NEWS RELEASE

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FOR IMMEDIATE RELEASE

18 November 2013

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2013

Robust Results and Investment for Growth

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

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

Financial Highlights

- Revenue increased by **10%**; after adjusting for currency effects, acquisitions and a small divestment last year, underlying revenue up by **4%** with stronger second half growth of **6%**.

- Adjusted operating margin of **19.0%** largely reflecting additional costs from investment in businesses.

- Adjusted profit before tax up by **3%** to **£54.3m**; adjusted EPS up by **5%** to **34.8p**, reflecting lower effective tax rate.

- Strong free cash flow of **£31.6m**, despite higher capital expenditure from Investment for Growth programme.

- Net cash funds of **£19.3m** at the end of September and undrawn bank facilities of up to £40m available to fund acquisitions.

- Full year dividend increased by **9%** to **15.7p** per share reflecting confidence in long term prospects and strong balance sheet.

Operational Highlights

- Strong performance in Life Sciences with underlying revenues up 15%, reflecting the benefits of prior year investments.
- Modest underlying revenue growth of 2% in Seals against strong prior year comparatives, with US Seals businesses moving towards more normal GDP plus growth rates.
- Acquisition of 80% of Kentek Oy, based in Finland, agreed after year end for a maximum consideration of £11.2m, extending the Seals businesses into new and emerging markets.
- Challenging conditions in Europe leading to a 3% reduction in underlying revenues for Controls; some signs of improving conditions in recent months.
- Investment for Growth programme continues with £4.4m invested by year end in facilities and IT infrastructure and a further £0.9m expected in 2014 to complete the programme. Management resources also strengthened as part of the programme.

Commenting on the results for the year, Bruce Thompson, Diploma's Chief Executive said:

"Diploma has delivered a robust set of results against strong comparatives and challenging conditions in Europe for much of the year.

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

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

There will be a presentation of the results to analysts and investors at 9.00am this morning at Butchers' Hall, 87 Bartholomew Close, City of London, EC1A 7EB. This presentation will be made available as a webcast from 2.00pm GMT via www.diplomaplc.com

For further information please contact:

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Notes:

Diploma PLC uses alternative performance measures as key financial indicators to assess the underlying performance of the Group. These include adjusted operating profit, adjusted profit before tax, adjusted earnings per share and free cash flow. The narrative in this Announcement is based on these alternative measures and an explanation is set out in note 2 to the Consolidated Financial Statements in this Preliminary Announcement.

NOTE TO EDITORS:

Diploma PLC is an international group of businesses supplying specialised technical products and services to the Life Sciences, Seals and Controls industries.

Diploma's businesses are focussed on supplying *essential products and services* which are funded by the customers' operating rather than their capital budgets, providing recurring income and stable revenue growth.

Our businesses then design their individual business models to closely meet the requirements of their customers, offering a blend of high quality customer service, deep technical support and value adding activities. By supplying *essential solutions*, not just products, we build strong long term relationships with our customers and suppliers, which support attractive and sustainable margins.

Finally we encourage an entrepreneurial culture in our businesses through our decentralised management structure. We want our managers to feel that they have the freedom to run their own businesses, while being able to draw on the support and resources of a larger group. These *essential values* ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

The Group employs ca. 1,100 employees and its principal operating businesses are located in the UK, Germany, US, Canada and Australia.

Over the last five years, the Group has grown adjusted earnings per share at an average of ca. 17% pa through a combination of organic growth and acquisitions. Diploma is a member of the FTSE 250 with a market capitalisation of ca. £750m.

Further information on Diploma PLC, together with a copy of this Announcement, is available at www.diplomaplc.com

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS
FOR YEAR ENDED 30 SEPTEMBER 2013

CHAIRMAN'S STATEMENT

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

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

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

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

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

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

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

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

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

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

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

The total dividend per share for the year will be 15.7p which represents a 9% increase on 2012. The dividend is well covered by Adjusted EPS at 2.2 times, in line with our objective of targeting towards a 2 times level of cover.

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

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

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

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

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

CHIEF EXECUTIVE'S REVIEW

Business Model and Growth Strategy
The Group's strategy is designed to generate strong, double-digit growth in earnings and value over the business cycle, by building larger, broader-based businesses in the three Group Sectors of Life Sciences, Seals and Controls.

Our businesses target organic revenue growth over the business cycle at the rate of 5–6% p.a. ("GDP plus" growth). Stable and resilient revenue growth is achieved through our focus on *essential products* and services funded by customers' operating rather than capital budgets and supplied across a range of specialised industry segments. By supplying *essential solutions*, not just products, we build strong long term relationships with our customers and suppliers, which support sustainable and attractive margins. Finally we encourage an entrepreneurial culture in our businesses through our decentralised management structure and these *essential values* ensure that decisions are made close to the customer and that the businesses are agile and responsive to changes in the market and the competitive environment.

