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

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.

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

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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	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	Carrying amount 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

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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

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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.

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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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