and note 22 of the consolidated financial statements (page 80). The Group has made two material acquisitions in the year in WCIS and Cablecraft Limited. The total combined consideration transferred for these acquisitions was £29.7m and an additional £18.2m of goodwill and £11.7m of intangibles was recognised. The judgements used in determining the value of the goodwill and intangibles and the allocation between these asset classes could, if performed inaccurately, lead to a material misstatement. Inaccuracy in this judgement could be caused in the following areas: • There is significant judgement and complexity involved in the allocation of excess consideration over net assets of the acquiree between intangible assets and goodwill. This includes estimates for perpetuity growth rates, discount rates and customer retention rates. • Management must exercise judgement to accurately measure the fair value of the acquired assets and liabilities as at the acquisition date. This includes, for example, assessing the amounts required for any additional inventory or receivables provisions.	We have obtained management's calculations for the accounting of each acquisition and performed the following procedures: • We checked the mathematical accuracy of each acquisition model. • We assessed the adjustments to assets and liabilities in order to bring them to fair value and have held discussions with management in order to challenge the completeness of these adjustments. In order to assess the accuracy of the acquired intangible assets valuation, we have reviewed the methodology applied in management's calculation and challenged the assumptions behind the calculation including the perpetuity growth rates, discount rates, and customer retention rates. We have involved our own internal specialists to assist in our assessment and compare the methodology and inputs to standard industry practice.

Independent Auditor's Report to the Members of Diploma PLC continued

Risk	How the scope of our audit responded to the risk
Appropriateness of inventory obsolescence provisioning Refer also to page 43 (Audit Committee Report), page 87 for the Group Accounting Policies and note 15 of the consolidated financial statements (page 75). The valuation of inventory as at 30 September 2016 is £66.8m (2015: £56.6m), recorded net of provisions of £7.8m (2015: £5.9m). High levels of inventory are held across the Group, which gives rise to a greater risk of there being slow moving or obsolete lines of inventory. Therefore, we have determined that there is a key risk that inventory is recorded in excess of its net realisable value due to insufficient obsolescence provisions. Management judgement is required in determining the completeness of inventory provisions and making an assessment of their adequacy, considering the age and volumes of inventory relative to expected usage. Changes to these assumptions could result in a material change in the carrying value of inventory and the associated movements recorded in the income statement.	We evaluated the recorded inventory obsolescence provision by obtaining management's workings and independently recalculating the provision in line with their stated policy. We challenged the underlying assumptions and completeness of the provision by considering the age and volumes of inventory relative to expected usage. Any aged inventory lines which were excluded from management's calculation were also challenged in order to further verify completeness of the provision. Management's historical ability to estimate the required inventory obsolescence provision was assessed by comparing write-offs during the period to the prior period provision. Furthermore, we 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.

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 £2.7m (2015: £2.7m), which is approximately 5% of profit before tax (2015: 5%).

Profit before tax has been chosen for the basis for materiality as this is the measure by which stakeholders and the market assess the wider performance of the entity and is the key metric that current and potential investors monitor when making their financial decisions.

Audit of all components are performed at a materiality level not exceeding 50% of Group materiality in both 2016 and 2015.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £130,000 (2015: £53,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. Having assessed the facts and circumstances of the Group and the prior history of misstatements, we determined that an increase in this threshold from the prior year was appropriate. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level and where these are most likely to occur in the business. Based on that assessment, we focused our Group audit scope primarily on the audit work at 12 (2015: 11) locations, with the increase from the prior year due to the acquisition of Cablecraft Limited. Each of these 12 locations was subject to a full scope audit. An additional eight (2015: eight) locations were subject to specified audit procedures which address each of the significant balances and key audit risks within these entities. Together the work at these locations represents the principal business units of the Group and accounts for 75% (2015: 75%) of the Group's revenues and 80% (2015: 80%) of the Group's operating profit.