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

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

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

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

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

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

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

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

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

Investment for Growth

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

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

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

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

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

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

Acquisitions

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

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

Following the year end, in early November contracts were signed for the acquisition of 80% of Kentek Oy for a maximum consideration of £11.2m (€13.3m). Kentek is a specialised distributor of filters and related products, used in heavy mobile machinery and industrial equipment applications. Kentek is based in Finland with operations in Russia and the Baltic States and will extend the reach of the Seals businesses into new and emerging markets. This transaction is expected to close in January 2014 with completion conditional upon certain conditions precedent. These conditions include the approval of the Russian competition authorities, no material adverse change and warranties to be repeated at closing.

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

LIFE SCIENCES

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

	2013 £m	2012 £m
Revenue	**93.2**	78.4
Adjusted operating profit	**20.9**	18.0
Adjusted operating margin	**22.4%**	23.0%
Free cash flow	**14.4**	13.3

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

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

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

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

Healthcare
Revenues from the Diploma Healthcare Group ("DHG") increased by 20% in UK sterling terms. After adjusting for currency and for the DSL acquisition, underlying revenues increased by

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

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

Vantage increased revenues by 14%, benefiting from prior year investments made to combine AMT's Endoscopy business with Carsen Medical (acquired in December 2010) and establish Vantage as a strong independent business within DHG. Vantage started the current financial year with a complete product range, an integrated and fully trained sales team and strengthened operational and service management. In the first quarter of the year, the business completed the integration programme by relocating all of its activities to a new, larger facility, close to the existing location in Markham, Ontario. The results of these investments have been seen in the strong performance this year, with steadily growing sales of consumable and service products, boosted by strong capital equipment sales of endoscope reprocessors and argon plasma coagulation units. Sales of endoscopes have also shown good growth from a combination of capital equipment sales and CPP (cost per procedure) based contracts. During the year, £1.0m (2012: £0.7m) was spent on acquiring instruments in support of these CPP contracts.

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

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

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

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

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

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

SEALS

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

	2013 £m	2012 £m
Revenue	**106.1**	99.9
Adjusted operating profit	**19.5**	20.4
Adjusted operating margin	**18.4%**	20.4%
Free cash flow	**15.9**	13.7

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

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

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

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

Aftermarket

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

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

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

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

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

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

Industrial OEM

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

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

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

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

CONTROLS

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

	2013 £m	2012 £m
Revenue	**86.2**	81.9
Adjusted operating profit	**13.9**	14.4
Adjusted operating margin	**16.1%**	17.6%
Free cash flow	**11.9**	10.0

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

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

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

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

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

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

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

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

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

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

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

Fluid Controls

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

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

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

FINANCE REVIEW

Operating Results in 2013
Diploma achieved a robust result this year given challenging economic conditions in Europe and against a record performance last year from the Seals businesses. Revenues and profits increased on the prior year, free cash flow remained strong and the Group's return on trading capital employed was again above 25%.

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

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

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

Investment for Growth Programme

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

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

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

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

Adjusted Profit before Tax, Earnings per Share and Dividends

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

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

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

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

The Board's policy is to pursue a progressive dividend, while targeting dividend cover (the ratio of Adjusted EPS to total dividends paid and proposed for the year) towards 2.0 times cover. Following this policy and recognising the strength of the Group Balance Sheet and strong free cash flow, the Directors have recommended an increase in the final dividend of 5% to 10.7p per share; this gives a total dividend per share for the year of 15.7p per share with represents a 9% increase on the prior year dividend of 14.4p. The dividend cover moves to 2.2 times from 2.3 times reported last year.

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

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

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

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

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

Acquisitions Completed During the Year
There was a low level of acquisition activity during the current financial year with only £2.2m (including deferred consideration of £0.6m) being spent on acquiring both Rayquick in November 2012, a small Controls business based in Germany and the outstanding minority interest in BGS. In 2012 the Group had spent £22.3m on acquiring businesses. In the absence of significant acquisitions, the amount of acquisition intangible assets held at 30 September 2013 reduced to £26.7m from £32.2m last year; these acquisition intangible assets are being amortised over a period ranging from 5-15 years and the acquisition related charge in the year was £5.6m (2012: £6.4m), which included a negligible amount on acquisition expenses (2012: £0.6m). At 30 September 2013, the value of goodwill in the Group Balance Sheet, which is not

amortised, was £78.5m (2012: £79.8m).

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

Liabilities to Minority Shareholders
At 30 September 2013, the Group's liability to purchase outstanding minority shareholdings had reduced to £2.8m (2012: £3.2m) following the acquisition on 8 January 2013 of the outstanding 20% minority interest in BGS, the Australian Healthcare business. At 30 September 2013 this liability related to minority interests held in M Seals, DSL and HPS (which is a small subsidiary of the RT Dygert seals business). These liabilities arise under put and call option contracts entered into at the time of acquisition and are based on the Directors' estimate of the Earnings before Interest and Tax ("EBIT") of these businesses when these options crystallise. This liability was reassessed at 30 September 2013 and this led to a financial charge of £0.2m (2012: £0.2m) being made in the Consolidated Income Statement.

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

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

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

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

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

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

Employee Pension Obligations
Pension benefits to existing employees, both in the UK and overseas, are provided through defined contribution schemes at an aggregate cost in 2013 of £1.5m (2012: £1.1m).

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

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

PRINCIPAL RISKS AND UNCERTAINTIES
Risk assessment and evaluation is an integral part of the Group's annual planning cycle and market specific risks are evaluated as part of the annual budgeting process. Each operating business is required each year to identify and document the significant strategic, operational and financial and accounting risks facing the business. For each significant risk, a number of scenarios are mapped out and an assessment is made of the likelihood and impact of each risk scenario.

Finally, plans and processes are established which are designed to control each risk and minimise its potential impact. The risk assessments from each of the operating businesses are reviewed with the Executive Directors and a consolidated risk assessment is reviewed by the Board.

The principal risks and uncertainties which are currently judged to have the largest potential impact on the Group's long term performance are set out below. There have been no significant changes to these risks and uncertainties, or their potential impact on the Group, since last year.

Risk: Strategic
Downturn in major markets
Adverse changes in the major markets in which the businesses operate can have a significant impact on performance. The effects will either be seen in terms of slowing revenue growth, due to reduced or delayed demand for products and services, or margin pressures due to increased competition.

A number of characteristics of the Group's businesses moderate the impact of economic and business cycles on the Group as a whole:

- The Group's businesses operate in three different sectors with different cyclical characteristics and across a number of geographic markets.
- The businesses offer specialised products and services; this offers a degree of protection against customers quickly switching business to achieve a better price.
- A high proportion of the Group's revenues comprise consumable products which are purchased as part of customers' operating expenditure, rather than through capital budgets.
- In many cases the products are used in repair, maintenance and refurbishment applications, rather than original equipment manufacture.

Mitigation
The businesses identify key market drivers and monitor the trends and forecasts, as well as maintaining close relationships with key customers who may give an early warning of slowing demand. Changes to cost levels and inventories can then be made in a measured way to mitigate the effects.

Loss of key supplier(s)

For manufacturer-branded products, there are risks to the business if a major supplier decides to cancel a distribution agreement or if the supplier is acquired by a company which has its own distribution channels in the relevant market. There is also the risk of a supplier taking away exclusivity and either setting up direct operations or appointing another distributor.

In times of rapid economic expansion in activity, such as after a global recession, there is also a risk that the lead times to supply key product can become very long.

Currently no single supplier represents more than 15% of Group revenue and only four single suppliers represent more than 2% each of Group revenue.

Relationships with suppliers have normally been built up over many years and a strong degree of interdependence has been established. The average length of the principal supplier relationships in each of the sectors is over ten years. The strength of the relationship with each supplier and the volume of activity generally ensures continuity of supply, when there is shortage of product.

Mitigation
Actions to mitigate the risks include:

- Long term, multi-year exclusive contracts signed with suppliers with change of control clauses, where possible, included in contracts for protection or compensation in the event of acquisition.
- Collaborative projects and relationships maintained with individuals at many levels of the supplier organisation, together with regular review meetings and adherence to contractual terms.
- Regular review of inventory levels.
- Bundling and kitting of products and provision of added value services.
- Periodic research of alternative suppliers as part of contingency planning.

Loss of major customer(s)
The loss of one or more major customers can be a material risk.

The nature of the Group's businesses is such that there is not a high level of dependence on any individual customers and no single customer represents more than 5% of Sector revenue or more than 2% of Group revenue.

Mitigation

Specific large customers are important to individual operating businesses and a high level of effort is invested in ensuring that these customers are retained and encouraged not to switch to another supplier.

In addition to providing high levels of customer service, close integration is established where possible with customers' systems and processes.

Product liability

There is a risk that products supplied by a Group business may fail in service, which could lead to a claim under product liability. The businesses, in their Terms and Conditions of sale with customers, will typically mirror the Terms and Conditions of purchase from the suppliers. In this way the liability can be limited and subrogated to the supplier.

However, if a legal claim is made it will typically draw in our business as a party to the claim and the business may be exposed to legal costs and potential damages if the claim succeeds and the supplier fails to meet its liabilities for whatever reason. Product liability insurance can be limited in terms of its scope of insurable events, such as product recall.

Mitigation
Technically qualified personnel and control systems are in place to ensure products meet quality requirements. The Group's businesses are required to undertake Product Risk assessments and Supplier Quality Assurance assessments. The Group has also established Group-wide product liability insurance which provides worldwide umbrella insurance cover of £20m in all Sectors.

The Group's businesses may also elect not to supply products if they are not fully confident that the products will meet the demands of the operating environment.

Loss of key personnel

The success of the Group is built upon strong, self-standing management teams in the operating businesses, committed to the success of their respective businesses. As a result, the loss of key personnel can have a significant impact on performance, at least for a time.