The Group audit team has designed and implemented a country visit programme so 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 in 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 Remuneration Committee 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 Remuneration Committee 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 part of the Corporate Governance Statement relating to the Company's compliance with certain 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 International Standards on Auditing (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
- 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 Directors' Responsibilities Statement, 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 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

21 November 2016

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	90%	Ireland
A1-CBISS Limited	100%	England
a1-envirosciences GmbH	100%	Germany
a1-Envirosciences Limited[1]	100%	England
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
HB Sealing Products Limited	100%	Canada
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 BV	100%	Netherlands
Kentek Oy	90%	Finland
ZAO Kentek	90%	Russia
Kentek Eesti Ou	90%	Estonia
SIA Kentek Latvija	90%	Latvia
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

	Group percentage of equity capital	Country of incorporation or registration
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
Ascome SARL	100%	France
Cablecraft Limited	100%	England
Birch Valley Plastics Limited[3]	100%	England
Krempfast Limited[3]	100%	England
Betaduct Limited[1]	100%	England
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
Clarendon Specialty 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

1 Dormant company.
2 All companies incorporated in the United Kingdom listed above have their registered office at 12 Charterhouse Square, London EC1M 6AX.
3 These subsidiaries, both of which are incorporated in England, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act.

Financial Calendar, Shareholder Information and Advisors

Announcements (provisional dates)

First Quarter Statement released	18 January 2017
Annual General Meeting (2016)	18 January 2017
Half Year Results announced	15 May 2017
Third Quarter Statement released	30 August 2017
Preliminary Results announced	20 November 2017
Annual Report posted to shareholders	8 December 2017
Annual General Meeting (2017)	17 January 2018

Dividends (provisional dates)

Interim announced	15 May 2017
Paid	14 June 2017
Final announced	20 November 2017
Paid (if approved)	24 January 2018

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	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	**382.6**	333.8	305.8	285.5	260.2
Adjusted operating profit	**65.7**	60.3	56.7	54.3	52.8
Finance expense	**(0.8)**	(0.7)	(0.5)	–	(0.2)
Adjusted profit before tax	**64.9**	59.6	56.2	54.3	52.6
Acquisition related charges	**(10.3)**	(7.4)	(6.4)	(5.6)	(6.4)
Gain on disposal of assets	**0.7**	–	–	–	–
Fair value remeasurements	**(1.3)**	(0.4)	–	(0.2)	(0.2)
Profit before tax	**54.0**	51.8	49.8	48.5	46.0
Tax expense	**(14.9)**	(14.4)	(13.7)	(13.7)	(14.4)
Profit for the year	**39.1**	37.4	36.1	34.8	31.6
Capital structure					
Equity shareholders' funds	**233.5**	189.6	184.4	176.9	165.8
Minority interest	**4.3**	5.2	2.9	1.4	1.4
Add/(deduct): cash and cash equivalents	**(20.6)**	(23.0)	(21.3)	(19.3)	(11.4)
borrowings	**10.0**	20.0	–	–	3.5
retirement benefit obligations	**17.2**	9.8	4.3	4.7	5.4
acquisition liabilities	**6.8**	6.6	4.0	3.0	3.8
deferred tax, net	**7.4**	5.9	3.3	1.7	1.6
Reported trading capital employed	**258.6**	214.1	177.6	168.4	170.1
Add: historic goodwill and acquisition related charges, net of deferred tax	**59.2**	53.6	49.6	43.1	37.4
Adjusted trading capital employed	**317.8**	267.7	227.2	211.5	207.5
Net increase/(decrease) in net funds	**4.9**	(17.4)	2.9	11.8	(3.9)
Add: dividends paid	**21.4**	19.9	18.4	17.6	14.3
acquisition of businesses	**32.7**	37.8	16.5	2.2	22.3
Free cash flow	**59.0**	40.3	37.8	31.6	32.7
Per ordinary share (pence)					
Basic earnings	**33.9**	32.5	31.4	30.7	27.9
Adjusted earnings	**41.9**	38.2	36.1	34.8	33.1
Dividends	**20.0**	18.2	17.0	15.7	14.4
Total shareholders' equity	**206**	167	163	156	146
Dividend cover	**2.1**	2.1	2.1	2.2	2.3
Ratios	**%**	%	%	%	%
Return on adjusted trading capital employed ("ROATCE")	**21.1**	23.9	25.8	25.8	26.6
Working capital: revenue	**16.6**	17.0	17.2	16.7	16.5
Operating margin	**17.2**	18.1	18.5	19.0	20.3

Notes
1 Acquisition related charges comprise the amortisation and impairment of acquisition intangible assets, acquisitions expenses and adjustments to deferred consideration.
2 Acquisition liabilities comprise amounts payable for the future purchases of minority interests and deferred consideration.
3 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.

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emperor.works +44 (0)20 7729 9090

DIPLOMA PLC

12 Charterhouse Square
London EC1M 6AX

T +44 (0)20 7549 5700
F +44 (0)20 7549 5715

www.diplomaplc.com

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