Mitigation

Contractual terms such as notice periods and non-compete clauses can mitigate the risk in the short term. However, more successful initiatives focus on ensuring a challenging work environment with appropriate reward systems. The Group places very high importance on planning the development, motivation and reward for key managers in the operating businesses including:

- Ensuring a challenging working environment where managers feel they have control over, and responsibility for their businesses.
- Establishing management development programmes to ensure a broad base of talented managers.
- Offering a balanced and competitive compensation package with a combination of salary, annual bonus and long term cash incentive plans targeted at the individual business level.
- Giving the freedom, encouragement, financial resources and strategic support for managers to pursue ambitious growth plans.

Risk: Operational

Major damage to premises
The Group's businesses mostly operate from combined office/warehouse facilities which are dedicated to each business and not shared with other Group businesses. Major damage to the facilities from fire, malicious damage or natural disaster would impact a business for a period until the damage is repaired or alternative facilities have been established.

However, the Group has not suffered any major damage to premises in recent years and in Clearwater, Florida there has been no significant hurricane activity for at least the last five years.

Mitigation
The business where the risk is greatest is Hercules in Clearwater, Florida which is most at risk from an environmental disaster caused by a hurricane or tornado. The building structure has been designed to withstand 150mph winds, electricity generators have been installed on site and a specific disaster plan has been drawn up and is regularly reviewed. Contingency plans include:

- Backup power generators.
- Materials on hand to secure the facility.
- Communications rerouted to other branches or interim locations.

- IT recovery plan using backup server in separate location.
- Regular building inspection and weather monitoring.
- Plans to drop-ship product from suppliers direct to customers.

The other businesses have also developed plans to prevent incidents, including fire and security alarms and regular fire drills. Insurance policies are also in place including property, contents and business interruption cover which would mitigate the financial impact.

However, the priority in such an event is to become fully operational as quickly as possible so as to minimise disruption to customers. Plans to ensure a quick and orderly recovery have been developed by the businesses and are periodically reviewed.

Loss of Information Technology ("IT") systems

Computer systems are critical to the businesses since their success is built on high levels of customer service and quick response. A complete failure of IT systems, with the loss of trading and other records, would be more damaging to the businesses than major physical damage to facilities.

Mitigation

Business interruption insurance cover is held across the Group and contingency plans have been drawn up in all businesses. The recovery plans differ by individual business, but will include some or all of the following elements:

- Full data backups as a matter of routine are automatically taken on a regular basis each week and stored online.
- Backup servers identified and communication reroute options identified.
- Service contracts with IT providers with access to replacement servers.
- Uninterruptible power sources and backup generators where required.
- Virus checkers and firewalls.

Risk: Financial and Accounting

The Group's activities expose it to a variety of financial and accounting risks, including foreign currency, liquidity, interest rate and credit. The Group's overall management of the financial risks is carried out by a central treasury team under policies and procedures which are reviewed and approved by the Board. The treasury team identifies, evaluates and where appropriate, hedges financial risks in close co-operation with the Group's operating businesses. The treasury team does not undertake speculative foreign exchange dealings for which there is no underlying exposure.

The principal accounting risk is that of inventory obsolescence which is managed by the operating business.

Foreign currency risk – Translational exposure

Foreign currency risk is the risk that changes in currency rates will affect the Group's results. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, the Australian dollar and the Euro. The net assets of the Group's operations outside the UK are also exposed to foreign currency translation risk.

During the year ended 30 September 2013, ca. 75% of the Group's revenue and adjusted operating profits were earned in currencies other than UK sterling. In comparison to the prior year, the net effect of currency translation was to increase revenue by £1.8m and increase adjusted operating profit by £0.3m. It is estimated that a strengthening of UK sterling by 10% against all the currencies in which the Group does business, would reduce adjusted operating profit before tax by approximately £4.2m (8%), due to currency translation.

Currency exposures also arise from the net assets of the Group's foreign operations. At 30 September 2013, the Group's non-UK sterling trading capital employed in overseas businesses was £125.7m (2012: £131.9m), which represented 79% of the Group's trading capital employed. It is estimated that a strengthening of UK sterling of 10% against all the non-UK sterling capital employed would reduce shareholders' funds by £12.1m.

Details of average exchange rates used in the translation of overseas earnings and of year end exchange rates used in the translation of overseas balance sheets, for the principal currencies used by the Group, are shown in note 15 to the consolidated financial statements.

Mitigation
The Group does not hedge translational exposure.

Foreign currency – Transactional exposure
The Group's UK businesses are exposed to foreign currency risk on those purchases that are denominated in a currency other than their local currency, principally US dollars, Euro and Japanese Yen. The Group's Canadian and Australian businesses are also exposed to a similar risk as the majority of their purchases are denominated in US dollars and Euros. The Group's US businesses do not have any material foreign currency transactional risk.

Mitigation
The Group's businesses may hedge up to 80% of forecast (being a maximum of eighteen months) foreign currency exposures using forward foreign exchange contracts. The Group classifies its forward foreign exchange contracts, which hedge forecast transactions, as cash flow hedges and states them at fair value.

Inventory obsolescence
Working capital management is critical to success in specialised industrial business as this has a major impact on cash flow. The principal risk to working capital is in inventory obsolescence and write-off. The charge against operating profit in respect of old or surplus inventory is ca. £1.0m pa, but inventories are generally not subject to technological obsolescence.

Mitigation
Inventory write-offs are controlled and minimised by active management of inventory levels based on sales forecasts and regular cycle counts. Where necessary, a provision is made to cover both excess inventory and potential obsolescence.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT 2013

The responsibility statement below has been prepared in connection with the Group's full Annual Report & Accounts for the year ended 30 September 2013. Certain parts thereof are not included within this Preliminary Announcement.

The Directors confirm that to the best of their knowledge:

- the Group consolidated financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Preliminary Announcement includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors of Diploma PLC and their respective responsibilities are listed in the Annual Report & Accounts for 2012. John Nicholas and Charles Packshaw were appointed non-Executive Directors on 1 June 2013 and on 30 September 2013, John Matthews and Ian Grice retired as non-Executive Directors of the Company.

This responsibility statement was approved by the Board of Directors on 18 November 2013 and is signed on its behalf by:

BM Thompson
Chief Executive Officer

NP Lingwood
Group Finance Director

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
REVENUE	3,4	**285.5**	260.2
Cost of sales		**(178.6)**	(161.0)
Gross profit		**106.9**	99.2
Distribution costs		**(6.4)**	(5.4)
Administration costs		**(51.8)**	(47.4)
OPERATING PROFIT	3	**48.7**	46.4
Financial expense, net	5	**(0.2)**	(0.4)
PROFIT BEFORE TAX		**48.5**	46.0
Tax expense	6	**(13.7)**	(14.4)
PROFIT FOR THE YEAR		**34.8**	31.6
Attributable to:			
Shareholders of the Company		**34.5**	31.3
Minority interests		**0.3**	0.3
		34.8	31.6
EARNINGS PER SHARE			
Basic and diluted earnings	7	**30.7p**	27.9p

Alternative Performance Measures (note 2)	Note	2013 £m	2012 £m
Operating profit		**48.7**	46.4
Add: Acquisition related charges		**5.6**	6.4
Adjusted operating profit	3,4	**54.3**	52.8
Deduct: Net interest expense	5	**-**	(0.2)
Adjusted profit before tax		**54.3**	52.6
Adjusted earnings per share	7	**34.8p**	33.1p

CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
For the year ended 30 September 2013

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2013

	Note	Share capital £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Share-holders' equity £m	Minority interests £m	Total equity £m
At 1 October 2011		5.7	20.8	1.1	123.8	151.4	0.5	151.9
Total comprehensive income		-	(2.1)	(0.9)	31.2	28.2	0.3	28.5
Share-based payments		-	-	-	0.8	0.8	-	0.8
Acquisition of subsidiary		-	-	-	-	-	0.7	0.7
Deferred tax on items recognised directly in equity		-	-	-	0.6	0.6	-	0.6
Recognition of minority interest put options		-	-	-	(1.0)	(1.0)	-	(1.0)
Dividends		-	-	-	(14.2)	(14.2)	(0.1)	(14.3)
At 30 September 2012		5.7	18.7	0.2	141.2	165.8	1.4	167.2
Total comprehensive income		-	(2.5)	(0.2)	34.8	32.1	0.3	32.4
Share-based payments		-	-	-	0.5	0.5	-	0.5
Minority interest acquired		-	-	-	-	-	(0.1)	(0.1)
Tax on items recognised directly in equity		-	-	-	0.6	0.6	-	0.6
Purchase of own shares		-	-	-	(4.7)	(4.7)	-	(4.7)
Dividends	14	-	-	-	(17.4)	(17.4)	(0.2)	(17.6)
At 30 September 2013		**5.7**	**16.2**	**-**	**155.0**	**176.9**	**1.4**	**178.3**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2013

	Note	2013 £m	2012 £m
NON-CURRENT ASSETS			
Goodwill	10	**78.5**	79.8
Acquisition intangible assets		**26.7**	32.2
Other intangible assets		**0.8**	0.7
Investment	11	**0.7**	0.7
Property, plant and equipment		**13.9**	12.3
Deferred tax assets		**2.1**	2.9
		122.7	128.6
CURRENT ASSETS			
Inventories		**46.7**	45.8
Trade and other receivables		**42.8**	40.6
Cash and cash equivalents	9	**19.3**	11.4
		108.8	97.8
CURRENT LIABILITIES			
Trade and other payables		**(40.0)**	(38.5)
Current tax liabilities		**(1.7)**	(3.5)
Other liabilities	12	**(2.0)**	(2.8)
Borrowings	9	**-**	(3.5)
		(43.7)	(48.3)
NET CURRENT ASSETS		**65.1**	49.5
TOTAL ASSETS LESS CURRENT LIABILITIES		**187.8**	178.1
NON-CURRENT LIABILITIES			
Retirement benefit obligations		**(4.7)**	(5.4)
Other liabilities	12	**(1.0)**	(1.0)
Deferred tax liabilities		**(3.8)**	(4.5)
NET ASSETS		**178.3**	167.2
EQUITY			
Share capital		**5.7**	5.7
Translation reserve		**16.2**	18.7
Hedging reserve		**-**	0.2
Retained earnings		**155.0**	141.2
TOTAL SHAREHOLDERS' EQUITY		**176.9**	165.8
Minority interests		**1.4**	1.4
TOTAL EQUITY		**178.3**	167.2

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2013

	Note	2013 £m	2012 £m
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operations	8	**55.9**	50.2
Interest paid, net		**(0.2)**	(0.3)
Tax paid		**(14.8)**	(13.7)
NET CASH FROM OPERATING ACTIVITIES		**40.9**	36.2
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of businesses (net of cash acquired)	13	**(1.2)**	(20.8)
Acquisition of investment	11	**-**	(0.7)
Deferred consideration paid	12	**(0.6)**	(0.8)
Purchase of property, plant and equipment		**(4.1)**	(3.3)
Purchase of other intangible assets		**(0.5)**	(0.2)
NET CASH USED IN INVESTING ACTIVITIES		**(6.4)**	(25.8)
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of minority interests	13	**(0.4)**	-
Dividends paid to shareholders	14	**(17.4)**	(14.2)
Dividends paid to minority interests		**(0.2)**	(0.1)
Purchase of own shares		**(1.7)**	-
Notional purchase of own shares on exercise of share options		**(3.0)**	-
Repayment of borrowings	9	**(3.5)**	(2.2)
NET CASH USED IN FINANCING ACTIVITIES		**(26.2)**	(16.5)
Net increase/(decrease) in cash and cash equivalents		**8.3**	(6.1)
Cash and cash equivalents at beginning of year		**11.4**	17.8
Effect of exchange rates on cash and cash equivalents		**(0.4)**	(0.3)
CASH AND CASH EQUIVALENTS AT END OF YEAR	9	**19.3**	11.4

ALTERNATIVE PERFORMANCE MEASURES (NOTE 2)		**2013 £m**	**2012 £m**
Net increase/(decrease) in cash and cash equivalents		**8.3**	(6.1)
Add:	Dividends paid to shareholders	**17.4**	14.2
	Dividends paid to minority interests	**0.2**	0.1
	Acquisition of businesses/minority interests/investments	**1.6**	21.5
	Deferred consideration paid	**0.6**	0.8
	Repayment of borrowings	**3.5**	2.2
FREE CASH FLOW		**31.6**	32.7
Cash and cash equivalents		**19.3**	11.4
Borrowings		**-**	(3.5)
NET FUNDS		**19.3**	7.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2013

1. GENERAL INFORMATION

Diploma PLC is a public limited company registered and domiciled in England and Wales and listed on the London Stock Exchange. The address of the registered office is 12 Charterhouse Square, London, EC1M 6AX. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group") and were authorised by the Directors for publication on 18 November 2013. The statements are presented in UK sterling, with all values rounded to the nearest one hundred thousand, except where otherwise indicated.

The consolidated financial statements, which have been prepared on a going concern basis, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and in accordance with the Companies Act 2006, as applicable to companies reporting under IFRS. The accounting policies have been consistently applied in 2013 and the comparative period. There has been no material impact on the Group's consolidated financial statements in 2013 from the issue of IFRS or interpretations to existing Standards during the year.

The financial information set out in this Preliminary Announcement, which has been extracted from the audited consolidated financial statements, does not constitute the Group's statutory financial statements for the years ended 30 September 2013 and 2012. Statutory financial statements for the year ended 30 September 2012 have been delivered to the Registrar of Companies and are available on the website at *www.diplomaplc.com* The statutory financial statements for the year ended 30 September 2013, which were approved by the Directors on 18 November 2013, will be sent to shareholders on 5 December 2013 and delivered to the Registrar of Companies, following the Company's Annual General Meeting.

The auditor has reported on the consolidated financial statements for the years ended 30 September 2013 and 2012. The reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Company's Annual General Meeting will be held at 12.00 midday on 15 January 2014 in the Brewers' Hall, Aldermanbury Square, London, EC2V 7HR. The Notice of Meeting will be sent out in a separate Circular to shareholders.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group uses a number of alternative (non-Generally Accepted Accounting Practice ("non-GAAP")) financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in this Preliminary Announcement.

2.1 Adjusted operating profit

At the foot of the Consolidated Income Statement, "adjusted operating profit" is defined as operating profit before amortisation and impairment of acquisition intangible assets, acquisition expenses and adjustments to deferred consideration (collectively, "acquisition related charges"). The Directors believe that adjusted operating profit is an important measure of the underlying operational performance of the Group.

2.2 Adjusted profit before tax

At the foot of the Consolidated Income Statement, "adjusted profit before tax" is separately disclosed, being defined as profit before tax and before the costs of restructuring or rationalisation of operations, the profit or loss relating to the sale of businesses or property, fair value remeasurements under IAS 39 in respect of future purchases of minority interests and acquisition related charges. The Directors believe that adjusted profit before tax is an important measure of the underlying performance of the Group.

2.3 Adjusted earnings per share

"Adjusted earnings per share" is calculated as the total of adjusted profit before tax, less income tax costs, but excluding the tax impact on the items included in the calculation of adjusted profit and the tax effects of goodwill in overseas jurisdictions, less profit attributable to minority interests, divided by the weighted average number of ordinary shares in issue during the year. The Directors believe that adjusted earnings per share provides an important measure of the underlying earning capacity of the Group.

2.4 Free cash flow

At the foot of the Consolidated Cash Flow Statement, "free cash flow" is reported, being defined as net cash flow from operating activities, after net capital expenditure on fixed assets and including proceeds received from business disposals, but before expenditure on acquisition of businesses, minority interests and investments and dividends paid to both minority shareholders and the Company's shareholders. The Directors believe that free cash flow gives an important measure of the cash flow of the Group, available for future investment.

2.5 Trading capital employed

In the segment analysis in note 3, "trading capital employed" is reported, being defined as net assets less cash and cash equivalents and after adding back borrowings, retirement benefit obligations, deferred tax, amounts in respect of future purchases of minority interests and adjusting for goodwill in respect of the recognition of deferred tax on acquisition intangible assets. Return on trading capital employed is defined as the adjusted operating profit, divided by trading capital employed plus all historical goodwill and adjusted for the timing effect of major acquisitions and disposals. Return on trading capital employed at the sector level does not include historical goodwill. The Directors believe that return on trading capital employed is an important measure of the underlying performance of the Group.

3. BUSINESS SEGMENT ANALYSIS

For management reporting purposes, the Group is organised into three main business segments: Life Sciences, Seals and Controls. These segments form the basis of the primary reporting format disclosures below. Segment revenue represents revenue to external customers; there is no inter-segment revenue. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

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

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

	Life Sciences		Seals		Controls		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
- existing businesses	**93.2**	78.4	**106.1**	99.9	**84.9**	81.9	**284.2**	260.2
- acquisition	**-**	-	**-**	-	**1.3**	-	**1.3**	-
Revenue	**93.2**	78.4	**106.1**	99.9	**86.2**	81.9	**285.5**	260.2
Adjusted operating profit								
- existing businesses	**20.9**	18.0	**19.5**	20.4	**13.5**	14.4	**53.9**	52.8
- acquisition	**-**	-	**-**	-	**0.4**	-	**0.4**	-
Adjusted operating profit	**20.9**	18.0	**19.5**	20.4	**13.9**	14.4	**54.3**	52.8
Acquisition related charges	**(2.8)**	(2.7)	**(2.0)**	(2.5)	**(0.8)**	(1.2)	**(5.6)**	(6.4)
OPERATING PROFIT	**18.1**	15.3	**17.5**	17.9	**13.1**	13.2	**48.7**	46.4

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

3. BUSINESS SEGMENT ANALYSIS (continued)

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

Alternative Performance Measures (Note 2)	Life Sciences		Seals		Controls		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	£m	£m	£m	£m	£m	£m	£m	£m
NET ASSETS							**178.3**	167.2
Add/(less):								
– Deferred tax, net							**1.7**	1.6
– Retirement benefit obligations							**4.7**	5.4
– Future purchases of minority interests							**2.8**	3.2
– Cash and cash equivalents							**(19.3)**	(11.4)
– Borrowings							**-**	3.5
– Adjustment to goodwill	**(7.3)**	(7.7)	**(1.3)**	(1.2)	**(1.4)**	(1.2)	**(10.0)**	(10.1)
GROUP TRADING CAPITAL EMPLOYED							**158.2**	159.4
Corporate (assets)/liabilities, net							**(1.4)**	1.3
SEGMENT TRADING CAPITAL EMPLOYED	**67.2**	68.2	**54.1**	56.8	**35.5**	35.7	**156.8**	160.7

4. GEOGRAPHIC SEGMENT ANALYSIS BY ORIGIN

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

*Non-current assets exclude the investment and deferred tax assets

5. FINANCIAL EXPENSE, NET

	2013 £m	2012 £m
Interest and similar income		
- interest receivable on short term deposits	**0.1**	0.1
- notional income from defined benefit pension scheme	**0.2**	0.1
	0.3	0.2
Interest expense and similar charges		
- bank commitment fees	**(0.1)**	(0.1)
- interest payable on bank and other borrowings	**(0.2)**	(0.3)
	(0.3)	(0.4)
Net interest expense	**-**	(0.2)
- fair value remeasurement of put options (note 12)	**(0.2)**	(0.2)
FINANCIAL EXPENSE, NET	**(0.2)**	(0.4)

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

6. TAX EXPENSE

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

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

7. EARNINGS PER SHARE

Basic and diluted earnings per share

Basic and diluted earnings per ordinary 5p share are calculated on the basis of the weighted average number of ordinary shares in issue during the year of 112,454,287 (2012: 112,373,327) and the profit for the year attributable to shareholders of £34.5m (2012: £31.3m). There were no potentially dilutive shares.

Adjusted earnings per share

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

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

8. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES

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

9. NET FUNDS

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

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

10. GOODWILL

	Life Sciences £m	Seals £m	Controls £m	Total £m
At 1 October 2011	45.3	14.2	14.9	74.4
Acquisitions	1.5	3.0	1.1	5.6
Exchange adjustments	0.8	(0.7)	(0.3)	(0.2)
At 30 September 2012	47.6	16.5	15.7	79.8
Transfers	1.9	-	(1.9)	-
Acquisitions (note 13)	-	-	0.5	0.5
Exchange adjustments	(2.2)	0.1	0.3	(1.8)
AT 30 September 2013	**47.3**	**16.6**	**14.6**	**78.5**

10. GOODWILL (continued)

The Directors carry out an impairment test on all goodwill generally twice a year. Goodwill is ascribed to a business which, for the purpose of these impairment tests, is referred to as a cash generating unit. The impairment test requires each cash generating unit to prepare "value in use" valuations using discounted cash flow forecasts. The cash flow forecasts are based on a combination of annual budgets prepared by each business and on the Group's five year strategic plan, prepared at a Group level.

The key assumptions used to prepare the cash flow forecasts relate to gross margin, growth rates and discount rates. The gross margins are assumed to remain sustainable, which is supported by historical experience; growth rates generally approximate to the long term average rates for the markets in which the business operates, unless there are particular factors relevant to a business, such as start-ups. The annual growth rates used in the cash flow forecasts in respect of the next five years vary between 2% and 5% in each of the sectors; these annual growth rates then trend down towards 2.0% over the longer term.

The cash flow forecasts are discounted to determine a current valuation using a pre-tax discount rate of ca. 13% (2012: 13%). This rate is based on the characteristics of lower risk, non-technically driven, distribution businesses with robust capital structures, which is broadly consistent with each of the Group's businesses.

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

The Directors have also carried out sensitivity analysis on the key assumptions to determine whether a "reasonably possible change" in any of these assumptions would result in an impairment of goodwill. This analysis indicates that a "reasonably possible change" in these key assumptions would be unlikely to give rise to an impairment charge to goodwill in any of the businesses in the Life Sciences or Controls segments. However, in the Seals sector a reduction of 2% in revenue growth in the medium term in one of the businesses in this sector would result in an impairment charge of up to £0.8m. Before any sensitivities and based on the original assumptions in respect of this business in the Seals sector, the headroom in the cash flow valuation was £1.0m. In the prior year, the sensitivity analysis indicated that a reduction of 2% in revenue growth in the medium term in a business in the Controls sector would have resulted in an impairment of £0.3m. In 2013, this business is no longer at risk of impairment.

11. INVESTMENT

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

The Group holds a 10% interest in the share capital of Kunshan J Royal Precision Products Inc. ("JRPP"), a supplier to J Royal. The Group has no involvement in the day-to-day operations or management of JRPP. At 30 September 2013, there was no material difference between the carrying value of the investment and its fair value £0.7m (2012: £0.7m).

12. OTHER LIABILITIES

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

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

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

At 30 September 2013 the Group retained put options to acquire minority interests in M Seals, DSL and HPS all of which are exercisable within the next 18 months. On 8 January 2013, the Group acquired the remaining 20% minority interest in Big Green Surgical Pty Limited ("BGS"), as explained in note 13.

At 30 September 2013 the estimate of the financial liability to acquire the outstanding minority shareholdings was reassessed by the Directors, based on their current estimate of the future performance of these businesses and to reflect foreign exchange rates at 30 September 2013. This led to a remeasurement of the fair value of these put options and the liability was reduced by £0.1m (2012: increased £0.1m). This reduction was offset by the charge from unwinding the discount on the liability and in aggregate £0.2m (2012: £0.2m) has been charged to the Consolidated Income Statement.

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

13. ACQUISITION OF BUSINESSES

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

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

13. ACQUISITION OF BUSINESSES (continued)

On 8 January 2013, the Group acquired the remaining 20% minority interest in Big Green Surgical Pty Limited ("BGS") from the previous owner, Mr A Bennett. The maximum consideration payable is £0.9m (A$1.4m), including deferred consideration of £0.5m (A$0.8m), based on the achievement of certain gross targets for FY2013 and FY2014. On completion, the initial cash consideration paid was £0.4m (A$0.6m) and £0.2m (A$0.3m) has been provided as deferred consideration at 30 September 2013. Acquisition expenses on these two acquisitions were negligible.

14. DIVIDENDS

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

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

15. EXCHANGE RATES

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

	Average		Closing	
	2013	2012	2013	2012
US dollar	**1.56**	1.58	**1.62**	1.61
Canadian dollar	**1.59**	1.59	**1.66**	1.59
Australian dollar	**1.58**	1.53	**1.73**	1.55
Euro	**1.19**	1.22	**1.20**	1.26

16. SUBSEQUENT EVENTS

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

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